



Report of the State Comptroller of Israel | May 2023

Ministry of Agriculture and Rural
Development

The Dairy Industry in Israel



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Background

Milk and its products are the primary sources of supply for animal protein and calcium in the average Israeli diet. The state has been planning the dairy industry in Israel throughout the entire production chain since before its establishment. The planning of the dairy industry is implemented through state supervision of milk production quantities according to the quotas assigned to the producers, the price paid by the dairies to dairy farmers per liter of milk (the target price), the scope of dairy products imports and the consumer price of the supervised dairy products. Currently, the main provisions pertaining to planning are set in the Dairy Sector Planning Law, 2011 (the Milk Law), and its regulations and decrees. In 1998–2022, five agreements and reforms in the dairy industry were signed between the state and representative organizations of the milk producers. Within this framework, the number of dairy farms was reduced over the years, and the number of dairy cows in each dairy farm grew. At the same time, the target price decreased compared to what it would have been without the reforms, and the government awarded efficiency grants to dairy farmers and retirement grants to dairy farmers who chose to retire from the dairy farming industry.



Key figures

118,612

the number of dairy cows recorded in the Herd Book in Israel in 2021

77%

the gap between the (highest) consumer price of a liter of regular milk in Israel, estimated at USD 1.81 (about NIS 6.2 including VAT), and the average price in the European Union countries, estimated at about USD 1.02 (about NIS 3.5), in June 2022

24%

the gap between the high price of raw milk in Israel, estimated at EUR 62.04 per 100 kilograms of milk (about NIS 219), and the average price in the European Union countries, estimated at EUR 50.17 per 100 kilograms of milk (about NIS 177), in 2022

1.54 billion liters

of raw milk produced in Israel in 2021

USD 169 million

total imports of dairy products in 2021

161 liters

the average annual consumption of milk and dairy products per person in Israel in 2021

41.2% of the milk

produced in dairy farms in the family sector (in cooperative Israeli settlements – moshav), and the rest – in the cooperative sector (in kibbutzim)

12,003 kg


average annual milk yield per cow in Israel – the highest in the world

686 dairy farms in Israel




of which – 440 in national priority areas



Audit Actions






 From October 2021 to November 2022, the State Comptroller's Office examined the regulation of the dairy industry in Israel, including the powers of the Dairy Council in the management of the dairy sector, the mechanism for determining the target price, the impact of kosher certification requirements on dairy products and the supervision of animal welfare in dairy farms. The audit was conducted at the Ministry of Agriculture and at the Dairy Council. Completion examinations were carried out at the Ministry of Finance, the Ministry of Environmental Protection, the Chief Rabbinate of Israel and the Competition Authority.

Key Findings

-  **The Price of Raw Milk in Israel Compared to the Price in the European Union Countries** – the price of raw milk in Israel estimated at EUR 62.04 per 100 kilograms of milk (about NIS 219) is higher by about 24% than the average in the European Union countries estimated at EUR 50.17 per 100 kilograms of milk (about NIS 177). Over the past decade, the gap has narrowed.
-  **The Main Factors Affecting the Cost of Raw Milk Production and its Price** – part of the high price in Israel can be attributed to cow feed costs (which are about 33.3% higher than in the European Union), to costs arising from weather conditions and the price in some countries is lower due to direct subsidies received by dairy farmers. However, the high milk yield in Israel (41.2% more than the European Union countries), the size advantages of the Israeli dairy farm, minor differences in the price of cow feed in Israel compared to countries where the price of milk is lower, and the target price being based on the Milk Survey, which includes losing dairy farms alongside profitable ones, indicate a potential to reduce the price of raw milk.
-  **Engaging a Private Company to Carry Out the Milk Survey** – the price for raw milk that the producer receives is calculated based on the milk production cost per liter according to a biannual survey conducted by a steering committee through a supplier chosen by the Dairy Council (the Milk Survey or the Survey). To carry out the survey, the Dairy Council contracted a private company for about 12 years, for a total of NIS 1.970 million, excluding VAT. During this period, the engagement was extended three times with a tender exemption. In addition, the Dairy Council and the Steering Committee did not regulate the conflicts of interests within the contracts for the execution of the Milk Survey.



