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el University in Brno

Faculty of regional development and international studies

AGRARIAN FOREIGN TRADE EU ó ISRAEL

Diploma thesis

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Brno 2015



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The Diploma thesis deals with the agrarian foreign trade between the European Union and Israel. This thesis defines international business in general, it also describes the agrarian sector in Israel and outline the main characteristics of the Israeli agriculture, it reports the development of the Israeli production and agrarian exports / imports. The main focus of this thesis is the agrarian trade between the EU and Israel. The thesis identifies the main traded agrarian commodities between the two parties in the presence and current trends in the foreign trade of the European Union and Israel.

Key words: Agrarian sector of Israel, foreign agrarian trade, international trade, the European Union

Abstract

Hrbková, Kristýna. Agrární zahrani ní obchod EU ó Izrael. Brno, 2015. Diploma thesis. Mendel university in Brno.

Diplomová práce se zabývá zahrani ními agrárními obchody mezi Evropskou unií a Izraelem. Tato práce vymezuje mezinárodní obchod obecn , dále se zabývá popisem agrárního sektoru v Izraeli a zdrazní hlavními charakteristikami Izraelského zemědělství, popisuje vývoj produkce jednotlivých komodit, stejně jako export a import těchto komodit. Hlavní důraz je kladen na analýzu agrárního obchodu Izraele se státy Evropské unie. Práce identifikuje hlavní obchodovatelné agrární komodity mezi oběma stranami v současné době a aktuální trendy mezinárodního obchodu se zemědělskými komoditami mezi EU a Izraelem.

Key words: Agrární sektor Izraele, Evropská Unie, mezinárodní obchod, zahrani ní agrární obchod

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relations are based under the Israel ó EU Association Agreement. Israel is an important trading partner of the EU from the Mediterranean region and the EU is the most important trading partner for Israel. Israel is a part of the Euro ó Mediterranean Partnership that promotes economic integration and democratic reform and one important part of this partnership is to achieve mutually satisfactory trading terms for the EU and its Mediterranean trading partners. Due to Israeli geographical position its relations with the European Union are very positive and trade between these two countries is growing annually.

The common agricultural policy of the EU is one of the most important policies of the EU, especially due to the fact that the EU is the most foremost trader in agro ó food products in the world, which highlights the importance of the agrarian foreign trade of the EU.

Israeli agriculture is highly developed and Israel it is the leader in the agricultural technologies, even though the land of Israel is mostly semi ó arid or arid area. The climate of Israel together with the fact that almost the half of the land is desert does not make a good environment for agriculture, but Israeli scientists together with the farmers created highly developed system of irrigation and the agrarian production is growing annually.

In my master thesis I would like to concentrate on the agrarian sector of Israel and agrarian foreign trade of Israel and the European Union. I have chosen the theme of this master thesis for several reasons. The Israeli ó EU relations is current issue, especially due to the character of the Israeli ó Palestinian conflict and its recent escalation and the reaction of the EU towards this conflict. The conflict itself influences the agricultural production of Israel, especially the plant production, agrarian imports and exports as well. Another reason is the fact that I find the agriculture policy of the EU and the EU's protectionism very interesting and I wanted to find out more about it towards Israel, especially because my bachelor thesis was about Israel. Another fact for choosing this theme was the fact that the agrarian foreign trade of these two parties is growing every year and the EU is the most important business partner of Israel.

This thesis is to characterize the development and the evolution of the agrarian foreign trade of the EU < > Israel in terms of its volume, commodity and territorial structure. To fulfill the overall objective, there were determined following objectives:

- To describe international trade, the basic terms linked with the international trade, for example import and export and describe the main international organizations involved in the international trade together with description of the main international free trade areas and the main instruments of the foreign policy.
- To outline the agricultural policy of the European Union, illustrate the historical development of the agricultural policy of the EU describe the current financial tools of the agricultural policy and characteristics of the EU's trade policy and agricultural trade of the EU towards non EU Countries together with relation between the EU and Israel.
- To describe the agrarian sector of Israel, the main characteristics of the Israeli agriculture, the farming communities in Israel, outline the water management in the agriculture in Israel and describe the research and development of the agriculture of Israel, the agricultural production of Israel, and the changes in the composition of the commodities, and the evolution of production quantity of selected commodities.
- To briefly outline the agrarian international foreign trade of Israel, with focus to the agrarian foreign trade of the EU and Israel, commodity structure in case of the imported items to Israel from the EU and vice versa

The thesis is divided into the theoretical part in which would like to characterize the international trade in general, the agricultural policy of the EU and also the relation of the EU and non ó EU counties. The practical part of the thesis will be focused on the agrarian sector of Israel itself, its production, the evolution of production for selected commodities and it will characterize the international foreign trade of the Israel. The most important part of this thesis will outline the foreign agrarian trade between EU and Israel.

International trade is defined as trade in which major players benefit, as well as the national states they represent and also broader international community. It is the exchange of goods and services across international borders or territories. (Wall et al, 2010) International trade in goods and services has been representing the most important component of international economic relations and in the long term the volume of the international trade is growing faster than the gross domestic product of the global economy, so its importance is therefore increasing. (Palát et al, 2014)

There are several international trade models which are proposed in order to predict patterns of trade and analyze the effects of trade policies. In this thesis I am about to present only the basic and most important theories.

Adam Smith's model displays trade taking place on the basis of countries exercising **absolute advantage** over one another. When one nation is more beneficial than the other nation is producing the second commodity, then both nations gain by each specializing in the production of the commodity of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage. (Zhang, 2008)

The Ricardian model focuses on the **comparative advantage** on the basis of the technological differences between the countries. This model highlights on the fact that the trade is beneficial for all the countries that are involved in the international trade. Ricardo demonstrated that if two countries capable of producing two commodities engage in the free market then each country will increase its overall consumption by exporting the good for which it has a comparative advantage while importing the other good, provided that there exist differences in labor productivity between both countries. (Kovárník, 2013)

The Heckscher-Ohlin model of trade was named after two Swedish economists. The goal of this model is to predict the pattern of trade in goods between the two countries, based on their differences in factor endowments. It assumes identical technologies across countries, identical homothetic tastes across countries, differing factor endowments and free trade in goods. This model predicts that countries will export the goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce. (Feenstra, 2004)

Export

The term export refers to selling goods and services produced in the home country to other markets. Export is also the oldest and most straightforward way of conducting international trade. The growth of export nowadays can be attributed to the liberalization of the trade, with the WTO significantly reducing tariff rates and quotas imposed on most imports. (Wall et al, 2010) The European Union (hereafter called as EU) is the largest exporter and it is sometimes the subject of trade defence investigations initiated in the non-EU countries. The EU is trying to help its members to compete better on international trades with its trade policy. The European Commission monitors and assists EU industries when non-EU countries take trade measures against EU exporters. (European Commission, 2013A)

Import

An import is defined as a good brought across a national border from an external source. The EU sees import as very important aspect of a development and has a number of trade agreements with partners in the developing world and the EU also supports businesses wanting to import into the EU. At the same time the EU applies trade defense measures such as anti-dumping or anti-subsidy measures when EU industry is harmed by dumped or subsidized imports. (European Commission, 2013B)

Balance of payments

Balance of payments is a statistical record of economic transactions between the country's entities and entities from the rest of the world for a certain period of time, usually for one year. Balance of trade includes exports and imports of goods from the country and into the country. (Palát et al, 2014) The EU has a balance-of-payment assistance program, which allows the EU to provide the mutual assistance to non-euro area member states when a member state is in difficulties as regards its balance of payments. This assistance is designed to ease a country's external financing constraints. (European Commission, 2014A)

