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TRADING WITH ISRAEL – LEGAL, REGULATORY, AND COMPLIANCE REQUIREMENTS

USAID Kosovo Compete Activity

DECEMBER 21, 2022

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Contents

ABBREVIATIONS

AEO	Authorized Economic Operator
AI	Artificial Intelligence
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
ECI	Economic Complexity Index
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign Direct Investments
GATT	General Agreement on Tariffs and Trade
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HCI	Human Capital Index
HDI	Human Development Index
ILAC	International Laboratory Accreditation Cooperation
IoT	Internet of Thinking
ICT	Information and Communication Technologies
KICC	Kosovo-Israel Chamber of Commerce
LPI	Logistics Performance Index
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MFN	Most-Favored Nation
PEM	Pan-Euro-Mediterranean Convention
R&D	Research & Development
SII	Standards Institution of Israel
SPS	Sanitary and Phytosanitary Measures

TaB	Trading across Borders
TBT	Technical Barriers to Trade
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value-Added Tax
WBDB	World Bank Doing Business
WEF	World Economic Forum
WTO	World Trade Organization
WITS	World Integrated Trade Solution

BACKGROUND

Following the recognition of Kosovo's independence by the State of Israel in September 2020, in the February of the following year, the two countries established diplomatic relations. Gradually, the two countries started developing economic ties with one another. A marked development in the context of economic relations is the establishment of the Kosovo-Israel Chamber of Commerce (KICC) in late 2021. As stated in the mission, the Chamber "intends to facilitate and support business relationships between Israel and Kosovo" and "expand commercial ties between the two countries". In this context, more specifically, the Chamber will work in bringing together businesses and individuals from both countries with the aim of fostering trade flows by providing market access, promoting investments, and increasing cooperation in research and innovation.

In the context of establishing the initial contact between businesses in Kosovo and their counterparts in Israel, KICC through the USAID Compete Project commissioned the present study to inform Kosovo businesses – current or potential exporters – on the legal, regulatory, and compliance requirements that need to be fulfilled to export goods and services to Israel. More specifically, the study provides:

- A summary of the main ingredients of the business climate in Israel; the discussion sheds light on the major competitive strength of Israel's economy together with the major opportunities it offers;
- A detailed description of the trade and investment relations between Kosovo and Israel; trade exchanges in goods and services are provided, followed by a discussion on the investment flows;
- A discussion on the main components of Israel's trade regime; concentrating specifically on the tariff structure, trade agreements, and non-tariff instruments employed by the State of Israel in imports of goods and services.
- A specific discussion on the legal, regulatory, and other requirements in the food, wood processing and ICT sectors; and
- A view from the private sector on the opportunities and challenges to reach Israel's market.

Apart from aiming to inform businesses of the features of Israel's trade regime, the study also aims at informing public policy in two distinct areas: first, on the possible changes that may be required to address possible legal and regulatory impediments to trade, and second, to seek ways to strengthen further economic ties between the two nations, including a conclusion of the free trade agreement or a similar preferential trade arrangement.

The study is largely based on desk research; however, it also draws on a number of interviews with current exporters to Israel. In total, four companies were interviewed.

Three of them operate in the ICT sector, while the fourth operates in the paper industry. The former three have just concluded contracts with the Israeli counterparts, and their projects are ongoing, while the paper company has delivered a consignment of paper cups – their main export product – to Israel and afterwards they stopped other deliveries due to high level of tariffs that their products were subject to. The insights of these four companies on the opportunities offered by Israel's market and the barriers faced are invaluable.

The following section describes the macroeconomic environment in Israel, with a specific reference to the trade sector. Next, the study looks into the trade relations between Kosovo and Israel. Further, the most important features of Israel's trade regime are highlighted. This section discusses the degree of integration with the world and it looks closely at the import requirements, tariff and non-tariff, respectively. In the following section business perspective on the potential of Israel's market is given. The final section concludes with specific recommendations on the requirements to enter the Israeli market and the ways to strengthen further the economic ties between Kosovo and Israel.

2. A SNAPSHOT OF ISRAEL'S ECONOMY

2.1. MACROECONOMIC POSITION

Israel is a small economy with a population of over 9 million. Geographically it is located in Western Asia. More commonly Israel is designated as a Middle Eastern country. It is a parliamentary democracy. The World Bank categorizes Israel as a high-income economy. According to the Observatory of Economic Complexity[1], in 2020, Israel was the number 28 economy in the world in terms of GDP (current US$), number 21 economy in terms of GDP per capita (current US$), number 48 in total exports, and number 43 in total imports. As the table below shows, in 2021 the rate of GDP growth in Israel was over 8%, largely as a result of the post-COVID revival. However, the 10-year average annual GDP growth (between 2009 and 2018) rate stands at 3.4%.[2] On the other hand, the growth of GDP per capita in 2021 was slightly lower than the GDP growth, at around 6.5%.

Israel is a heavily integrated economy, both in terms of trade and investment, respectively. Trade plays a substantial part in GDP, with a share of exports of goods and services in GDP reaching almost 30%. At the same time, the share of imports of goods and services in GDP exceeds 25%. In 2021, exports have exceeded imports by a significant margin, resulting in a positive trade balance of over $20 billion. As the Observatory of Economic Complexity reports, the top exports of Israel are highly capital-intensive goods, including diamonds ($5.77 billion), integrated circuits ($3.38 billion), packaged medicaments ($1.97 billion), medical instruments ($1.86 billion), and other measuring instruments ($1.6 billion). The major export destinations include: the United States ($14.1 billion),

[1] See Observatory of Economic Complexity at https://oec.world/en/profile/country/isr.

[2] WEF (2019). *Global Competitiveness Report 2019*. Geneva: World Economic Forum. (Accessed at: https://www.weforum.org/reports/global-competitiveness-report-2019).

China ($4.64 billion), Palestine ($3.34 billion), Netherlands ($2.28 billion), and Germany ($2.01 billion).

On the other hand, imports of goods and services are almost equal in size, reaching over $120 billion in 2021. The main import products include: cars ($4.31 billion), diamonds ($2.65 billion), packaged medicaments ($1.9 billion), broadcasting equipment ($1.75 billion), and computers ($1.34 billion). Israel imports mostly from China ($9.01 billion), United States ($8.03 billion), Germany ($5.11 billion), Turkey ($4.67 billion), and Switzerland ($3.36 billion).

In terms of capital flows, the level of Foreign Direct Investments (FDI) inflows in Israel was around four times higher than FDI outflows, that is, $24 billion relative to $9.4 billion, respectively. The share of FDI inflows in the country's GDP in 2021 was 6%. The 5-year average FDI inward flows as a share of GDP stands at 4.1%.[3]

Table 1: Israel: Main indicators, 2021

Indicators	**Value**
Population (million)	9.4
GDP (current US$, trillion)	482.1
GDP growth (annual %)	8.2
GDP per capita (current US$)	51,430
GDP per capita growth (annual %)	6.5
Exports – goods and services (current US$, billion)	143.1
Exports of goods and services (% of GDP)	29.7
Imports – goods and services (current US$, billion)	121.6
Imports of goods and services (% of GDP)	25.3
Foreign direct investment, inward flows (current US$, billion)	21.5
Foreign direct investment, inward flows (% of GDP)	4.5
Foreign direct investment, outward flows (current US$, billion)	9.4
Foreign direct investment, outward flows (% of GDP)	1.9
Gross domestic spending on R&D (%)	5.4
Inflation rate (CPI, %)	1.5
Unemployment, total (% of total labour force, 2020)	4.3

Source: World Bank (2022), OEC (2022), OECD (2022).

Two other indicators show the high macroeconomic stability of the economy of Israel. The *World Competitiveness Report 2019* ranks Israel number one for macroeconomic stability.[4] Inflation, measured by the year-on-year changes in the Consumer Price Index (CPI), in 2021 was only 1.49%.

[3] WEF (2019).

[4] WEF (2019).

The rate is almost one percentage point lower than the average for other high-income countries, which stands at 2.52%. Similarly, the rate of unemployment as a percentage share of the total labour force – is below the high-income country average. For Israel, the rate stands at 4.3%, while the average unemployment rate for high-income countries in 2020 stood at 6.7%.[5]

2.2 COMPETITIVENESS OF ISRAEL'S ECONOMY

Table 2 provides a set of indexes measuring the degree of competitiveness of Israel's economy, including its business environment and institutional performance. All of the parameters presented place Israel at the top of the rankings. The indexes show a high degree of competitiveness of Israel's economy. The degree of competitiveness is closely connected to the high degree of investments on R&D and the highly skilled workforce. Regarding the former, as Table 1 shows, gross domestic spending on R&D in 2021 was 5.4%. In terms of the quality of the workforce, the UNDP HDI and the World Bank HCI place Israel at the top of the rankings. A recent study by WEF (2021)[6] ranks Israel in seventh place in terms of digital skills (in terms of computer skills, basic coding, digital reading, and so on).