- 👎 Control Over the Milk Survey** – the Steering Committee has no control procedure over the the private company's survey, the results of which directly and significantly affect the target price each quarter. Such control is missing regarding the data collection methodologies from the dairy farms, the correctness and accuracy of the data and the calculations and analyzes done by the company. The Committee relies only on general reasonable tests carried out by the company according to the Steering Committee instructions.
- 👎 Refusal of Dairy Farms to Participate in the Milk Survey and the Consequences for its Validity** – the Milk Survey results are used to calculate the price of raw milk. It was found that in the most recent surveys, an average of 22% of the sampled dairy farms refused to participate in the Survey, since their obligation to participate in it had not been regulated until now. The refusal rate of dairy farms to participate in the Survey indicate that the implementation of the Kedmi Committee recommendations to obligate dairy farms to participate in the Survey might have strengthened the validity of its results.
- 👎 Calculating the Components of Self-Employment Wages in the Milk Survey** – the cost of employing dairy farmers directly affects the target price. It was found that the dairy farmers are employed in dairy farms that are part of the Israeli agricultural sector, while the calculation of their salary for the Survey is based on the general average salary in the economy, which is significantly higher than that of the agricultural sector. It was raised that the average wage in the agricultural sector in June 2022 was NIS 8,432 per month, while the general average wage in the economy was considerably higher – NIS 12,522 per month – a gap of about 48.5%. This gap directly affects the target price.
- 👎 Differences in Profitability in Dairy Farms in the Cooperative Sector Compared to Dairy Farms in the Family Sector and Their Effect on the Target Price** – family-owned dairy farms – sampled in the Survey from 2011 to 2019 – were on average, according to the Survey methodology, loss-making over the years (a loss ranging from 31.02 to 18.88 agorot per liter of milk at current prices). In contrast, the cooperative dairy farms were profitable on average over the years (profit ranging from 22.14 to 4.36 agorot per liter of milk at current prices). The inclusion of the loss-making family dairy farms in the calculation of the target price increases the target price for the consumer and preserves the high average profitability of the cooperative dairy farms. Furthermore, the present target price mechanism does not necessarily promote the Milk Law target to strengthen the settlements in the periphery nor promote efficiency in loss-making dairy farms.
- 👎 The Types of Subsidies for Dairy Farmers** – in 1995, Israel undertook, as part of a multilateral agriculture trade agreement of the World Trade Organization, to reduce the indirect subsidies that distort trade and production. However, according to OECD estimates, in 2021 the rate of indirect supports were 90.7% of the total supports for farmers in Israel. This rate is considerably higher than the rate of indirect support in the OECD countries, with only 23.1%.