3.1.2 International organizations involved in international trade

World trade organization

The World Trade Organization (hereafter called as WTO) is probably the most important organization in the world involved in the international trade. It can be defined as a organization for trade opening, a forum for governments to negotiate trade agreement and also

ates. In the end the WTO is also a place where member
e problems. (WTO, 2015)

The first attempt to implement the rules for the international trade was made instantly after the Second World War. This attempt led into accepting the General agreement on tariffs and trade (hereafter called as GATT) in 1948. (Ministerstvo zahrani ních v cí eské republiky, 2008) The GATT was basically the predecessor of the WTO. Even if it was the purpose the GATT did not became the international organization but its members were holding meetings every year. Unfortunately the GATT suffered inherent weaknesses that handicapped its operations. This included lack of legal personality, the fact that the GATT had only provisional application and beside other things also ambiguity and confusion about its authority. (Matsushita et al, 2006) GATT therefore remained the only multilateral instrument of foreign trade until 1995, also until 1995 all negotiations were held within GATT and in total there were 8 rounds of negotiations, these negotiations included issues related to the problematic area of agricultural and textile, and moreover services were discussed. (Palát et all, 2014) Rounds of tariff negotiations were convened from time to time on *ad hoc*¹ basis. The first round was in 1947 in Geneva, then in was in 1949 in Annecy, in 1951 in Torquay, in 1956 again in Geneva and all these rounds were similar, each round began with the adoption of a decision convening a tariff conference on a fixed date. (Hoda, 2001) The Kennedy round in 1964-1967 brought about a GATT Anti-Dumping Agreement and for the first time a section for development. Then in 1973-1979 **Tokyo round** saw the first major attempt to tackle non-tariff barriers.

Between the years 1986 ó 1994 there was the last round called **Uruguay round**, the new agenda covered virtually every outstanding trade policy issue, including agriculture and textiles. The Uruguay round was highly significant in reinforcing the architecture of the world trading system and for the first time agriculture was subject to multilateral trade disciplines. (Lattimore, 2008)

The WTO compares the **boxes** to classify trade subsidies. **Green box** is for policies that are not restricted by the trade agreement because they are not considered trade distorting. These green boxes must be government-funded and must not involve price support. Agriculture's amber box is for all domestic support measures considered to distort production and trade. The last one is the **blue box** which is any support payment that is not subject to the

¹ Latin term, which means „for the specific purpose, situation“.

they are direct payments under a production limiting

The agreement that brought the WTO into being was signed 15th of April 1994 in Marrakesh and came into force in 1995. The goals declared in this agreement beside others are increasing the living standards, full employment, effective demand, increasing the production and trade with goods. (Touk, 1999) There are several principles the WTO is based on, for example trade with no discrimination, liberalization of the trade, reduction of the international trade barriers, support for economic reforms which are beneficial for the low developed countries and also assumption that all changes in the international trade will be performed according to the international law. (Kovárník, 2013)

WTO members agreed to initiate negotiations for continuing the agricultural trade reform process over one year by the end of the 1999. These talks began in 2000 under the original mandate of the Article 20 of the Agricultural Agreement. (WTO, 2014) Under the Agricultural Agreement the WTO member states have to reduce their subsidized exports but some importing countries depend on supplies of cheap, subsidized food from the major industrialized countries, they include some of the poorest countries in the world. (WTO, 2012)

World Bank

Another international institutions involved in the international trade is World Bank. The World Bank was established in 1944 as a public sector institution. The new Bank was in a world dominated by national-states indeed a multilateral institution. The Bank brought its client countries intellectual products like ideas, information, policy influence but also substantial flows of financial resources. (Kapur et al, 1997) Currently the World Bank is a vital source of financial and technical assistance to developing countries around the world and its goals are composed of reducing poverty and supporting development. The World Bank group is headquarters in Washington D.C. and provides low-interested loans, grants for developing countries or support a wide array of investments in such areas as education, health, infrastructure or agriculture. (World Bank Group, 2015) The World Bank is committed to boosting agriculture and agriculture-related investments. Assistance for agriculture rose in 2014 to 4.3 billion USD from 3.6 billion in 2013. World bank's assistance was particularly strong in Sub-Saharan Africa and generally it emphasizes among others raising agricultural productivity, linking farmers to market, limiting risks, improving rural development or making agriculture more sustainable. (World Bank Group, 2014)

hereafter called as IMF) was conceived in 1944, when 45 countries agreed on a framework for an economic international cooperation and it came into existence in 1945 when its 29 member countries signed the Article of Agreement. It began operations in 1947 and year after France was the first country to borrow from the IMF. The countries that joined the IMF years after agreed to keep their exchange rates pegged at rates that could be adjusted only to correct a "fundamental disequilibrium" in the balance of payments, and only with the IMF's agreement. This system prevailed till 1971. (International Monetary Fund, 2014) The IMF currently consists of 184 member states and is headquartered in Washington D.C. Its purpose is surveillance of the global economy, which means supervision of the member states, this means monitoring and consulting process for valuation of economic progress of member states, the results are presented in the World Economic Outlook or Global Financial Stability Report. The IMF also provides loans for developed countries and it provides a technical help for creation and implementation of effective policies of member states. (Kalínská et al, 2010) Most recently the IMF has provided a rescue loan to Greece in association with governments of the euro zone in 2010. (Reuvid and Sherlock, 2011)

Organization for Economic Co-operation and Development

Organization for economic cooperation and development (hereafter called as OECD) is intergovernmental organization comprising 34 economically significant countries including the Czech Republic, the main aim of this organization is achieving the maximum growth rate of its member states, growth of employment rate, rise of the living standard and also financial stability or development of world trade. (Palát et al, 2014) The OECD was established in 1948 to run the Marshall plan for Europe's reconstruction after the Second World War. Member states nowadays regularly turn to one another to identify the problems, discuss and analyze them and also promote policies to solve them. (OECD, 2015)

Food and Agricultural organization of the United Nations

Food and Agricultural organization (hereafter called as FAO) is an international organization consisting of 193 member states and it has identified the key priorities in agricultural development. Its goals are to reduce the poverty, hunger, make agriculture more sustainable and productive and increase the resilience of livelihoods to disaster. (FAO, 2015) FAO also serves as an international forum for debate about food and agricultural issues. There are special FAO programs which purpose is to help developing countries facing food crisis and it

gency situations like natural disasters. The annual
more than 300 million USD. (OSN Praha, 2005)

3.1.3 International free trade areas

A free trade area is defined as an economic union formed with respect to tariffs on products originating in the territories of the participating countries. Participating countries remove tariffs on products originating within the free trade area and traded among themselves. A free trade area is more than a simple economic union, it must be equipped with some measures like rules of origin which seek to prevent deflection of trade. (Jovanovic, 1998)

North American Free Trade Agreement (NAFTA)

On 17 December 1992 The United States, Canada and Mexico, signed a trade record the North Atlantic Free Trade Agreement (hereafter called as NAFTA), which is the most comprehensive free trade pack and the first reciprocal free trade pact between a developing country and industrial countries. (Hufbauer and Scott, 1993) NAFTA came into effect in 1994 and by removing trade restrictions and reducing other impediments to economic integration it increased the economic interdependence among the countries in North America. (McKinney, 2000) Currently NAFTA is one of the largest free trade zones and it establishes clear rules for commercial activities between its members. It oversees a number of institutions that ensure the proper interpretation and smooth implementation of the Agreement's provisions. (North American Free Trade Agreement, 2012) Agriculture is the only area where NAFTA does not involve a trilateral agreement between the three countries. Instead there are two separate bilateral agreements, one between the US and Mexico and other one between Mexico and Canada. (Hufbauer a Scott, 1993) The NAFTA together with the EU constitute the largest trading blocs in the world but on the other hand the EU has maintained separate bilateral blocks for managing its commercial relations with the three North American countries. The EU's commercial relations with the NAFTA countries are strong and relatively well maintained. It seems that the tariffs are no longer an important long-term issue. Currently EU and NAFTA account for 35 percent of the world exports and over 40 percent of world import. (Fogarty, 2002)