In what follows, there is a brief discussion on each indicator presented in Table 2.

Table 2: Israel: Main indexes

Indexes	Value	Rank
Global Competitiveness Index 4.0 (score in 2019)	76.7	20 of 141
Human Development Index (value in 2021)	0.92	22 of 191
World Bank's Human Capital Index (score 2020)	0.73	27 of 174
Corruption Perception Index (score in 2021)	59/100	36 of 180
Economic Complexity Index (rank in 2020)	1.16	20 of 127
Logistics Performance Index (score in 2018)	3.31	37 of 180
World Bank Doing Business (DB score in 2019) [1)]	73.2	49 of 190
WBDB Trading Across Borders (TaB score in 2019)	82.8	64 of 190

Source: WEF (2020), UNDP (2022) World Bank (2019, 2020, 2022), Transparency International (2022), OEC (2022).

Note: [1)] After data irregularities on Doing Business 2018 and 2020 were reported, World Bank management discontinued altogether the publication of the Doing Business Report (in the table, data for 2019 are reported). Currently, World Bank is formulating a new approach to assessing the business and investment climate in economies worldwide through the Business Enabling Environment project.

[5] See World Bank World Development Indicators (2022). Accessed at: https://databank.worldbank.org/source/human-capital-index.

[6] WEF (2020). *Global Competitiveness Report Special Edition 2020: How Countries are Performing on the Road to Recovery*. Geneva: World Economic Forum. (Accessed at: https://www.weforum.org/reports/the-global-competitiveness-report-2020/).

Introduced in 2018 by the World Economic Forum, the Global Competitiveness Index 4.0 (GCI 4.0) provides a detailed map of the factors and attributes that drive productivity, growth and human development in the era of the Fourth Industrial Revolution. The GCI 4.0 is the product of an aggregation of 103 individual indicators, organized into 12 pillars: institutions, infrastructure, ICT adoption, macroeconomic stability, health, skills, product market, labour market, financial system, market size, business dynamism, and innovation capability. A country's performance on the overall GCI results as well as each of its components is reported as a "progress score" on a 0-to-100 scale, where 100 represents the "frontier", an ideal state where an issue ceases to be a constraint to productivity growth.

The 2019 edition of *World Competitiveness Report* covers 141 economies, which account for 99% of the world's GDP.[7] Israel ranks in 20th position, scoring 76.7 out of 100. At the top of the rankings stands Singapore with a score of 84.8, followed by the United States (83.7), and Hong Kong (83.1). As pointed out earlier, Israel tops the ranking with regard to Macroeconomic Stability. Another area where Israel excels is innovation ecosystems, specifically the pillar of Business Dynamism, where Israel ranks in the fourth position. In the context of the latter pillar, Israel is in the first place when it comes to Entrepreneurial Culture. Finally, as pointed out, human capital is another area where Israel ranks very high in the WEF charts. Specifically, it ranks ninth in the Health Pillar, while in the Skills Pillar ranks 14th out of 141 countries analyzed.

The UNDP Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life (i.e., life expectancy), being knowledgeable (i.e., education) and have a decent standard of living (calculated based on per capita income indicators). It takes values between 0 and 1, with 1 being the highest possible level of human development. Israel's HDI score in 2021 is 0.919, a 0.043 difference from the highest scorer, i.e., Switzerland.[8] Life expectancy at birth for Israel is 82.3 years. An average Israeli is expected to spend on average 16.1 years in schooling, however, the mean years of schooling for an average Israeli is 13.3 years. The income per capita is given above.

Another measure of the quality of human capital is the World Bank's Human Capital Index (HCI). HCI calculates the contributions of health and education to worker productivity. The Index is similar to the Health and Skills Pillars of WEF. The HCI score ranges from 0 to 1 and measures the productivity as a future worker of child born today relative to the benchmark of full health and complete education. With a score of 0.73, Israel ranks 27th out of 174 countries for which the HCI is calculated.[9]

An important measure of the degree of institutional quality of a country is the ranking in the Corruption Perception Index, published by Transparency International. The Corruption Perception Index measures how corrupt each country's public sector is perceived to be, according to experts and businesspeople. It takes values from 0 (highly corrupt) to 100 (very clean). As Table 2 shows,

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[7] WEF (2019).

[8] UNDP (2022). *Human Development Report 2021-22: Uncertain Times, Unsettled Lives: Shaping our Future in a Transforming World*. New York: united Nations Development Report. (Accessed at: https://hdr.undp.org/content/human-development-report-2021-22).

[9] World Bank World Development Indicators (2022).

Israel ranks in the 36 position out of 180 countries assessed. The 'cleanest' countries in the ranking (sharing the first place) are Denmark, Finland, and New Zealand.[10]

Recently, it has been acknowledged that it is not important only how much a country exports, but also what it exports, i.e., the types of goods and services exported. Typically, it is argued, that developed countries have more diversified exports and highly capital and skill-intensive export baskets. The Economic Complexity Index (ECI) – developed by the Observatory of Economic Complexity – is a ranking of countries based on the diversity and complexity of their export basket. Highly complex countries are home to a range of sophisticated, specialized capabilities and are therefore able to produce a highly diversified set of complex products. The ECI score for Israel stands at 1.16 in 2020 meaning that Israel's export basked is highly diversified and comprised of highly innovative and skill-intensive products. Israel ranks in 20th place out of 127 countries for which ECI is measured. Japan tops the ranking with an ECI of 2.19 in 2020.[11]

Logistics Performance Index (LPI) – a World Bank tool – measures countries' logistic friendliness. The Index has been developed to help countries identify the challenges and opportunities they face in their trade logistics performance and how can they improve their performance. The Index is based on a worldwide survey of global freight forwarders and express carriers. LPI takes values between 1 (low) and 5 (high) in terms of logistics performance. In 2018, Israel has scored at 3.31, or in terms of ranking: 37th out of 180 countries assessed.[12]

A similar measure to LPI was the World Bank Doing Business Trading across Borders indicator (WBDB TaB). The Trading Across Borders indicator of the Doing Business Report recorded the time and cost associated with the logistical process of exporting and importing goods. The indicator measured the time and cost (excluding tariffs) associated with three sets of procedures – documentary compliance, border compliance and domestic transport – within the overall process of exporting or importing a shipment of goods. The data to calculate TaB was collected through a questionnaire administered to local freight forwarders, customs brokers, port authorities and traders. In the 2019 report, Israel's score in TaB indicator was 82.8, placing it in the 64th position out of 190 countries assessed. The score means that the overall process of exporting or importing a shipment of goods is more streamlined in 63 countries than Israel.[13]

Finally, the World Bank has for seventeen years measured the ease of doing business across the world through its flagship publication *Doing Business Report*. The Report relied on a set of indicators to assess the overall conduciveness of the business environment within an economy. Due to reported irregularities, in 2021 the World Bank has decided to terminate the publication of the Report. However, the previous Reports still provide useful information on the overall business environment of assessed countries. The World Bank Ease of Doing Business Score indicated an economy's position to the best regulatory practice. The score captured the gap between an economy's current performance and a measure of best regulatory practice set in *Doing Business 2015*

[10] See https://www.transparency.org/en/cpi/2021.

[11] See https://oec.world/en/rankings/eci/hs6/hs96.

[12] See https://lpi.worldbank.org/international/global.

[13] World Bank (2019). Doing Business 2019: Training for Reform. Washington DC: The World Bank. Accessed at: https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf).

across the entire sample of the same 41 indicators for 10 Doing Business indicator sets used in previous years. Higher scores showed absolute better ease of doing business (the best score is set at 100), while lower scores showed absolute poorer ease of doing business (the worst performance is set at 0). In the 2019 Report, Israel ranked 49 out of 190 countries, with a DB score of 73.2.[14]

3. TRADE AND INVESTMENT FLOWS BETWEEN KOSOVO AND ISRAEL

3.1 TRADE IN GOODS

Distance is a major detriment to trade. It has been proven empirically that physical distance between trading nations is a major factor in trade. Generally, the relationship between trade and distance is negative, meaning that the greater the distance the smaller the volume of trade. Physical distance increases the transaction costs – especially the cost of transport – between trading nations. Distance may be one of the factors explaining the low level of trade exchanges between Kosovo and Israel. However, it is not the only impediment to trade between the two nations. The air distance between the two capitals is 1,680 km, approximately a similar distance between Prishtina and Paris. Yet, Kosovo trades significantly more with France and other EU nations than with Israel. Moreover, Kosovo exports have reached distant markets, including India in earlier years and the United States recently. As result, apart from the distance, the low level of trade between two nations may result from other factors, political and economic, including: tariff and non-tariff barriers, lack of information, lack of historical trade links, low level of export supply on the Kosovo's side, high regulatory/standards requirements on the Israeli side, non-recognition of Kosovo's independence until recently.