-  **The Powers of the Ministry of Agriculture to Receive Information on the Production Data of the Dairies** – the Ministry of Agriculture and the Dairy Council do not have the authority to receive updated and current data (on a weekly or daily basis) on the production of the dairies. They are also not authorized to order the dairies to regulate raw milk by transferring surplus production to other dairies. This impairs optimal utilization of the output. It was found that the draft to regulate the powers of the Dairy Council, has been discussed between the Ministry of Agriculture and the Ministry of Finance and the Dairy Council since 2014. The granting of powers to the Ministry of Agriculture and the Dairy Council may streamline and reduce the shortage of milk in certain periods.
-  **Shortage of Dairy Products During Tishrei (Jewish New Year) Holidays** – every few years, there is a shortage of certain dairy products during Tishrei holidays and immediately thereafter, due to few working days in the said period compared to a regular month with no holidays. In 2021, the shortage was about 3 million liters of pasteurized milk, 9% of the average monthly consumption.
-  **The Impact of kosher Certification Requirements and the Dairy Products Production Law** – the Ministry of Agriculture has no data on the increased cost to the public due to the lack of distinction between the price of products having Mehadrin (strict) kosher certification and the price of products having regular kosher certification, although this also affects the target price.
-  **The Welfare of Cows in Dairy Farms** – the Veterinary Services (VS) are responsible for enforcing the Animal Welfare (Protection of Animals) Law, 1994. Out of 33 inspections they conducted on family dairy farms, 18 (55%) were graded low. However, in the dairy farms in the cooperative sector, nine dairy farms out of 25 (36%) were graded low. It was found that the VS has no orderly procedure for carrying out the aforementioned inspections in the dairy farms, regarding the administration of the inspections and handling of their results. This may affect the inspections grades and the ability to improve the welfare of the animals in the dairy farms.
-  **Mapping Dairy Farms with a High Risk of Harming Animal Welfare and Carrying Out Investigative and Enforcement Actions** – according to the Animal Welfare Division at the VS, in about 20% of all dairy farms (about 130 dairy farms) in Israel, animals are kept in conditions that seriously harm their welfare. Despite this assessment and despite the VS inspections findings indicating deficiencies of various severity degrees in about 19% of the inspected dairy farms, the VS do not map dairy farms with high risk factors harming animal welfare, such as poor housing conditions. Furthermore, in 2017–2021 only seven investigations led to filing of one criminal lawsuit and another administrative enforcement procedure. This, only due to 28 complaints and not due to an initiative action by the VS. The annual scope of payments to dairy farms is about NIS 3 billion per year, and in contrast in 2017–2021 only one criminal fine of NIS 29,200 was imposed on dairy farms.



On the right – a sick calf lying on the ground. On the left – cows lying in their own excrement. Photographed by the VS as part of animal welfare inspections at two different dairy farms, 2021.

👎 Establishing Animal Welfare Regulations Regarding Dairy Farms – the Ministry of Agriculture is not authorized to enforce specific norms on the dairy industry, and therefore the enforcement of the Animal Welfare Law in the dairy farm industry is limited, even with problematic findings in the Ministry inspections, for example high calf mortality and overcrowding. Despite the above, since 2016 the Ministry of Agriculture has not promoted regulations enforcing the welfare of animals in dairy farms.










Application of an Automatic Update Mechanism for the Prices of Supervised Dairy Products – the State Comptroller's Office commends the Ministries of Agriculture and Finance for ordering the application of an automatic update mechanism of supervised dairy products prices, expected to enter into force in May 2023. The implementation of the order will significantly reduce the gap between the prices updating date of the supervised products and the target price update.

Key Recommendations

💡 Given the importance of the Milk Survey and its effects on the consumer regarding milk and its products prices, and as the target price given to dairy farms is calculated based on data they submit for the benefit of the Survey, it is recommended that the Ministry of Agriculture and the Dairy Council adequately control the correctness of the farmer's data and calculations. This need is further reinforced as the dairy farms participation in



the Survey is voluntarily. It is also recommended that the Ministry of Agriculture consider regulating the dairy farms' obligation to participate in the Survey.