Association of the South East Asia Nations (ASEAN)

The Association of the South East Asia Nations (hereafter called as ASEAN) was established in August 1968 in Thailand with the signing the Bangkok Declaration by Malaysia, Indonesia, Philippines, Singapore and Thailand. Brunei, Viet Nam, Laos, Myanmar and Cambodia

it declared establishment of the aims and purposes about , cultural, technical and other fields. (Flores and Abad, 1997) ASEAN as the whole represents the EU's third largest trading partner outside the Europe and also EU is the third largest trading partner after China and Japan for ASEAN. Currently the EU is negotiating the free trade agreement with some of the ASEAN member states (Vietnam, Malaysia, Thailand) and it is open to start negotiations with other partners in the region. Besides the trade negotiations with individual ASEAN member, the EU also cooperates closely with the ASEAN region as a whole. (European Commission, 2014)

Central European Free Trade Agreement (CEFTA)

The original Central European Free Trade Agreement (hereafter called as CEFTA) was signed in 1992 by **Visegrád Group** countries with the intention of realization the free trade zone for industrial and agricultural products. The CEFTA came into force in 1994. It was established by Poland, Czech Republic, Slovakia and Hungary. Slovenia, Romania, Bulgaria and Croatia joined later. (Cihelková, 2011) All the originated parties left CEFTA after they joined the EU. Therefore it was decided to extend CEFTA the Balkan states. In 2006 in the CEFTA Agreement was innovated and signed by Albania, Bosnia and Herzegovina, Moldova, Serbia, Montenegro and UNMIK² on behalf of Kosovo. (Ministerstvo zahrani ních v cí eské republiky, 2009) Main objectives of the Agreement are to expand the trade in goods and services, foster investments, eliminate barriers to trade between the Parties and among others provide appropriate protection of intellectual property rights in accordance with international standards. The Agreement fully comforts to WTO rules and EU regulations. (Central European Free Trade Agreement, 2013)

3.1.4 Instruments of the foreign trade policy

Instruments of the foreign trade policy influences the most the territorial and commodity structure and value. The foreign trade policy is not only based on the general economic policy of the country, but also on the foreign policy. In the foreign trade policy of a country, anonymous and contractual instruments can be distinguished, these instruments are interconnected as the efficiency of anonymous instruments is limited by contractual instruments different towards individual intergration groupings, countries or international economic organizations. (Palát et al, 2014)

² The United Nations Interim Administration Mission in Kosovo

led into **autonomous measures**, which are implemented on behalf of a sovereign country, these measures come into effect after the international provision with other countries. Autonomous measures could have a protectionist manner but can also act pro-actively. (Kalínská et al, 2010) **Contractual trade measures** can be divided into bilateral agreements which involve only two countries or multilateral which involve more than two countries. These agreements are usually intended to lower trade barriers between participating countries and also increase the degree of economic cooperation between them. Trade agreements are usually regional, which means that they involve relatively small number of countries. (Smith et al, 2010) The EU and Israel trade relations are also based on the bilateral trade agreement called EU-Israel Association Agreement which came into effect in 2000. The aim of this agreement is to provide an appropriate framework for political dialogue but also for economic cooperation between these parties. In 2008 there were negotiations for additional agricultural trade between the EU and Israel, this agreement came into force in 2010. (European Commission, 2014B)

Import controls

There are two types of controlling import, the protecting tools like quotas and import duties (tariffs). Import quotas provide restrictions to the total number or value of the goods that may be imported to the country in a specified period. The purpose of the import duties is to reduce demand for the commodities by increasing the price to the ultimate user. (Reivik and Sherlock, 2011)

These tools can be also divided into **tariff and non-tariff barriers**. The tariff barriers are custom duties, which can be defined as a financial amount of money which is collected by state while importing or exporting the goods. (Kalínská et al, 2010)

The tariff is a tax levied on a commodity when it crosses the national border. The most common tariff is the **import duty**, the tax imposed on an imported commodity. There are also export tariffs, but they are not as common as import tariffs. Another kind of tariff is the **ad valorem duty**, which is a tax specified as a specified percentage of the value of the commodity imported or exported. (Chacholiades, 1990)

Non-tariff instruments are directly set values and the most spread protectionist autonomous instruments of foreign trade policy. Countries use many mechanisms to restrict import and the objective of the Uruguay round of GATT negotiations in 1994 was elimination of non-trade barriers in agricultural commodities and replacing them with tariffs. Tarification

achieved and is a huge success of the 1994 GATT

Non-tariff barriers can be divided into direct and indirect. Direct non-tariff barriers include quotas or embargoes. **Embargo** is probably the most restrictive non-tariff barrier and can be either a complete ban on trade with a certain foreign nation or a ban on the sale or transfer of specific product. A **quota** can be defined as a quantitative restriction on imports and it can be based on the value of the goods or on quantity. (Schaffer et al, 2009)

EU import tariffs are among the lowest in the world and the EU market is the most open to developing countries and also the EU imports more from the LDCs than the US, Canada, China and Japan put together. (European Commission, 2013B)

Dirrect and indirect support of export

Instruments of direct state support include various forms of **export subsidies**, for example financial subsidies, export credit, state loan guarantees or export risk insurance. The indirect form of support usually comes in the form of providing various advisory and information services. In developed countries there are services provided to exporters usually for free or for a small charge. (Palát et al, 2014)

There are several numbers of ways to enter the global business area. First option could be **licencing**, when one firm permits another to use it intelectual property for compensation designed as royalty. The property licensed might include trademarks, paterns, technical know-how or specific business skills. Another global entry is **franchising** which is granting of the right by a parent company to another to do business in a prescribed manner. International franchising has grown strongly in the past decade. (Czinkota, 2001)

The EU member states face many of the trade problems like import quotas or tarrifs but also discriminatory regulations, that is why removing these barriers is part of the EU's strategy to boost exports and promote growth and jobs in Europe. (European Commission, 2013A)

3.2 AGRICULTURAL FOREIGN TRADE OF THE EU

The share of agriculture in global trade is shrinking, so does its share in the global gross domestic product. The last two decades are characteristic as a period of rapid export growth from developing countries, aided by the growth of the world economy and the lowering trade barriers. The European Union is the largest exporter and developing countries as a block are the second largest trader. Trade among industrial countries dominates global agricultural trade, mostly in the trade blocks like the European Union or NAFTA. (Hewitt, 2005) Agricultural trade is still very important for high-developed and for developing countries as

are among the most sensitive in any international trade

led to change with the globalization in the 1990s, there was a rapid growth in processed and high-value agricultural and food products. (Josling et al, 2010) Globalization has an impact on the liberalization of the world trade, in the end it effect agricultural trade as well, which is no longer known as closed sector with perfect competition relations. There are several main reasons which effects globalization of the agricultural trade, especially in the European territory, these reasons are establishment of the European Community and its Common agricultural policy, collapse of the Soviet Union and also rising the living standards in the developing countries and growth of import of the agricultural commodities. (Tamá–and Be vá ová, 2013)

Agriculture contributes about 1.3 %to gross value added (hereafter called as GVA) in the EU and 5 % to the total employment, its importance of course varies from one Member state to another. The GVA recovered strongly since the financial crises in 2008 and reached a historic high in 2011. The value of output has increased for most products over the past years, but the increase in value is mostly from higher prices rather than increased production. (WTO, 2013)

As visible in the figure 1, the exports of agricultural products of the EU are growing annually, although there is a visible decline in 2009 due to the economical crisis, which affected the EU and mostly the South European countries, which are the main exporters of the agricultural products of the EU. The share of the agricultural exports in total exports grew in the period 2004 ó 2011.