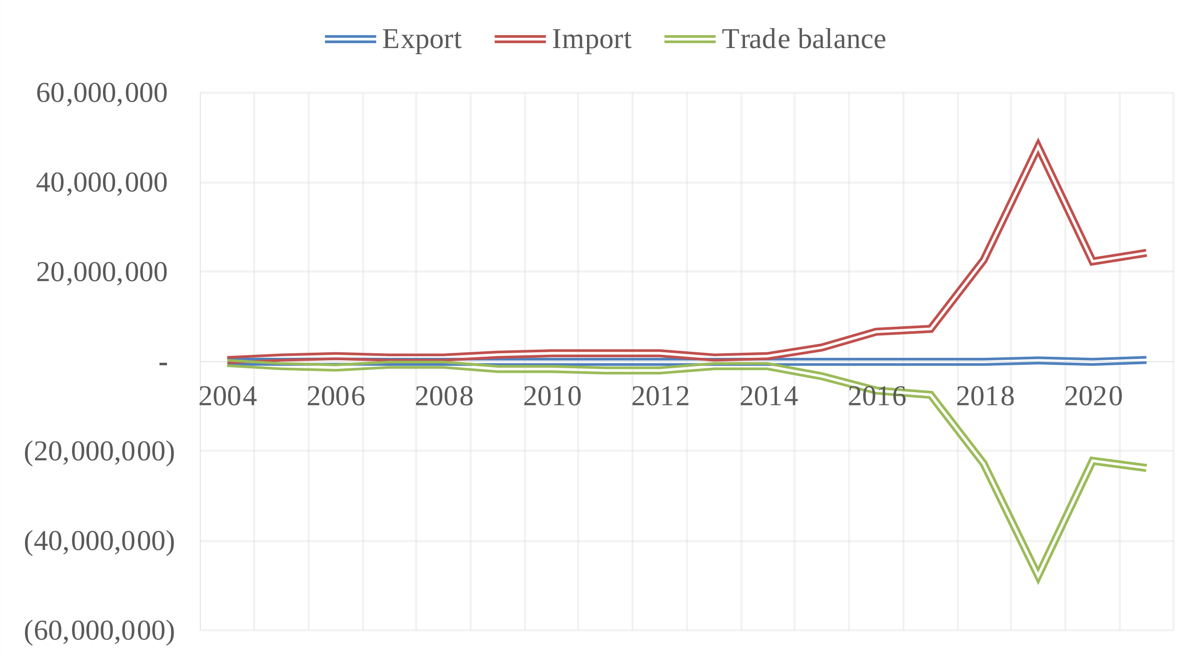
The following figure shows the low and disproportionate level of trade between Kosovo and Israel. Between 2004 and 2017 trade between the two countries was small. Following the imposition of the 100% tariff on Serbian and Bosnian goods by the Government of Kosovo in November 2018, trade between Kosovo and Israel started accelerating.[15] Import from Israel to Kosovo reached its peak in 2019, with €48 million, falling down in the next year to €22 million. Kosovo exports on the other hand remained small throughout the analyzed period. In total, between 2005 and 2021 Kosovo exported only €750,000 to Israel. However, there are some positive signs. Out of the reported amount, around 75% of exports were conducted in the last three years, i.e., between 2019 – 2021. The year 2022 is even more positive; exports in the first six months reached €675,000. Negative trade balance, especially in recent years has peaked. In 2019 the negative trade balance in goods reached €47.8 million.

Figure 1: Trade flows in goods between Kosovo and Israel (2004 – 2021, €)

[14] World Bank (2019).

[15] Gashi, P (2019). The effect on prices of 100% tariff on goods from Serbia and Bosnia and Herzegovina. Report prepared for the EU project "Further support to the development of

trade in Kosovo" implemented by GFA.



Source: KAS (2022)

The 100% tariff reduced imports from Serbia and Bosnia and Herzegovina almost to zero. Quickly, these imports were substituted by imports from other traders and countries. Israel, together with Greece, Albania and North Macedonia closed the gap in the imports of oil and oil derivatives.[16] The following table presents the aggregate structure of Kosovo imports from between 2004 and 2021. As the table shows, the structure of imports from Israel is dominated by mineral products (see below for further breakdown), reaching over €125 million in over 15 years. Other important categories of products exported to Kosovo from Israel include machinery, appliances, and electrical equipment, followed by chemical products and precision instruments. Based on the HS classification, the two largest Kosovo exports for the same period are textile and plastic products.

Table 3: Exports and imports for HS classification (2004 – 2021, €)

Row Labels	Imports	Exports
Articles of stone, plaster, cement, ceramics, and glass	1 017 195	-
Base metals and articles of base metals	375 549	2 304
Footwear and headgear	3 782	-
Machinery, appliances, electrical equipment	6 223 171	109 747
Mineral products	125 664 011	-
Miscellaneous manufactured articles	1 246 890	37 734
Plastics and rubber and articles thereof	2 456 752	106 552
Precision instruments	3 584 237	24 850

[16] Gashi (2019).

Prepared foodstuffs, beverages, spirits, vinegar, and tobacco	453 889	82 567
Products of the chemical or allied industries	4 342 616	-
Pulp of wood	37 806	-
Raw hides, skins, and leather	28 110	85 766
Textile and textile articles	1 142 533	298 335
Vegetable products	1 149 497	-
Vehicles, aircraft, vessels	10 322	670
Wood and articles of wood	3 125	-
Total	147 745 902	748 530

Source: KAS (2022)

Note: Few categories have been removed due to insignificant amounts.

A closer look into Israel's exports to Kosovo reveals that 94% (€140 million) of exports between 2004 and 2021 have been in oils and other related products of petroleum or bituminous minerals. The HS 6-digit breakdown shows that other imports from Israel were rather small: dental fittings (€1,9 million) and other chemicals (€1.2 million), plastics (€1.0 million), and glass products (€0.9 million).

Figure 4: Kosovo's major imports from Israel (2004 – 2021)

HS 6-digit	Description	Value (€)	% in total
271019	Medium oils and preparations, of petroleum or bituminous minerals	131 007 745	89.0
271012	Light oils and preparations, of petroleum or bituminous minerals	7 544 959	5.1
902129	Dental fittings	1 925 223	1.3
330210	Mixtures of odoriferous substances and mixtures	1 270 592	0.9
380893	Herbicides, anti-sprouting products and plant-growth regulators	1 166 688	0.8
940370	Furniture of plastics	1 039 690	0.7
700729	Laminated safety glass	880 736	0.6
392010	Plates, sheets, film, foil and strip, of non-cellular polymers of ethylene	803 337	0.5
901849	Instruments and appliances used in dental sciences	798 928	0.5
120991	Vegetable seeds	775 012	0.5
/	Total	147 212 910	100.0

Source: KAS (2022)

Kosovo designers seem to have reached Israel's market faster than the rest of the entrepreneurs. Less than one-third of Kosovo's exports in goods to Israel are in textile products, specifically in women's or girls' dresses (30% of the total between 2005 and 2021). The first six months of 2022 see a doubling of exports in this category, amounting to €463,000. Other important goods exported from Kosovo include: tableware and kitchenware of plastics, raw hides and skins, prepared potatoes, water, mattresses, and so on. In 2022, exports of mattresses and paper cups have increased substantially relative to previous years.