-  It is recommended to consider amending the average wage used for calculating the labor cost in the Milk Survey, to reflect the average wage in the agricultural sector. It should be noted that a transition to the WACC model, which includes the calculation of an adequate return on equity for the dairy farm owner, would also resolve the dairy farm owner's salary issue.
-  It is appropriate that the Ministry of Agriculture and of Finance examine the target price mechanism and consider updating the calculation to meet the industry's planning goals. In this framework, it is appropriate to consider the determination from 2022, that the Survey will include only dairy farms with a quota of 800,000 liters or higher, is sufficient to encourage inefficient dairy farms to improve or close down. It is also appropriate to consider whether the distribution of the quotas between the family sector and the cooperative sector (42% for the family sector and 58% for the cooperative sector) is still justified.
-  It is recommended that the Ministry of Agriculture and of Finance implement the OECD and the State Comptroller's recommendations from 2018 and Israel's commitments to the World Trade Organization to transit from indirect support to direct support in the dairy industry. It is further recommended to consider additional policy tools used in other countries to maintain nutrition security.
-  As long as Israel implements a planning regime for the dairy industry, it is appropriate that the Ministries of Agriculture and Finance analyze the factors affecting the costs of milk production in Israel and consider improving the industry efficiency. This to reduce the target price and lower the final price for milk and dairy products to the consumers.
-  It is appropriate that the Ministry of Agriculture and of Finance enact the milk industry regulations. In case of disagreements between the Ministries, it is recommended the Prime Minister's Office or the Ministry of Justice resolve them.
-  The Dairy Council and the Ministry of Agriculture, in cooperation with the Ministry of Economy and other relevant parties, should consider the recommendations in the Dairy Council's report about the shortage of dairy products during the 2021 Tishrei (Jewish New Year) holidays, to prepare ahead of time and minimize, to the extent possible, the shortage of dairy products and the spillage of milk in the future.
-  It is appropriate that the VS set guidelines for dairy farms inspection, to ensures their frequency, their adequacy to risk factors, and monitor the deficiencies rectifying. If the deficiencies are not rectified within the defined period, it is recommended that the VS transfer to the PACU (Plant and Animal Control Unit) (the central unit for enforcement and investigations in the Ministry of Agriculture) cases of substantial violations affecting the welfare of animals for further investigation and for enforcement actions. It is also appropriate the VS consider transferring appropriate findings to the Training and



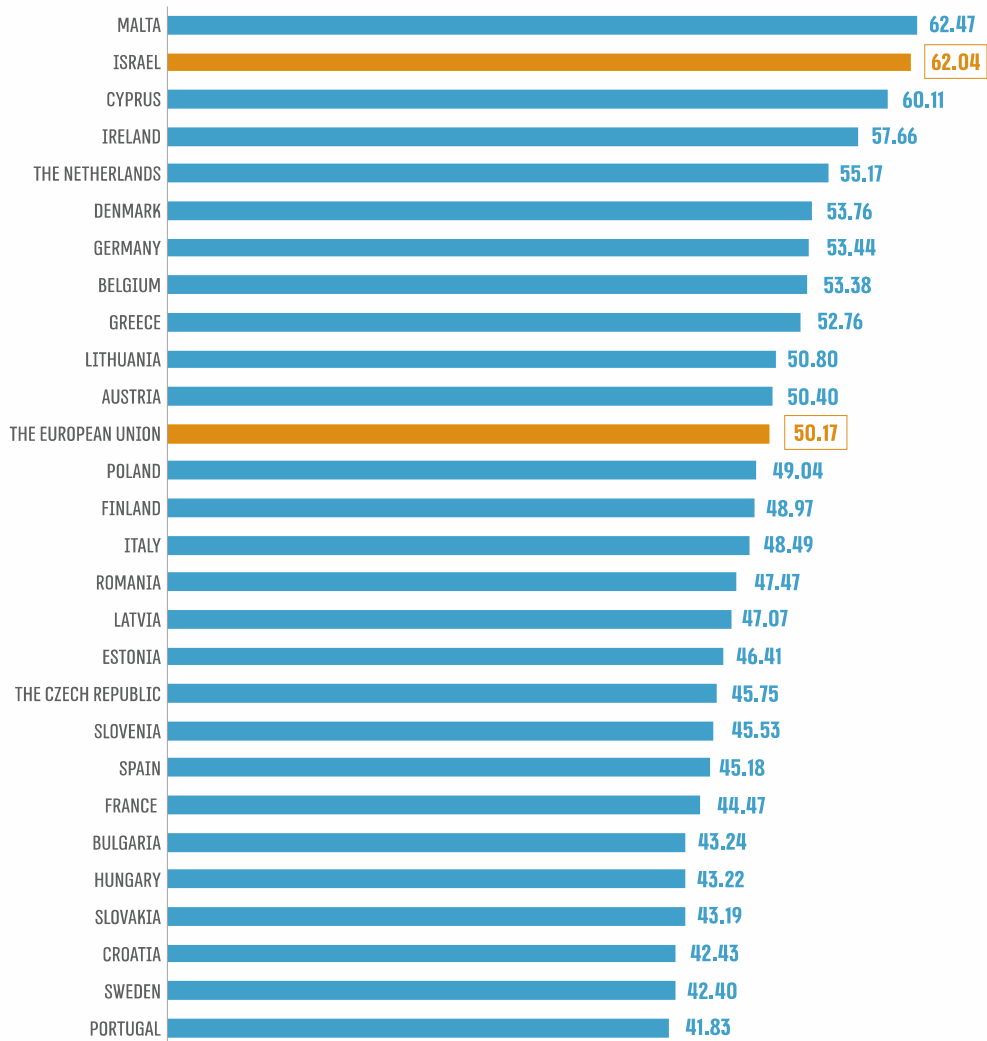
Vocational Service at the Ministry of Agriculture, where the instructors will offer the dairy farmers accompaniment and training helping them to rectify the deficiencies quickly and efficiently.