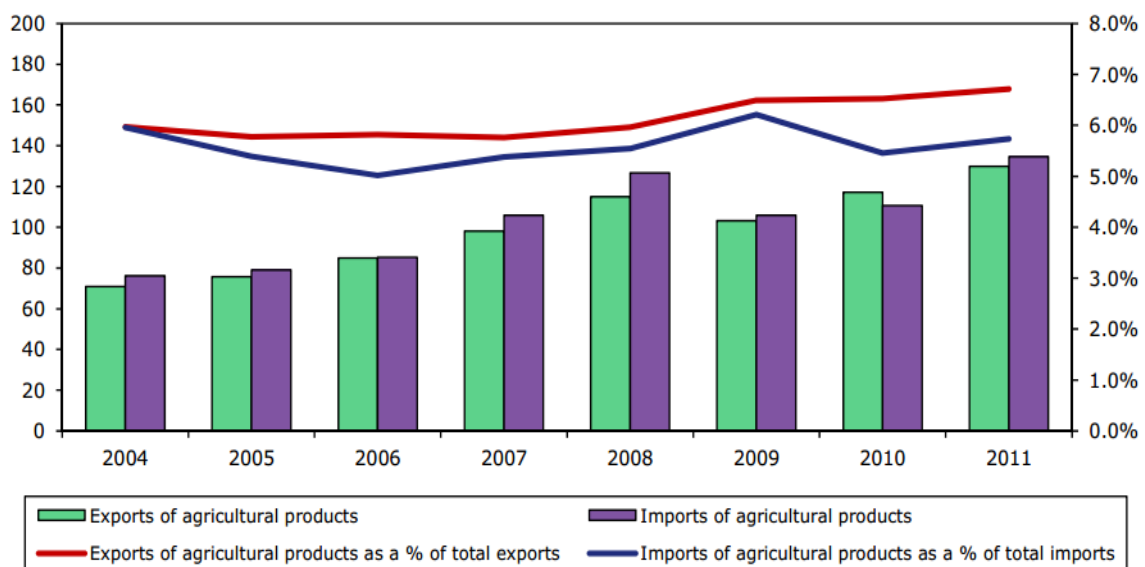


Figure 1: *Export and imports in agricultural products 2004-2011 in % of total trade*

3.2.1 Historical Development of the Common Agricultural Policy of the European Union

The common agricultural policy (hereafter called as CAP) comprises of the sets of policies oriented on rising up the agricultural incomes in the European Union. Almost half of the EU's budget goes into the agriculture. Agricultural policy is also a reason for the conflicts among the member states of the EU but also between EU and non EU members, nevertheless it is very hard to reform it. (Baldwin and Wyplosz, 2013)

The **traditional agricultural policy** was conceived in the early sixties, so at the time when European Community was a net importer of staple agricultural products, was based mainly on market price support for farm outputs. This approach to agricultural policy generated a rapid increase in the EC's agricultural self-sufficiency ratio. In the years following institution of the CAP the level of price support for farmers was not reduced enough to avoid imbalances on the domestic markets and at the end of the sixties domestic supply expanded much faster than the domestic demand, creating alarming surpluses. (Hall et al, 2001)

When exporting, producers get only the world price, which was lower than the market price in the EU so the authorized organization reimbursed the producers for the difference and producers were also protected from low-priced imports by variable import fees. This mechanism created relatively stable environment for agriculture in the EU but on the other hand it led to the separation of the European market from the real situation and development on the world market. (Be vá ová and Zdráhal, 2013)

The first attempt at reform was the **Mansholt Plan in 1968** which proposed the radical reconstruction of the CAP based on reasonable incomes, prices and increased productivity followed by agricultural trade liberalization. However these proposed reforms were not accepted due to the diverse interests between the members. (Hitiris, 2003)

During the 1970s, in response to **growing surpluses** of some commodities, the EC introduced several measures for encouraging the domestic consumption. The EC tried to decrease the budgetary costs by shortening the period of availability of intervention and raising the quality standards for acceptance and also the price received for sales to intervention was reduced. (Artis and Nixon, 2001)

The volume of the agricultural production increased between 1973 and 1988 and also increasing volumes of subsidized exports raised criticism from business partners because of

started world prices of agricultural products. The eighties contradictions in agricultural trade due to the significant growth in production. (Be vá ová and Zdráhal, 2013) In 1986 when Spain and Portugal joined the EU, political opinions changed in the Council of the EU, because the CAP brought only small amount of benefits to those two countries, whose weather condition were not perfect for commodities supported the most by the EU, like dairy products, wheat and beef. According to the European Commission the period of 1983-1991 was a period of experiments and the CAP became discussed a lot during that time. (Baldwin and Wyplosz, 2013)

The need for reform the CAP ensued as a result of the international pressure. In 1992 **the MacSharry reform** was adopted and its objectives were greater competitiveness of EU production in the world trade, prevention of unnecessary accumulation of agricultural products, improvement of social and age structure of the population in the countryside and others. Also this reform was the most comprehensive in the earlier existence of CAP. Direct payments have become the dominant form of subsidizing producers and the costs of the subsidizing exports were halved. (Markovic and Markovic, 2014)

The reform measures were followed by another constituent reform under **the Agenda 2000** which was adopted in Berlin in 1999. This reform responded to the approaching new round of the WTO negotiations and the demands for further liberalization of the agricultural markets, significant enlargement of the EU and the requirement to reduce the budgetary burden of the CAP and elimination of the tensions between the net contributions and net beneficiaries in the EU. (Be vá ová and Zdráhal, 2013) This reform was seeking to achieve wide range of objectives, for example increasing productivity, improving food quality, the implementation of the environmental programs, the production of the safe food or development of agrarian legislation. (Markovic and Markovic, 2014)

In 2003 there was created another radical reform as a reaction for the EU enlargement in 2004, which is known as **the Agenda 2003 reform or Fischler reform**. This reform introduced major changes to the way the CAP operates and also to the farmers' responsibilities. The single payment scheme per a year replaced direct aids. Since 2003 farmers had to respect two ways for receiving payments, good agricultural and environmental conditions and respect statutory management requirements set up in accordance with 18 member states. (European Commission, 2004A) European Commission took an offensive approach to WTO negotiations on the agricultural chapter for creating a better bargaining position for the EU. European Union demanded meeting the requirements regarding the

and on imports of agricultural products and food to EU and about the EU importing only those products that would meet the high EU standards. (Be vá ová and Zdráhal, 2013)

The **enlargement of the EU in 2004** which included 10 new member states mostly from Western part of the Europe was a big milestone. The new member states prepared their agriculture many years before joining the EU through Association Agreements and also pre accession funding by the EU of the rural development and agro - food programs. This crucial enlargement expanded the single market from 380 to 454 million people so enlargement impact on agriculture was dramatic. (European Commission, 2004B) The production of milk in the new member states declined due to new quality standards and limitations on informal marketing, also the production of sugar declined as well in the new member states due to the introduction of the production quota. In contrast the production of grains, oilseeds, poultry or pork expands in the new member states. (Fabiosa et al, 2006)

In 2008 the EU agricultural ministers reached a political agreement on **the Health Check of the Common Agricultural policy**. The aim of this reform was to modernise, simplify and streamline the CAP and also remove restrictions on farmers. Among a range of measures this agreement abolished arable set-aside, increased milk production and converted market intervention into a genuine safety net. Ministers agreed to reduce the transfers to the Rural development Fund. This agreement is also important for decoupling of support, which means payments were no longer linked to the production of a specific product. (European Commission, 2009)