Figure 5: Kosovo's major exports to Israel (2005 – 2021)

HS 6-digit	Description	Exports	% of total
620443, & 610449	Women's or girls' dresses of textile and synthetic fibres	226 816	30.3
392410	Tableware and kitchenware, of plastics	94 897	12.7
410150	Whole raw hides and skins of bovine	85 736	11.5
200520	Prepared potatoes	41 996	5.6
630533	Sacks and bags, for the packing of goods	37 210	5.0
220210	Waters, incl. mineral and aerated, with added sugar, sweetener or flavour	32875	4.4
940429	Mattresses, fitted with springs or stuffed or internally filled with any material	114 690	8.1
852990	Parts for radio-broadcasting or television, television cameras, and other similar	27 779	3.7
901580	Instruments and appliances used in geodesy and other similar	22 500	3.0
/	Total	748 530	100.0

Source: KAS (2022)

3.1.1 TRADE IN FOOD AND WOOD PRODUCTS

Both exports and imports of food products are insignificant. In both cases, the value of food exports or imports between 2004 to 2021 (there were no food imports from Israel in 2021) range in the hundred thousand. During this period the total food imports from Israel amounted at just over €450,000. On the other hand, Kosovo food exports have reached Israel's market only recently. The first exports of food products were registered in 2015. From 2015 to 2021, Kosovo exported to Israel food products in the amount of €83,000 (Table 6 and Table 7).

Table 6: Kosovo imports of food and other related products from Israel (€)

Description	2004 – 2009	2012 – 2015	2016 – 2020
Apple juice	-	30 275	4 133
Cigarettes	34 377	-	-
Fruit jams, jellies, marmalades, purées or pastes	21 523	-	-
Food preparations, n.e.s.[1)]	-	5 186	7 783
Grape juice	44 958	14 079	75 932
Juice of fruit or vegetables	23 716	-	-
Orange juice, incl. frozen	-	56 767	100 301
Preparations with a basis of extracts, essences or concentrates of coffee	17 120	-	-
Protein concentrates and textured protein substances	1 618	-	-
Single citrus fruit juice	-	-	1 855
Waters	-	-	13 616
Total	143 312	106 307	203 846

Source: KAS (2022)

Note: [1)] n.e.s. – Not elsewhere specified.

In total, Kosovo citizens, relative to other food products, seem to prefer Israeli juice, either orange, grape, or apple. On the other hand, the intermittent nature of Kosovo's food exports can be easily observed. All food exports look like one-off exports. Exported food products from Kosovo include soft drinks, prepared potatoes, and water.

Table 7: Kosovo exports of food and other related products to Israel (€)

Description	2015	2016	2019	2021
Apple juice	-	-	3 848	-
Frozen orange juice	-	-	3 848	-
Prepared potatoes	23 178	18 818	-	-
Waters	-	-	12 677	20 198
Total	23 178	18 818	20 373	20 198

Source: KAS (2022)

According to Israel's Country Commercial Guide of the US International Trade Administration, the potential of Israel's market in food and agriculture products is immense. In the case of agriculture, Israel is highly dependent on imports due to the lack of arable land and of fresh water suitable for agriculture. In 2020, imports of agricultural products reached $7.09 billion, with a trade deficit amounting at near to $5 billion. The lack of arable land and water resources, including the growing population, also affect the production chain in the food sector. The ingredients demanded by the Israeli food processing sector represent an excellent opportunity for exporters of food intermediates. In 2021, Israel imported $3.54billion in raw food products for the local food processing industry.[17]

On a final note, wood products are even less important in the import and export structure. In over fifteen years Israel has exported over €3,000, while Kosovo managed to register its first wood export to Israel only in the first part of 2022. A piece of furniture was sold for €2,000. Yet, Kosovo's wood processing companies should explore Israel's market. Only in 2021, the import of wood and related products in Israel was almost $1 billion, a 22% increase from the previous year. The main wood imports in Israel include: laminated panels, fireboard, wood carpentry, and so on.[18]

3.2 TRADE IN SERVICES

In the last decade, Kosovo has performed exceptionally well in service exports. In 2022, exports of services are expected to reach €2 billion mark. The high volume of exports of services was not matched by service imports. Kosovo has been registering a positive trade balance in service exports. The biggest contributor to the service exports is the 'travel' account, which accounts largely for the Diaspora expenditures while they visit their homeland. However, the official statistics show that other service sectors are increasing their presence in export markets, particularly the ICT sector, transport, tourism, and so on.

However, in the case of Israel, Kosovo service exports have lagged significantly. Even though the flow of services in both directions is rather small, the negative trade balance in trade in services has been growing since 2017. The year 2019 marked the highest levels of both imports and exports. Kosovo service exports in 2019 were around €660,000, while imports for the same year reached €1.95 million. In total, over the five-year period, Kosovo has exported to Israel services in the amount of €1.75 million, while imports were €6.91 million. The negative trade balance amounted to €5.2 million (Figure 2).

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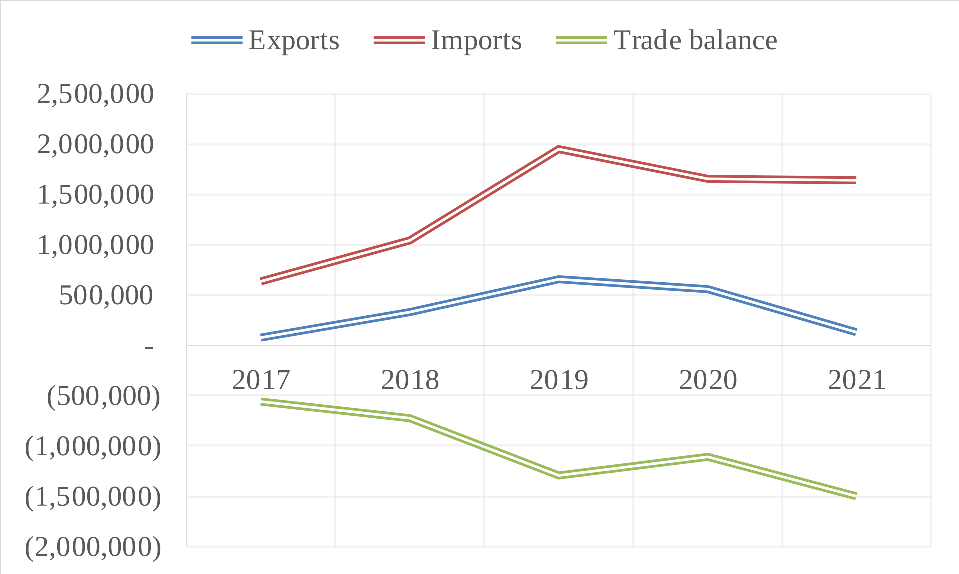
[17] The US International Trade Administration. Israel – Country Commercial Guide. Accessed at: https://www.trade.gov/country-commercial-guides/israel-agriculture.

[18] International Trade Centre Trade Map. Accessed at: https://www.trademap.org/Index.aspx.

Figure 2: Trade flows in services between Kosovo and Israel (2017 – 2021, €)



Source: CBK (2022)

3.2.2 TRADE IN ICT SERVICES

As pointed out, the ICT sector in Kosovo has seen substantial growth, largely driven by foreign demand. The ICT sector exports are still largely in low value-added activities, although gradually the sector is venturing into advanced technology-related activities. As the Table below shows, in the last five years both ICT sector exports and imports are rather small, although Israel's exports of ICT services are several times larger than Kosovo's exports to Israel.

Table 8: Trade in telecommunications, computer, and information services (€)

Description	2017	2018	2019	2020	2021
Exports	-	292	3 442	13 402	26 343
Imports	16 615	35 527	236 296	32 407	244 184
Trade balance	-16 615	-35 235	-232 854	-19 004	-217 841

Source: CBK (2022)

The US International Trade Administration views Israel's ICT sector with the greatest future potential. Israel is considered a vital player in the digital world, with a market growth rate of almost 400% in the last decade only in the IT sector. Israel ranks number one globally in R&D expenditures per GDP, with more than 300 R&D centers around the country. There are more than 6,000 startups in Israel, five times the concentration of startups per capita in the European Union. The country attracts 13% of global investment in cybersecurity and attracts the second-highest rate of venture capital funding per capita in the world. The most important ICT subsectors are software development, telecommunications, and artificial intelligence (AI). The latter sub-sector marked a significant increase in startup companies in 2021. Software and IT equipment and services present a major market opportunity. More than 100 Israeli software companies are active in cloud computing and the delivery of business and consumer services over the internet. In terms of telecommunication, the introduction of the 5G network in 2020 has opened major opportunities for service providers in developing components to integrate with the 5G infrastructure, such as mobile chipsets, modems, data center equipment, routers, fiber connectivity, and IoT devices. Further, the introduction of the 5G network will open new venues in areas such as smart cities, transportation, digital hospitals, and industrial production and manufacturing. Finally, AI is another sub-sector with increasing opportunities, especially in the field of defense. It is predicted that revenues in the AI sector are set to triple over the next four years.[19]

3.3 ISRAEL'S FOREIGN DIRECT INVESTMENTS IN KOSOVO

In the post-war period, the flow of FDI in Kosovo has been small. It peaked in late 2000 when the major privatization deals were concluded. Since then, no significant amount of foreign capital entered the country. The list of factors affecting the low level of FDI in Kosovo is rather long, with political instability resulting from deteriorating relations with Serbia topping the list. Further, poor performing institutions have become a significant barrier to foreign investments. In this context, enforcement mechanisms are viewed as weak, and the degree of corruption is high.[20] In addition, the high regulatory requirements and excessive red tape repeal the investors. Finally, the shortage of highly skilled and relatively expensive workforce (especially highly skilled workforce)[21] is another major reason why foreign investors avoid Kosovo.