💡 It is appropriate that the VS, through the animal cruelty supervisors in the district veterinary bureaus and based on their assessments results, map all the dairy farms in Israel regarding the risk factors to the welfare of the animals. Hence, it will be able to build an annual and multi-year plan to monitor the implementation of Animal Protection Law in dairy farms and its enforcement. Such a plan will include clear and measurable goals to reduce the scope of dairy farms violations.

💡 It is recommended that the Ministry of Agriculture enact regulations on the welfare of animals in dairy farms (calves and cows) to promote the welfare of cattle in the dairy industry.



Price of Raw Milk in Israel and the European Union Countries, 2022 (in EUR, per 100 kg of milk)



According to EU Milk Market Observatory data, as processed by the State Comptroller's Office.



Summary

The dairy industry in Israel is unique compared to the world and to other food industries in Israel (except for the egg-laying industry), because the state plans the dairy industry and supervises it throughout all stages of the production chain by law. Today, except for the State of Israel, Canada regulates the dairy industry throughout the entire production chain. The price of raw milk directly impacts the dairy products price for the Israeli consumer and affects the cost of living in Israel. The state's regulation of the industry's activity is intended to ensure a regular supply of milk and its products at a fair price while protecting the welfare of animals.

The findings of this report shed light on deficiencies in the state's regulation of the industry's activities, on three main levels: (a) The milk price in Israel, which is higher than in most European Union countries – this report includes findings about the raw milk target price mechanism in Israel, and for many years, the State of Israel has not fulfilled its obligations to the World Trade Organization to transition from indirect support, including the planning of the industry, to direct support; (b) Ensuring the welfare of the animals – according to an assessment of Ministry of Agriculture professionals, about 20% of the dairy farms in Israel are in deplorable condition in terms of animal welfare, but supervision in this area is lacking, and no specific regulations to prevent animal cruelty on dairy farms have been enacted; (c) Ensuring regular supply and reducing the shortage of milk during the Jewish holidays alongside avoiding the spilling of milk, to the extent possible.

It is appropriate that as long as the dairy industry planning regime prevails in Israel, the Ministries of Agriculture and Finance analyze the factors affecting the costs of milk production in Israel and consider improving the industry efficiency. Thus, reducing the target price and affecting the final price for milk and dairy products to the consumers, while maintaining the quality of the milk. It is further recommended that the Ministry of Agriculture and Finance implement the OECD and the State Comptroller's recommendations to transit from indirect support to direct support in the dairy industry. At the same time, the Ministry of Agriculture should improve the welfare of cows by increasing the supervision of the conditions in dairy farms and promoting appropriate legal regulation.