The new agricultural reform for the years **2014-2020** was reached in 2013 after three years of reflection, discussion and intensive negotiations. The new CAP maintains the two pillars, the first pillar is a new architecture for the direct payments, which will be more equitable and greener and the second pillar is more competitive and sustainable EU agriculture. (European Commission, 2013C)

3.2.2 Current financial tools of Common Agricultural policy

The common agricultural policy has been the most important common policy of the EU in the last 50 years so traditionally it has taken a large part of the EU's budget. Currently the CAP is financed by two funds which form part of the EU's general budget, the European Agricultural Guarantee fund and the European Agricultural Fund for Regional Development. (European Commission, 2015A)

l Guarantee Fund (hereafter called as EAGF) replaced Guidance and Guarantee Fund in 2007. The fund's share in the period of 2007-2013 was about a third of the EU budget. (Jovanovic, 2013) The EAGT primary finances direct payments to farmers and measures regulating or supporting agricultural markets. **Direct payments** are payments granted directly to farmers under certain support schemes. Direct payments ensure a safety net for farmers in the form of a basic income support, decoupled from production, stabilizing their income and maximizing their profits. (European Commission, 2015B) The EAGF finances refunds for exporting farm produce to non-EU countries, intervention measures for regulation of agricultural markets, informal and promotional measures for farm produce, restructuring measures in sugar industry and programs promoting the consumption of fruit in schools. (European Commission, 2009)

The European Agricultural Fund for Rural Development (hereafter called as EAFRD) was introduced by two reforms of the Common Agricultural policy in 2003 and 2004 as an financial instrument and a single program. This instrument aims are to strengthen the EU's rural development policy and simplify its implementation. (Europa, 2012) A total budget of the EAFRD for the period 2014-2020 is over 96 billions of euro and this support is provided to agriculture, forestry, environment resources management and sustainable development of the rural economy. The EAFRD support can be provided through grants and financial instruments. There is a broad range of EAFRD ó supported financial instruments, for example loans, micro credits guarantees or equity. (European Investment Bank, 2015) One of the priorities for 2014-2020 is to promote contribution to the competitiveness of agriculture, the sustainable management of natural resources and balancing territorial development of rural areas. The EAFRD also covers investments in physical assets which concern infrastructure related to the development and adaptation of agriculture. The budget of the EAFRD for 2014-2020 is p84,936 billions. (Rural Energy, 2010)

Through two-stage clearance procedure which consists of clearance of accounts and conformity clearance, the Commission will ensure that the financial management is sound. All the member states must keep for the Commission all the information needed for the smooth running of both funds. Payments to the member states under the EAFRD or EAGF may be reduced or suspended when certain deficiencies are detected. Also the names of the beneficiaries and the amounts they have received of the Agricultural Funds must be made public. (European Commission, 2009)

ed that the amounts for both pillars of the CAP for 2014-2020 will be lower than for 2013. The CAP funding will decrease compared to the current period. The total amount of 362,787 billion € for 2014-2020, of which 277, 851 billion € is for direct payments and market-related expenditures (pillar 1) and 84, 936 billion € for Rural development (pillar 2). (European Commission, 2013C)

3.2.3 EU's trade policy and agricultural trade of the EU towards non EU Countries

The agricultural market is an exchange of products through the purchase and sale, their transport, storage, standardization, financing and risk-taking of purchase and sale of the agricultural and food products, and provision of marketing information. (Be vá ová and Zdráhal, 2013) European agricultural market is monitored closely by the European Commission and trade policy of the EU is assumed to respect the Uruguay Round Agreement on Agriculture. The economic environment in which farmers of the EU have to make their investments and production decisions have changed quite dramatically in the last decades and these changes resulted in the EU becoming the largest agricultural commodity trading regions in the term of volume and value. The EU has evolved into the single most important importer of the agricultural products. (Witzke, 2010)

More than half of the EU is made by six product categories which are mostly the final products for consumption, spirits and liquors dominate the basket of exporter products, followed by wine, milk and cereal preparation, wheat, ice-cream, chocolate and others. Most recently the US continued to be the EU's largest market, followed by Russia as the second largest EU market in 2013. The top ranking products imported to the EU in 2013 was coffee, oilcakes from soya, bean and palm oil. In 2013 Brazil was EU's top import partner, followed by the USA, Argentina, China and others. (European Commission, 2013D)

The EU continues to be the top importer of agrarian food from developing countries and from the least developed countries (hereafter called as LDCs). Nearly the half of the EU's agricultural imports from the LDCs are final products, commodities account for 30 % and intermediate products around 20 %. In 2013 the biggest chunk of import was taken by raw tobacco, followed by cut flowers, vegetables, rice, tropical fruits and spices. (European Commission, 2014B)

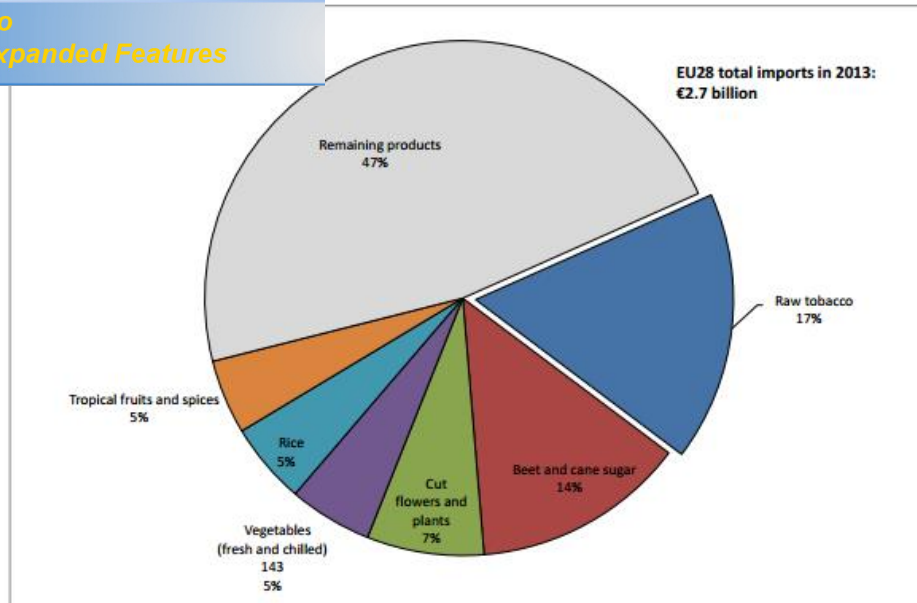


Figure 2: Imports of the EU from the Least developed countries in 2013

Source: European Commission, 2013

The EU initiated the agreement for helping the least developed countries to integrate into the world economy. This arrangement called **“Everything but arms”** was born in 2001 to give all LDCs full duty free and quota-free access to the EU for all their exports with the exception of arms and armaments. This initiative includes 33 countries from Africa, 10 countries from Asia, 5 countries from Pacific and 1 Caribbean country. (European Commission, 2013E)

The EU has granted protection for many non-EU countries in wines, spirits and agricultural products and foodstuffs in the EU through direct registration or bilateral agreements. The EU tries to encourage non-EU countries to adopt and develop systems of protection for their speciality and regional products, so this process has helped to build a global consensus for the protection of the local and regional speciality products. (European Commission, 2015C)

The EU is currently **the biggest importer of the agricultural products** with its import recovering rapidly from a fall in 2009, it is also one of the biggest exporter in the world of agricultural products. And in the most years the EU has a deficit in the agricultural trade. (WTO, 2013)