The inflow of FDIs in 2021 was around €420 million, a €75 million increase compared to the previous year. It seems that 2022 will exceed the amount of FDIs registered in the previous year; for the first six months of 2022, the FDI inflows have already reached €327 million. In terms of the structure of FDI, the real estate sector has attracted an overwhelming amount of FDI in Kosovo. Just in 2021, some €384 million (over 90% of the total) were invested in real estate. Largely, these investments were made by Kosovo's Diaspora.[22]

Table 9: Israel's FDI in Kosovo (€)

Description	2012	2017	2018	2020
FDI inflows	719 704	59 808	905 306	2 303
FDI stock	719 704	779 512	1 684 818	1 687 121

Source: CBK (2022)

[19] The US International Trade Administration. Israel – Country Commercial Guide. Accessed at: https://www.trade.gov/country-commercial-guides/israel-information-communication-technology-ict.

[20] See Transparency International for Kosovo at https://www.transparency.org/en/countries/kosovo.

[21] See EBRD (2022). Kosovo Country Diagnostic: Private Investment Challenges and Opportunities. Accessed at: https://www.ebrd.com/kosovo-country-diagnostic.pdf.

[22] CBK (2022). Buletini Mujor Statistikor No. 253. Prishtina: Central Bank of Kosovo. Accessed at: https://bqk-kos.org/publikimet/buletini-mujor-statistikor/.

Israel's FDI position is another component that shows a high degree of integration of its economy with the rest of the world. Table 1 above shows the inflow and outflow of FDIs into and from Israel. However, none of the around $9.5 billion invested by Israel's businesses abroad in 2021[23] has been invested in Kosovo. In previous years Israeli companies have invested small amounts of their capital in Kosovo, peaking in 2018 with an investment of more than €900,000. The stock of Israel's FDI in Kosovo is €1.7 million.

4. ISRAEL'S TRADE POLICY REGIME

Israel's economy is heavily integrated into the global economy. In what follows, based on the latest 2018 WTO Trade Policy Review[24] and other official sources, the major ingredients of Israel's trade regime are presented. The report takes specific note of the 2022 New Import Reform, whereby a string of measures have been enacted through legislative changes by the Parliament of Israel (Knesset) to facilitate trade and remove barriers. In effect, the Reform aims at simplifying import procedures by easing the requirements for the product standards and implementing a self-declaring system. The reform will affect food, chemicals, home appliances, and other products. The changes foreseen by the New Import Reform will enter into force in January 2023, albeit the Government of Israel is still working on finalizing the mechanism to implement this reform. The ultimate goal of the Reform is to reduce the high cost of living by encouraging greater price competition through increased imports[25]

In what follows, the section provides information on Israel's trade integration processes, import tariffs and other charges, customs procedures, labelling, licensing, rules of origin, standards, and prohibited imports. Special attention is devoted to the food, wood, and ICT sector.

4.1 TRADE AGREEMENTS

Israel is a founding member of the WTO. It has been part of the WTO predecessor GATT since 1962. In addition, Israel has concluded a total of 23 Preferential Trade Agreements. Israel has signed a Free Trade Agreement (FTA) with Bulgaria, Canada, Colombia, the Czech Republic, Great Britain, Hungary, Mexico, Panama, Poland, Romania, the Slovak Republic, Slovenia, Turkey, the United States, Ukraine, the EU, EFTA (Iceland, Liechtenstein, Norway, and Switzerland), and MERCOSUR (Argentina, Brazil, Paraguay, Uruguay, and Venezuela). Israel also has a preferential trade arrangement with Jordan and maintains a customs union with the Palestinian Authority. Agreements with India and China are under discussion, while negotiations to sign an FTA with Australia, South Korea, United Arab Emirates, and Japan are underway.

[23] OECD (2022). FDI in Figures. Geneva: Organisation for Economic Co-operation and Development. Accessed at: https://www.oecd.org/investment/investment-policy/FDI-in-Figures-October-2022.pdf.

[24] WTO (2018). Trade Policy Review: Israel. Geneva: World Trade Organization. Accessed at: https://www.wto.org/english/tratop_e/tpr_e/tp476_e.htm.

[25] For more see the information provided by the Federation of Israeli Chambers of Commerce (https://www.chamber.org.il/38991/39012/127192/), and Ministry of Economy and Industry (https://govextra.gov.il/media/44789/the-import-reform2022.pdf).

4.2 IMPORT TARIFFS

Israel's Import Tariff classification is based on the Harmonized System (HS) Code. The correct classification of goods is key to determining tax rates, as well as obtaining various authorizations, permits and licenses.

4.2.1 MFN TARIFFS

According to World Integrated Trade Solution (WITS) [26], MFN tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union; see below). This means that, in practice, MFN rates are the highest (most restrictive) that WTO members charge one another.

As Table 10 shows, the MFN tariff for agricultural products averages 19.1%. Tariff protection is particularly high on dairy products (with an average of 78.0%); animals and products (with an average of 19.9%); and fruit, vegetables, and plants (with an average of 15.7%). Moreover, many agricultural tariffs comprise specific, compound, or mixed duties. As Table 10 shows, the average applied MFN tariff on non-agricultural products is relatively low in Israel. The maximum tariff is generally 12%, except for fish and fishery products (up to 152%), textiles (up to 22%), and minerals and metals (up to 16.9%).

4.2.2 BOUND TARIFFS

According to WITS, bound tariffs are specific commitments made by individual WTO member governments. The bound tariff is the maximum MFN tariff level for a given commodity line. When countries join the WTO or when WTO members negotiate tariff levels with each other during trade rounds, they make agreements about bound tariff rates, rather than currently applied rates.

Bound tariffs[27] are not necessarily the rate that a WTO member applies in practice to other WTO members' products. Members have the flexibility to increase or decrease their tariffs (on a non-discriminatory basis) so long as they didn't raise them above their bound levels. If one WTO member raises applied tariffs above their bound level, other WTO members can take the country to dispute settlement. If the country did not reduce applied tariffs below their bound levels, other countries could request compensation in the form of higher tariffs of their own. In other words, the applied tariff is less than or equal to the bound tariff in practice for any particular product.

Some 74.5% of Israel's tariff lines are bound. The average bound tariff rate is 41.4%, 33.9 percentage points higher than the average applied MFN rate (7.5%). Bound rates are especially high for agricultural products, averaging 74.4% with a maximum rate of 255% (cereals; beverages and tobacco), while for non-agricultural goods the average bound rate is 13.4%.

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[26] See the World Bank's World Integrated Trade Solution. Accessed at: https://wits.worldbank.org/wits/wits/witshelp/content/data_retrieval/p/intro/c2.types_of_tariffs.htm.

[27] Note that apart from bound tariffs, there is also a notion of unbound tariffs. The latter are those tariffs on which the WTO members did not take on any commitment to bind in the earlier round of multilateral negotiations. The commitments were not taken since these lines were either sensitive or there was no request from other WTO members for taking bindings on them. Therefore, theoretically a WTO member can increase the customs duty on its unbound tariffs to any level.

Table 10: Tariffs by product groups

Product groups	Final bound duties				MFN applied duties		
	AVG[1)]	Duty-free (%)[2)]	Max[3)]	Binding in %[4)]	AVG[5)]	Duty-free (%)[6)]	Max[7)]
Agricultural products:							
Animal products	97.8	17.6	190	97.3	19.9	37.1	170
Dairy products	169.9	0	247	95.2	78.0	4.8	212
Fruit, vegetables, plants	107.6	0	560	99.0	15. 7	23.1	200
Coffee, tea	9.2	0	25	100	0.1	99.0	5
Cereals & preparations	66.9	0.5	255	100	9.9	72.2	121
Oilseeds, fats & oils	39.5	1.8	128	100	3.1	66.6	53
Sugars and confectionery	9.3	0	35	100	0.4	91.2	4
Beverages & tobacco	131.8	1.0	255	96.1	5.5	58.5	30
Cotton	76.0	0	76	100	0.0	100.0	0
Other agricultural products	35.9	7.2	170	99.3	2.4	69.2	44
Non-agricultural products:							
Fish & fish products	5.0	0	170	56.2	6.7	70.4	152
Minerals & metals	8.9	9.3	80	83.9	2.7	70.7	17
Petroleum	25.0	0	45	33.3	2.9	63.9	8
Chemicals	8.2	9.4	70	85.3	0.9	90.0	12
Wood, paper, etc.	12.2	15.0	60	75.9	2.7	75.0	12
Textiles	27.5	0.9	235	49.8	0.8	93.0	22
Clothing	17.6	0	35	12.4	0.2	97.0	6
Leather, footwear, etc.	13.0	14.2	60	70.8	2.2	76.6	12
Non-electrical machinery	7.7	33.2	100	78.2	3.1	66.5	12
Electrical machinery	6.6	46.7	87	82.5	2.6	74.2	12
Transport equipment	19.1	27.6	100	43.9	2.7	63.8	12
Manufactures, n.e.s.	9.7	31.6	90	81.5	2.4	74.5	12

Source: WTO (2022)

Note: [1)] Simple average of final bound duties excluding unbound tariff lines.

[2)] Share of duty-free HS six-digit subheadings in the total number of subheadings in the product group.

[3] Highest ad valorem duty or calculated average within the product group.

[4] Share of HS six-digit subheadings containing at least one bound tariff line.

[5] Simple average of MFN applied duties.

[6] Share of duty-free HS six-digit subheadings in the total number of subheadings in the product group.

[7] Highest ad valorem duty or calculated average within the product group.

4.2.3 PREFERENTIAL TARIFFS

Beyond WTO, countries negotiate preferential trade agreements – bilaterally or regionally – to benefit from lower tariffs relative to the committed MFN rates. These agreements – FTAs, customs unions, or other forms of integration – are reciprocal: all parties agree to give each other the benefits of lower tariffs.

Many countries, particularly the wealthier ones, give developing countries unilateral preferential treatment, rather than through a reciprocal agreement. The largest of these programs is the Generalized System of Preferences (GSP), which was initiated in the 1960s. The European Union, Japan, United States offer multiple unilateral preference programs.

Most of Israel's trade is conducted under various preferential agreements. As discussed above, Israel has signed several trade agreements. Based on the 2017 data, the simple average rates under all preferential arrangements are lower than the simple average MFN rate committed under WTO, although the averages among arrangements are different, ranging from 2.1% with the United States to 4.3% with Jordan.

Table 11: Israel's preferential tariffs, 2017

	Simple average rates
Canada	2.8
EFTA	2.9
European Union	2.4
Jordan	4.3
Mexico	3.0
Argentina	2.8
Brazil	2.8
Paraguay	2.8
Uruguay	2.8
Turkey	3.0
United States	2.1

Source: WTO (2018)

4.3 OTHER CHARGES ON IMPORTS

Israel's VAT is 17% and charged on almost all services and products sold in Israel (except fresh fruits and vegetables). VAT is recovered by the importer upon resale of the goods and is ultimately paid by the consumer. Israel also levies purchase taxes on many consumer goods. Alcoholic beverages, cigarettes and fuel are subject to excise tax (see Table below for more information).

Table 12: Taxes on imported or domestic goods and services, 2018

Tax	Coverage	Rate
VAT	Standard rate for goods and services	17%
VAT	Fresh fruit and vegetables; some specific services within the sector of travel, transportation, and accommodation.	0%
Purchase tax	Certain luxury and consumer goods, mostly motor vehicles, and a limited number of intermediate goods	Rates vary according to the product
Excise tax	Cigarettes; gasoline; kerosine; diesel; heavy fuel oil; coal; gas; alcoholic beverages.	Ad valorem, specific tariffs, or a combination of the two are applied however the rates vary according to the product.

Source: WTO (2018)

4.4 CUSTOMS PROCEDURES, VALUATION, AND REQUIREMENTS

Israel has no importer registration requirements for customs-related purposes. However, importers must be registered with the Israel Tax Authority for purposes of VAT and, in certain cases, purchase tax. Food importers must register with the National Food Service in the Ministry of Health and carry an official importer certificate (see later discussion).

The documents required for the importation of goods include: import declaration (or single administrative document); commercial invoice; bill of lading (or airway bill); certificate of origin (for preferential treatment); packing list; import license (if required); and Sanitary and Phytosanitary related import permit and/or certificate (if required).

Based on the 2022 New Import Reform, a test report issued by an ILAC-accredited laboratory (ILAC - International Laboratory Accreditation Cooperation) should be attached to the import declaration that ensures that the imported product complies with Israel's standards, and it is safe for use.[28]

The Israeli Customs Service prefers that exporters use their own commercial invoice forms containing all required information including name and address of the supplier, general nature of the

[28] See the Federation of Israeli Chambers of Commerce and Israel's Ministry of Economy and Industry.

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, the composition of goods (by percentage if mixed), tariff heading number, gross weight of each package, net weight of each package, the total weight of the shipment, price per unit as sold, and the total value of the 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.

Since 2008, Israel Customs operates a single window with electronic processing of import permits.

Inspection is based mainly on risk assessment (i.e., risk profiling). Selection criteria include the origin of the goods (country, supplier), complaints regarding violation of intellectual property rights, and the past record of importers. Customs may also require a sample of the material/product, lab testing results, authorizations from institutes/authorized government agencies, import license and any other documents as required by the specific Customs Department.

Israel has in place the Authorized Economic Operator (AEO) programme open to manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors. The AEO concept has been developed by the World Customs Organization, with the aim of enhancing the security of the international supply chain and facilitating legitimate trade. The AEO certification is voluntary for traders. However, the benefits are substantial. The certification process requires traders to meet a range of criteria – compliance with customs legislation and taxation rules, absence of criminal offences, appropriate record-keeping, financial solvency, appropriate security and safety measure – to gain benefits from Customs in the form of a significant reduction of physical inspections and other customs procedures and requirements that hamper international transactions.[29]

4.4 PRODUCT STANDARDS

4.5.1 INSTITUTIONAL INFRASTRUCTURE AND REQUIREMENTS

The only statutory body in Israel that develops and establishes standards is the Standards Institution of Israel (SII).[30] The SII incorporates functions of standardization, testing, conformity assessment, product certification, management system certification and training activities. It has laboratories in almost all technological areas, providing testing and inspection services to industry and commerce, as well as regulatory services to the government.

The Standards Institute of Israel (SII) operates product and system certification through the 'Standards Mark' program. The latter operates in accordance with EN 45011.[31] To qualify for the

[29] Kosovo has an AEO program in place since 2017. Currently, there are efforts being undertaken within CEFTA for mutual recognition of AEO certificates between member states. For more see: https://dogana.rks-gov.net/en/per-biznese/14165-2/.

[30] See https://www.sii.org.il/en.

[31] General requirements for bodies operating product certification systems (ISO/IEC Guide 65:1996).

Standards Mark, a product must conform with the requirements of the applicable standards and be manufactured in a plant with an approved quality assurance system, similar to ISO 9002.[32]

Most imports that are subject to technical requirements are inspected at the port of entry. Compliance testing, for both domestic and imported products, is generally carried out by one of the SII's laboratories or by a laboratory which holds an approval and/or recognition certificate from SII. Imports with a Standards Mark, certifying compliance with a certain standard, may enter Israel without being tested. The procedures for imports without the Mark depend on the degree of product safety and the reliability of the importer.

Israel has introduced the ePing SPS&TBT platform.[33] The platform facilitates tracking sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures. The platform, amongst others, enables:

- Browsing notifications on new and updated product regulations
- Finding information on trade concerns discussed in the WTO SPS and TBT committees
- Locate information on enquiry points and notification authorities

4.5.2 NEW IMPORT REFORM AND PRODUCT STANDARDS

Israeli legislation mandates the adoption of multiple, proven international standards whenever possible to maximize benefits for consumers. Israel's strong commercial ties with Europe have led Israel to adopt EU technical standards in many industries. This is beneficial to Kosovo exporters as they rely on the same standards.

Regarding product standards, the New Import Reform aims at reducing long and costly verification and testing processes. According to the changes proposed in the Reform, goods that comply with international standards (namely the EU and US) that are accepted by the Israeli government will now be permitted for import without additional verification and/or testing. The new process is based on a self-declaration-based system, where importers are required to self-declare that their goods comply with the international standard that is accepted by the Israeli government and poses no physical or safety threat to Israeli consumers.