3.2.4 EU ó Israel relations

In circumstances, the EU and Israel were always close partners. Israel tried to break its regional isolation and achieve links with international organizations by the idea of joining the newly created European Economic Community (EEC). Israel was one of the first countries in the world to engage directly the dialog with EEC. This desire for closer relations with the "new Europe" led in, in 1958, to become the third country to request full Diplomatic relations the newly established European Community. (Pardo and Peters, 2012) The main reason for closer cooperation was that European market is not only large and lucrative, but also the closest, because due to the boycott by the surrounding Arab countries, Israel needed to integrate into a market beyond the Middle East. Due to the effort Israel devoted to strengthen its relations with EC led to conclusion of an agreement in 1964 that lowered custom duties on certain agricultural products and also by 1977 the EC committed to the gradual elimination of custom duties on manufactured products from Israel. (Bertrand-Sanz, 2012) Since the mid 90s the EU was about to negotiate the bilateral agreement with several Mediterranean countries, including Israel with the purpose of establishment of free trade area. This agreement was part of the **Barcelona process** which was launched in 1995 by the EU and 12 Mediterranean partners. (Cihelková, 2007) This process formed the basis of the Euro-Mediterranean Partnership which was an innovative alliance based on the principles of the joint ownership, co-operation and dialog. The partnership is currently organised into three main dimensions, which are political dialog, economic and financial cooperation and social, human, cultural partnership. The multilateral forum of dialog and cooperation between the EU and its Mediterranean partners became the **European Neighbourhood Policy** in 2004. (EEAS, 2006) Israel benefits from the European Neighbourhood Partnership Instrument and for the first time in 2008 the EU and Israel signed financial agreement. The EU allocated a total of 14 million Euros for the period of 2007 and 2013 to support European Neighbourhood Policy activities. (EEAS, 2013)

In 2000, **the EU ó Israel Association Agreement** came into force with the aim to provide an appropriate framework for political dialog and economic cooperation between two parties. In 2005 **the EU ó Israel Action** plan was adopted and expired in 2008, but has been prolonged several times. The strategic framework for EU cooperation with Israel is established by the Country Strategic Paper. (Liargovas, 2013)

The EU is currently the largest importer and exporter for Israel and account for about a third of Israel's total trade. Israel is one of the EU's leading trading partners in the Mediterranean area and globally is ranked as the EU's 25th major trade partner. Economic relations between these two parties have increased significantly over the last decade. (EEAS,

ment recently has been Israel's integration into the EU's relations have become the mainstay in the EU ó Israel relations, but political disagreement over Middle East peacemaking accompanied the whole period of deepening these bilateral relations. (Shindler, 2013)

Due to the closer cooperation between these two parties the trade of the EU with Israel is characterized by lower or duty-free tariffs, also the quotas for the industrial products were cancelled for exports from Israel to EU and agricultural tariffs were lowered for import of the agrarian products to EU. The EU is also providing technical support for Israel with grants and loans. The cooperation is also in a field of science, protection of the environment or fishery. (Rozehnalová and Tý , 2006)

3.2.5 Protection of the Agricultural trade of the EU

The European Union uses a wide range of tariffs to protect its domestic industries, with many of these tariffs applying on the agricultural products. Under WTO agreements these tariffs are bound at the maximum level and 100 % of EU's tariffs are bound and agreed at the maximum rates. Most of the agricultural tariffs are Non-AV tariffs and are calculated on the basis of the weight.³ (Bungay, 2012) The EU uses **three types of agricultural protection**. The first the EU uses are **the internal market support measures** which are measures that work inside the EU's territory to increase prices through reduced production and supply control measures. These measures include public interventions, aids to private storage, production quotas, market withdrawal or consumer subsidies. Another type of agricultural protection of the EU are **export subsidies**. (WTO, 2013) A final problem for the EU to open up the agricultural trade is the trend toward increasing national contributions to agricultural subsidies, because the various new forms of the EU subsidies are typically made on a matching basis with subsidies from the member government. (Neal, 2007) The use of the export subsidies continued to decline, but they are still used for some products like poultry meat, eggs, beef etc. The last type of the agricultural protection is **market access**. The reforms of the CAP did not address market access directly, but due to preferential arrangements there are changes in market access for many countries. (WTO, 2013)

The majority of the EU's agricultural import tariffs enter the EU duty-free, but EU still maintains high tariffs on specific agricultural imports. Eurostat classifies two import regimes under which a particular product is imported. The product could be imported by the Most

³ Import tariffs can have specific rates in EUR/tonnes (Non-AV tariffs) or Ad Valorem (AV) rates expressed in % of the border price, or both.

ero or by preferential tariffs, all developing countries are of Preferences (hereafter called as GSP), but agricultural products under the GSP are limited. (Matthews, 2008) Recently there was a breakdown of the EU's agricultural tariff, which could be attributed to the rises in the global prices. The EU has completed a small number of bi-lateral trade agreements recently with few European and African states, which will reduce the tariffs for import from these countries.⁴ (Bungay, 2012) Tariffs on agricultural products are on average 8.6 % in 2013, so these tariffs are higher than non-agricultural tariffs. But the tariff rates vary considerably from one product to another. Many agricultural products are subject to non-ad valorem duties that also vary in type so does the degree of protection applied for different products. (WTO, 2013)

The EU also uses the **price regulation** as one of the protectionist tools of the CAP. The EU uses the prices for the domestic market of the EU and these prices are set by the Council of the EU every year on the Commission's proposals. The prices could be divided into interventionist and reference price, there is also a threshold price for import on the European market. The reference price should help farmers for better orientation and the public for information about the value of the goods. (Konig et al, 2009) Another protectionist tools are **production quotas**, which were first imposed on EU dairy producers in 1984. Each member state was allocated a national quota, these quotas were allocated to individual farmers on the basis of their historical production level. (Artis and Nixon, 2001) Quotas are usually set to limit the production, there are two regimes for using quotas. First one is the strict limitation of the final production, when exceeding the quota means decline or withdrawal of the subsidies, eventually also sanction, in the EU it is for example the sugar sector. The second regime is limitation of the total production for a specified volume, exceeding the production is not sanctioned but this quota is no longer supported. (Konig et al, 2009)

⁴ EU completed bi-lateral agreements with Albania, Algeria, Bosnia, Egypt, Macedonia, Montenegro, Serbia and South Korea.

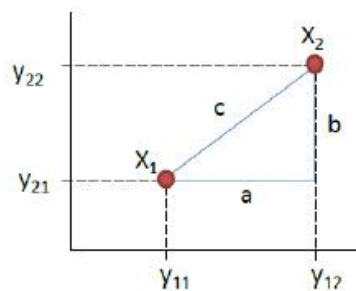
od of literary research was chosen. Information has been collected and selected into the relevant chapters and subchapters.

In another part of the work analytical process was made. Collected data were evaluated in the context of analyzed program, the program MS Excel was used often for creation of several figures and tables to show the evolution of production and trade for selected commodities in selected period of time, mostly the oldest data were for the year 1990 and the newest data were between the year 2011- 2014, according to the source. This work is based on secondary data, mostly used from FAOSTAT, EUROSTAT, Ministry of Agriculture and Rural Development of Israel, Central Bureau of Statistics of Israel.

Thirdly, the cluster analysis was used for analyzing the EU ó Israel agrarian foreign trade. The cluster analysis encompasses a number of different algorithms and methods for grouping subjects of similar kind into the respective categories. The goal of the cluster analysis is to identify the actual groups. Cluster analysis has no mechanism for differentiating between relevant and irrelevant variables, therefore the choice of the variables must be underpinned by conceptual considerations.

The data used for this analysis are interval data. For interval data the most common distance measure used is the Euclidean distance. Euclidean distance can be defined as the distance between several points in Euclidean space. Older literature refers the Euclidean metric as Pythagorean metric.

$$D_1(x_1, x_2) = \sqrt{\sum_{j=1}^p (y_{1j} - y_{2j})^2}$$



This method was chosen to outline the concrete member states of the European Union trading with Israel for selected commodities in 2011. This analyses group member states of the EU who import and export commodities from and into Israel. For this analysis the quantity in thousands of tones and value in thousands of USD were used. Due to the fact that these two chosen indicators are not in the same unit, the data used for these analyses had to be standardized. For the concrete analyses all the member states exporting into Israel and importing from Israel were chosen. Several concrete cluster analysis were made and for each one of them the different states were chosen, according to the FAO database.

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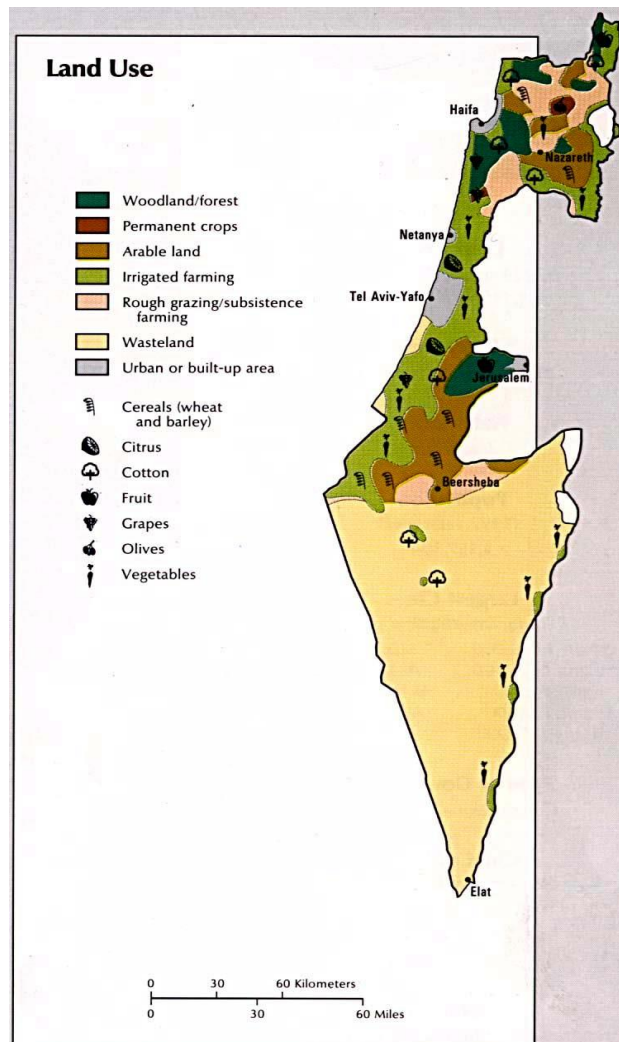
priority for the state of Israel during its early years for three reasons, as a need to settle the undeveloped areas of the country for geopolitical security, to provide employment and livelihood for new immigrants and thirdly and as a need to avoid food shortages due to an inability to import agricultural products from the countries surrounding Israel. (OECD, 2010) During the history of the state Israel agriculture had gone through different stages and during this period it was characterised most by rapid socioeconomic and technological adaptation. This adaptation can be attributed to the introduction and integration of knowledge, government support, modern technology, highly skilled workers and of course sustainable management of natural resources. (Mayer et al, 1999) Until the end of the 1980s the agricultural sector was **heavily regulated** by the government through the provision of various subsidies, central planning, allocation of the production quotas or protection of import. (OECD, 2010) The generous price supports and input subsidies were dramatically reduced in 1985 and 1986 and the economy of Israel between the years 1985 - 1999 was particularly open to agricultural imports and agricultural prices rose during that time, there was a rising trend in the number of foreign labourers employed in agriculture. (Ben-Bassat, 2002) The export oriented sub-sector was open to competition during 1991 - 1994 and agricultural production planning by the state was significantly reduced. During 1995 - 1999 the reforms were focused on import liberalisation and Israel undertook commitment to improve market access and reduce export subsidies and domestic support in agriculture. Also during 2000 ó 2009 further steps to reduce domestic support policies to agriculture were taken, for example some production quotas were eliminated, price support for some products were stopped etc. (OECD, 2010)

Currently, the agricultural sector in Israel is characterized by an **intensive production** system, which stems from the need to overcome the scarcity of natural resources. The level of development of the agricultural sector is very high due to close cooperation and interaction between scientists, extension advisers, farmers and agricultural-related industries. The agriculture in Israel is very modern, even if the half of it is defined as a desert. (United with Israel, 2003) Through the domestic production Israel meets most of its food requirements with the total area of arable land of 377.300 hectares with 78 % cultivation. The main limiting factor in Israeli agriculture is the water scarcity and the country depends on irrigation to increase its crop yields, because 50 % of the land is irrigated. (UN, 2010) More of the half of the country is characterized by an **arid and semi-arid climate** and also large part of Israel is hilly. Most of the fertile area is represented by a narrow coastal strip and several inland

aquifers and the Sea of Galilee make irrigation possible. (United with Israel, 2003). The geography of the

country is such that the north has an abundant water supply, while the central parts receive less rains and the south is very dry area. Also, the climate in Israel varies from Mediterranean and tropical to mild European. That is why the variability of water supply is enormous and poses a great problem for the Israeli agriculture. (Mayer et al, 1999) The land use in Israel is also visible at Map 1 below. The map points at the large part of wasteland in the southern part of the country, it also demonstrates the arable part of the land, which is negligible considering the size of the country. Another thing visible at the map is the size of the irrigated land, which is even bigger than the arable land.

Map 1: The land use in Israel



The Table 1 shows the evolution of the land use during the period of 1997 and 2012. The total area of land for use remains the same during this time, although the area of arable land

equipped for the irrigation rise in the time as a result of the agricultural sector in Israel.

Table 1: *Evolution of the land use in Israel in the period 1997 ó 2012 in millions of hectares*

	1997	2002	2007	2012
Total area	2.16	2.16	2.16	2.16
Arable land	0.34	0.35	0.31	0.29
Permanent crops	0.08	0.08	0.08	0.09
Forest cover	0.15	0.15	0.15	0.15
Area equipped for the irrigation	0.194	0.215	0.225	0.225

Source: FAO, 2015

Workers in the agrarian sector are mainly men as visible in the table 2. Even if the total population of Israel is rising, the number of workers in agrarian sector declines and so does the population in rural areas. Also mainly agricultural workers are men.

Table 2: *Evolution of the labour force in Israel in the period 1999 ó 2014*

	1999	2004	2009	2014
Total population (in millions)	5.89	6.47	7.27	7.82
Total labour force (in millions)	2.28	2.56	2.92	3.18
Rural population in % out of total	8.86	8.55	8.23	7.94
Labour force in agriculture in % out of total	2.72	2.22	1.78	1.45
Females in agrarian sector in %	22.58	22.81	21.15	21.74

Source: FAO, 2015

farming in Israel rose from 769 in 1961 to 952 in 2010. Integrated into the national reality and has developed significantly during the last two decades. But the proportion of the rural population declined from 15.5 % in the early 1960s to 8.4 % in 2010. Only a minority of those employed in the rural areas are directly engaged in farming and agriculture. (Ministry of Agriculture and Rural Development of Israel, 2012) The changes in Israeli society in the last decade required the adaptation of the planning policy for the rural sector and that is why the rural and settlement plans for rural development are one of the most important tools for developing rural areas. (OECD, 2010) As visible at the figure 3, the Israeli society is highly urban and the portion of rural population is negligible.

Source: FAO, 2014



Figure 3: Israeli Urban and Rural population in 2014

The agricultural sector in Israel is one of the most **technologically advanced** and capital intensive in the world, also backed up by very considerable and impressive research and export promotion capabilities. The key factor that has underpinned the success of the sector has been the ability of the Israel research complex to offset limited water resources and the need of the sector to maintain agricultural incomes and to keep the prices in external markets competitive. (WB, 1993).