The Reform enables a transition of over 80% of the standards that required inspections of every shipment to a declaration-based system. The latter system requires a test report issued by an ILAC-accredited laboratory that ensures that the imported product complies with Israel's standards and it is safe for use within Israel's market. The Reform affects particularly consumer goods, specifically food, chemicals products, and home appliances.

Specific attention was devoted to ensuring energy efficiency in home appliances. The Reform meant the adoption of the EU standards on energy efficiency. The following products will be affected by these changes: air conditioners; refrigerators; washing machines; tumble dryers; dishwashers; ovens;

32 Quality management systems (ISO/TS 9002:2016).

33 See https://epingalert.org.

light bulbs, and ballast for fluorescent light bulbs; TV converters; three-phase electric appliances and others; and chillers.

Yet, there are still categories of products that require inspections for every shipment and testing by a certified Israeli lab. These products include: lifting equipment; pressure equipment; devices or appliances that are in use in liquefied petroleum gas cooking systems; fire safety devices as well as fire detection and extinguishing equipment; concrete reinforcement iron; children's playground devices; toys for children up to the age of 3; pacifiers and bottle nipples; baby feeding bottles and tableware; and low- and medium-voltage power lines.

For a discussion on requirements related to food safety, see below.

4.6 LABELLING AND MARKING REQUIREMENTS

Israel has strict marking and labelling requirements that frequently differ from those of other countries. It is advisable for companies to consult with their Israeli importer prior to shipping any product that will be offered to the local market. 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 or 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. Nutritional labelling is compulsory on all packaged foods.

Marking should be done by printing, engraving, stamping, or any other means, on the package or the goods themselves. Marking details should be clear, legible and in a different color from the background to be clearly distinguishable. For products that tend to lose weight under regular marketing/commercial conditions, the maximum quantity of expected depletion should be mentioned.

Specific labelling regulations apply to auto parts, some consumer goods, paper products, handbags, musical recordings, fertilizers, insecticides, chemicals, pharmaceuticals, some food products, seeds, and alcoholic beverages. Outside and inside containers of dangerous articles, such as poisons, insecticides, drugs, flammable goods, ammunition, explosives, reptiles, insects, bacteria and radioactive materials should be clearly marked.

The New Import Reform imposes some additional labelling requirements on importers. For instance, in the context of adhering strictly to the EU standards for energy efficiency, home appliances will be required to have an energy efficiency label.

4.7 PROHIBITED AND RESTRICTED IMPORTS

Israel maintains import prohibitions for reasons, among others, of protecting human health (e.g., tobacco and manufactured tobacco substitutes), religious reasons (non-kosher meat and meat products; see discussion below) public morals (e.g., indecent films), security (e.g., firearms resembling a pen, items activated by gas), the environment (e.g., matches made from white or yellow phosphorus), or to comply with international commitments (e.g., hazardous wastes).

4.8 LICENSING AND PERMITS

Israel applies non-automatic licensing procedures for reasons of safety, health, protection of the environment, security, to comply with international (non-WTO) commitments and to administer tariff-quota instruments.

Specific standards and technical requirements are compulsory in order to ensure safety, security, and environmental protection (see below for an additional discussion on standards). Approvals/permits are granted prior to importation if the imported goods comply with technical requirements.

A special import licensing regime is in place for countries that have not established diplomatic relations with Israel.

4.9 RULES OF ORIGIN

The Pan-Euro-Mediterranean (PEM) Convention on preferential rules of origin aims at establishing common rules of origin and cumulation among the PEM Contracting parties (EFTA States, Türkiye, the countries which signed the Barcelona Declaration, the Western Balkans, the Faroe Islands, the Republic of Moldova, Georgia and Ukraine) and the EU to facilitate trade and integrate the supply chains within the zone.[34] Kosovo has become a PEM contracting party following the signing of the Stabilization and Association Agreement (SAA). In effect, both countries, Kosovo and Israel, respectively, apply the same rules of origin. Common rules of origin should be conducive to the mutual exchange of goods between Kosovo and Israel.

4.10 OTHER REQUIREMENTS

The Ministry of Economy requires that all businesses provide adequate after-sales service and customer support. Regulations oblige local distributors to provide customers with full technical support for a period of up to ten years.

4.11 IMPORT MEASURES IN THE FOOD, WOOD, AND OTHER SERVICES

4.11.1 FOOD PRODUCTS

As pointed out above, Israel maintains relatively high tariff protection on agricultural products, especially on certain food products. Tariff protection is particularly high on dairy products, animals and related products, fruit, vegetables, and plant-based products.

Food safety is a major issue for Israel's authorities. Under the legislation in force, food imports are divided into two groups: 'sensitive' and 'non-sensitive'. Sensitive foods are classified based on risk assessment about microbiology, chemistry, animal source, foods intended for particular consumer groups, etc. Sensitive goods include: milk products and milk product substitutes; food supplements (vitamins, minerals and herbs); baby food; low-acid canned foods; egg products; mineral water and beverages based on mineral water; mushroom products; high caffeine food products; fresh fruit and vegetables; fish and fish products; and meat products.

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[34] See European Commission on Pan-Euro-Mediterranean Convention. Accessed at: https://trade.ec.europa.eu/access-to-markets/en/content/pan-euro-mediterranean-convention-pem.

The New Import Reform endorses the EU regulation on food safety, specifically on chemical and biological pollutants, pesticide residues, and mercury compound residues. The regulatory changes included in the Reform will affect most of the food products, sensitive and non-sensitive ones. Regarding sensitive products, a declaration-based system will be in place. The system will be open for importers for the so-called "proper importers". To gain the status of "proper importer", the company must be registered in the "proper importer" registry and have a quality and safety control plan for every imported product.[35]

Excluded from the reform are the following sensitive foods: nutritional supplements, baby food, meat and meat products, fish and fish products, eggs and egg products, alcoholic beverages, dairy products from unpasteurized milk, and leaves of the Khat plant. Imports of these products must be accompanied by certificates of analysis that certify their quality and safety, are checked at import, are sampled every three months, and are released to the importer's warehouse subject to a bank guarantee while awaiting the test results. All consignments of sensitive goods must have prior authorization from the National Food Service.

On the other hand, for non-sensitive food products, prior authorization for imports is not required, nor is original documentation from the manufacturer demonstrating compliance with Israeli regulations. Non-sensitive food products may be imported based on a declaration by the importer that they comply with Israeli regulations and may be automatically released, unless randomly selected for documentary and physical checks.

Exporters to Israel should consider the issue of kashrut or kosher certification (the Hebrew word 'kosher' means 'fit' or 'proper'). Israel, a member of the World Trade Organization (WTO), maintains relatively few prohibitions on agricultural imports. However, Israeli authorities prohibit the import of non-kosher meat and meat products. Based on the 1994 Law of Meat and its Products, Israeli authorities prohibit the import of non-kosher meat and meat products.

Kosher certification is not a legal requirement for importing other foods into Israel, however, non-kosher food products have a smaller market share, as most supermarkets and hotels refuse to carry them.

Manufacturers who produce kosher products must be able to satisfy Israeli rabbinical supervisors' demands that all ingredients and processes meet kosher standards. Only the Chief Rabbinate of Israel can approve a product as kosher for consumption in Israel. The latter may also authorize another supervisory body to act on his behalf.

Nutritional labelling is compulsory on all packaged foods.

4.11.2 WOOD PRODUCTS

Regarding the wood sector, Israel keeps low tariffs on imports of wood products. As table 10 shows, the average MFN rate is 2.7%, while the average binding rate for the sector is 12.2%. The WTO Trade Policy Review 2018 reports no other specific requirements for the manufacturing sector in general, and the wood sector in particular.

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[35] See the Federation of Israeli Chambers of Commerce and Israel's Ministry of Economy and Industry.

4.11.3 OTHER SERVICES

While there is no information on specific requirements for conducting ICT services in Israel, the US International Trade Administration's commercial guide for Israel provides some valuable information on licensing requirements for professional services. Foreigners who wish to practice law, medicine, and accounting in Israel must comply with local requirements. For instance, a recent amendment to the legislation allows foreign licensed attorneys to advise Israeli clients on matters pertaining to the law in the jurisdictions in which they are licensed (under certain conditions, and yet not to represent these clients in Israel).[36]

Moreover, physicians who are graduates of recognized schools of medicine abroad and practiced the profession abroad, or physicians who completed their studies and internship abroad but did not practice the profession, are eligible for a license to practice medicine in Israel only after successfully completing the government licensing examinations in medicine.

Finally, for individuals with an accounting degree from a recognized institution abroad, but not holding a Certified Public Accountant license, it is recommended that they submit the degree obtained for evaluation to the Ministry of Education.

5. BUSINESS PERSPECTIVES ON ISRAEL'S MARKET POTENTIAL

Four companies have been interviewed to gauge private sector perspectives on the opportunities offered by the Israeli market and the barriers faced. The three of the interviewed companies operate in the ICT sector, while the fourth one operates in the paper and packaging industry. The interviewed companies have been established between 2006 and 2020. The number of employees ranges between 40 and over 80 employees. In total, the four companies interviewed employ 249 employees.

The flagship product of the paper and packaging company is the paper cup. The company exercises complete dominance in the Kosovo market. The competition – even from imports – is almost inexistent. The company has 22 production lines, and at full capacity, it can produce 35 containers a month. Currently, the major impediment the company faces is securing the raw material from imports. The company has been affected by the distortions in the supply chains caused by the pandemics and the recent developments in Ukraine. Beyond Kosovo, the company is present in the regional market and beyond: Albania, North Macedonia, Serbia, Italy, France, Holland, and Finland. The company delivered a single consignment of paper cups to Israel in 2021. Soon afterwards it terminated further consignments – despite the high demand – due to a high level of tariffs that the company's products were subject to.

The ICT companies have a broader set of services they offer in the market: software development, web and mobile applications, and cyber security, among others. These companies have concentrated almost entirely on the export markets. Their services have been reaching very distant markets, including the US market, Canadian, European, regional and even the Caribbean. The ICT companies

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[36] See Israel's Bar Association at: https://www.israelbar.org.il/english.asp?catid=4698&menu=2.

have just recently concluded the first contracts with their Israeli counterparts. Their contracts are rather small in terms of the overall turnover. Only one of the companies claimed that the contract with Israel's partner generates around 12% of the total turnover. The other contracts are small, and largely on a project basis. The companies mostly serve clients in Israel, apart from one which is attempting to introduce a cyber security platform to the Kosovo clients.

5.1 OPPORTUNITIES AND BARRIERS FACED IN ISRAEL

Due to the low markup, the paper cup company had to withdraw from Israel's market. Simply, for this company, there was no room to bear additional costs in terms of import tariffs. However, the company believes that Israel's market provides significant opportunities for businesses from Kosovo. The demand for food and food-related products is immense. Easy and cheap transport routes (largely sea routes) would give an advantage to Kosovo's exporters (utilizing Durrës or Thessaloniki ports). Moreover, there are cultural similarities that would favour Kosovo products in Israel.

Since the company was required to be registered as an importer in Israel, initially this presented a major problem because there was no entry for the country of Kosovo in Israel's electronic system. Product standards were not an issue. The company products hold a required EU certification (obtained in Greece). As pointed out earlier, Israel has approximated product standard requirements with the EU. Moreover, the paper cups produced by the company comply with kosher requirements. It was stated by the company that the latter makes a substantial difference for any food-related product entering Israel's market, even for products for which kosher certification is not mandatory.

The interviewed ICT companies, on the other hand, acknowledge the fact that the Kosovo ICT sector is growing rapidly. However, the major bottleneck in the sector is the lack of a skilled workforce. It is estimated that the number of programmers is only between 3500 and 5000. In addition, the high degree of workforce turnover within the sector is another constraint to growth.

At the same time, Israel's market provides major opportunities in the ICT sector. The interviewed companies acknowledged Israel as a leading global force in ICT-related activities. However, they are cautious about the future expansion of Kosovo companies into the Israeli market. They believe that the expansion into Israel's market is conditional on increasing the number of ICT-versed professionals and deepening the ICT skill base.

Again, complying with international standards is not an issue for Kosovo's companies providing ICT services in Israel. Some have adopted ISO 9001/27001, the international standard to manage information security. However, there are some pressing issues. Some of the interviewed ICT companies had issues with the payment system. They had to rely on non-banking financial institutions (specifically, money transfer companies) to receive payments for their contracts. The issue was that Kosovo's SWIFT code was not recognized by Israel's banks. The problem was resolved with the help of partners in Israel. In addition, double taxation was an issue with another company. The other mentioned the lack of direct flights between Prishtina and Israel's capital.

6. SUMMARY AND CONCLUSIONS

The present study had the following objectives: first, to highlight the main ingredients of the business climate in Israel, with specific reference to Israel's competitive strength and the opportunities the latter's market offers to Kosovo exporters. Second, to provide a summary of the trade and investment relations between Kosovo and Israel. Third, to provide the major ingredients of Israel's trade regime, including trade agreements, tariff rates and other charges on imports, and non-tariff instruments. Fourth, to provide details on the legal, regulatory, and other requirements in the food, wood processing and ICT sector. And finally, the objective is to provide the perspective of the private sector on the opportunities and challenges to reach Israel's market.

As the analysis shows, Israel's economy is a fully fledging market economy. It is highly competitive and deeply integrated with the global economy. Its major resource is the highly skilled workforce. The latter is the driving force behind the high degree of competitiveness of Israel's industries. This is acknowledged in many measures/indexes of prominent institutions, where Israel constantly tops the rankings.

The data on the flow of trade and investments between Kosovo and Israel show that there are untapped trade opportunities, especially for Kosovo's producers. The recognition of Kosovo's independence by the State of Israel paved the way for a more intensive exchange of goods and services. The private sector in Kosovo believes that Israel's market has enormous potential, especially in the food sector and ICT services.

However, according to interviewed businesses, Israel's consumers and businesses are very demanding. In addition, the legal, regulatory, and compliance requirements for agricultural products are complex. Even for WTO members, Israel imposes high import tariff rates, especially on food products, including meat, dairy, fruits, and vegetables. In addition, complying with required product standards, especially SPS standards for food and food-related products, is a demanding process. Further, licensing of importers, documentary requirements, and labelling requirements may deter importers from entering Israel's market.

In this context, the present study provides evidence that the Government of Kosovo should redirect its efforts to ease the market access of Kosovo's businesses into the Israel market. In addition, the Government of Kosovo should support businesses in complying with legal, regulatory, and compliance requirements of a highly demanding market such as Israel's. In what follows are some thoughts on the direction of action the Kosovo Government should take:

- The first step would be to look into the options to enhance the trade and investment flows between Kosovo and Israel. Kosovo would benefit not only from increased exports to Israel, but it would likely benefit from increased imports from Israel. The latter would enable Kosovo's businesses to access Israeli technologies and know-how. In this context, since Israel does not seem to utilize any unilateral preferential trade measures with other countries, the FTA remains the most feasible option. However, the Government of Kosovo should assess thoroughly the impacts of any forthcoming FTA. Before it engages in trade negotiations with Israel, Kosovo should have a clear negotiating position, especially regarding the depth of the agreement. The inclusion of services in any potential agreement with Israel should be considered carefully.

- The issue of double taxation has been raised by interviewed businesses. The Government of Kosovo should investigate the possibility to sign a Double Taxation Treaty with Israel.

Kosovo has already signed eighteen[37] Double Taxation Treaties (Albania, Croatia, Germany, Finland, and United Arab Emirates, among others) while five such Treaties it has been signed but are not in force yet.

- Compliance with product standards required by Israel remains a pressing issue. Although the New Import Reform has eased the process of complying with product standards, as noted, Israel's market – consumers and businesses equally – is extremely demanding. Generally, the experience shows that Kosovo businesses lack awareness regarding the importance of complying with international product standards, especially if they target markets of developed countries. In addition, the costs of obtaining standard product certification are a major constraint. The Kosovo Government should work closely with businesses – even in terms of cost-sharing – so the latter could obtain the certification needed. Specifically, the food producers would need support, considering that the kosher requirements are unique in Israel. However, international industrial standards are important also for non-agricultural products, including wood products.

- Information for opportunities that Israel's market presents should be enhanced. This would not be only a responsibility of the Kosovo Government. KICC is perfectly positioned to offer this service to potential exporters.

- Kosovo Government should work closely with Israel's Government to sort out the issue of the designation for Kosovo in Israel's state electronic systems, including the banking sector. Difficulties with payments and importer's registration as a result of the lack of designation for Kosovo should be resolved.

- Finally, together with Kosovo's businesses operating in the ICT sector, measures should be identified to engage Israel's highly skilled workforce in increasing human capacities within the ICT sector in Kosovo.

[37] As of July 2022. See: https://taxsummaries.pwc.com/kosovo/individual/foreign-tax-relief-and-tax-treaties.