5.1 Farming Communities in Israel

Agricultural cooperatives in Israel are responsible for the majority of the agricultural production and services in Israel, approximately 80 % and they are the product of ideology,

...ntation of effective work. As visible in the picture 1, the ... includes the Kibbutz and Moshav, there are also second order regional agricultural cooperatives and second order national agricultural cooperatives which includes Tnuva and the last third order agricultural cooperatives including Kibuttz and Moshav movement. (FAO, 2013)

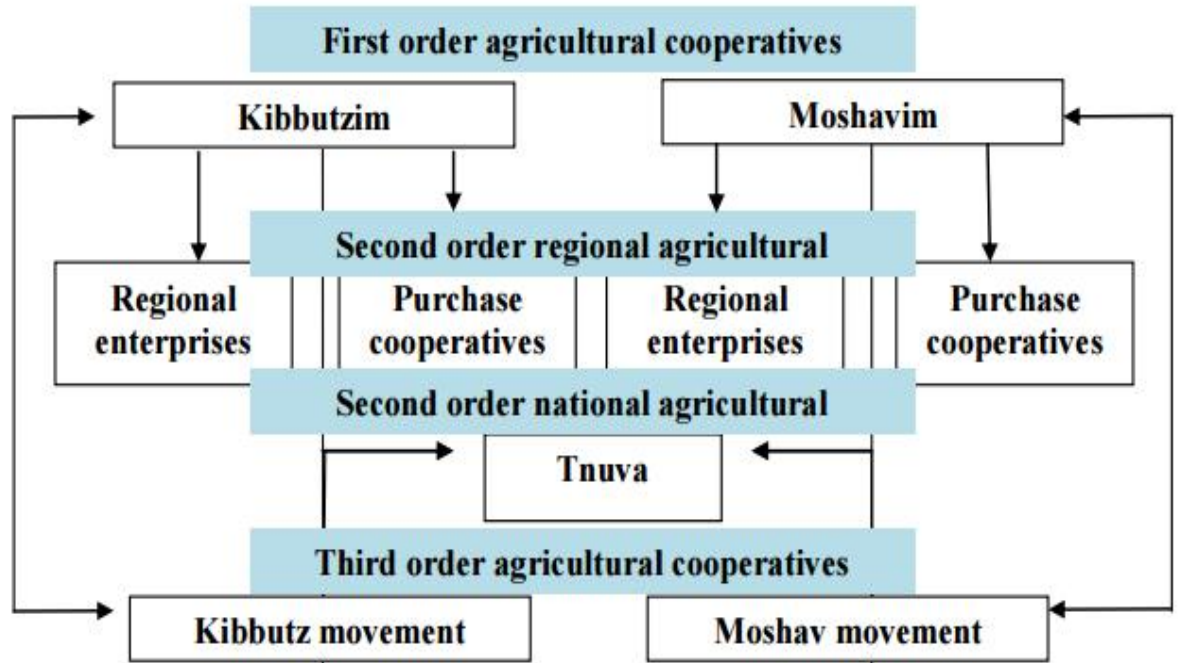


Figure 4: Agricultural cooperative structure

Source: FAO, 2013

The first kind of farming community is **Kibbutz**, which is a rural community of several hundred inhabitants who run a large communal production unit and its members jointly own the means of production and share social, cultural or economical activities. (AgroTour, 2015) The first Kibbutz was founded in 1908 and at the end of 2007 there were 123 000 inhabitants -1.7 % of population ó as Kibbutz members. Almost 50 % of all Kibbutz are located in the Northern part of the country. (OECD, 2010)

The other dominant co-operative community in Israel is **Moshav**, which was established after the Second World War and is a communal village in which every farmer has his or her individual plot of land to farm. While Kibbutz farmers were usually concentrated in specializing in a few crops, the Moshav farmers usually dedicated themselves for one area of farming. (Gordon, 2007) The Kibbutz and Moshav are two forms of Jewish settlement and are managed democratically, holding communal meetings with its members voting together on

Kibbutz and Moshav currently accounts for 83 % of the rural population. Also the Arab villages are located in Israel's rural areas, these villages are mainly focused on producing the small livestock like sheep and goats, then vegetables, field crops and olives. (United with Israel, 2003)

The second order regional agricultural cooperatives include purchase cooperatives used to obtain supplies for agricultural activity and also regional enterprises dealing primarily with post harvest treatment. The second order national agricultural cooperatives operates on a national level and offers mainly marketing services, and by far the largest is **Tnuva**, a marketing cooperative which was established in 1922. (FAO, 2013) Tnuva became Israel's largest food conglomerate after successfully implementing structural changes to meet the demand of the competitive local market and currently it processes about 65 % of the milk produced in Israel and although officially it belongs to Kibbutz and Moshav, it has been independent for many years now. (OECD, 2010)

During the 1920s and 1930s the **Kibbutz and Moshav movements** were established, each grouping together dozens of cooperative settlements under a single leadership organization. The decision of unity was a matter of necessity, because individual settlements faced financial and social difficulties. These movements also served as representatives for member interests when facing the government and also the employees in the movements were themselves members of the Kibbutz and Moshav. (FAO, 2013)

The total number of people employed in agriculture, remain relatively stable, but the composition of the labour force has changed dramatically. There was a decline in the number of persons classified as self-employed. There was also significant increase in the number of foreign workers in Israeli agriculture, mainly from Thailand, in a short period of time, farmers discovered that these farmers were efficient, reliable and also cheaper than Israeli workers. (OECD, 2010)

5.2 Water management in Israel's agriculture

Insufficient water ability has long been a **major constraint** in Israeli agriculture. Annual rainfall ranges from 800 mm in the upper north part of the country and 25 mm on the desert edge in the south, while the rainy season is from October to April and with no rain during the hot summer. Since the establishment of the state of Israel in 1948, agricultural output has increased twelve-fold, but water use in agriculture has increased only three-fold. (Ministry of Agriculture and Rural development of Israel, 2012)

which is characterised by a shortage of water, the Israel **aquaculture** with its share 2.9 % in total agricultural production. Saline water is used extensively and advanced technologies are employed to make maximum use of every cubic meter of water. The sector required around 100 million m³ annually and over 75 % of water is non-potable and its sources are winter runoff and saline wells. (United with Israel, 2003). Israel’s main water supply includes the Sea of Galilee and Jordan basin springs and rivers, the Mountain Aquifer and the Coastal Aquifer. The demand for water in Israel originates for three sectors, except agriculture, it is industrial and domestic use. However most of the water used in agriculture is reclaimed and treated water. (Becker, 2013) As visible in the figure 5 below, it is obvious that most of the water is used for the agricultural sector, followed by the domestic use and industrial sector.

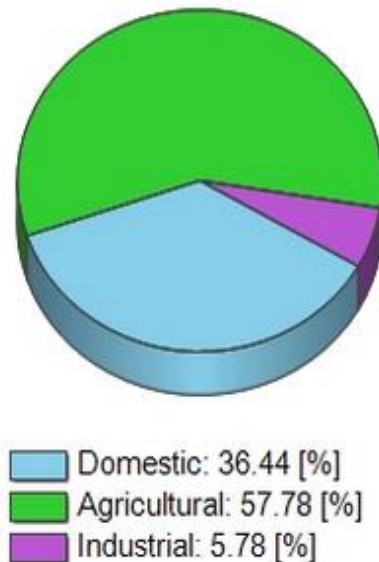


Figure 5: Water use in 2007

Source: FAO 2014

As it is visible in the Figure 6 below the evolution of the water use in agriculture tends to decline but it is still high at 57 % recently. There has also been an improvement in the efficiency in the water use with a fourfold increase in the volume of crops produced from each cubic meter of water. This growth was achieved especially thanks to economic incentives like progressive water prices or advancements in technologies. (OECD, 2010)

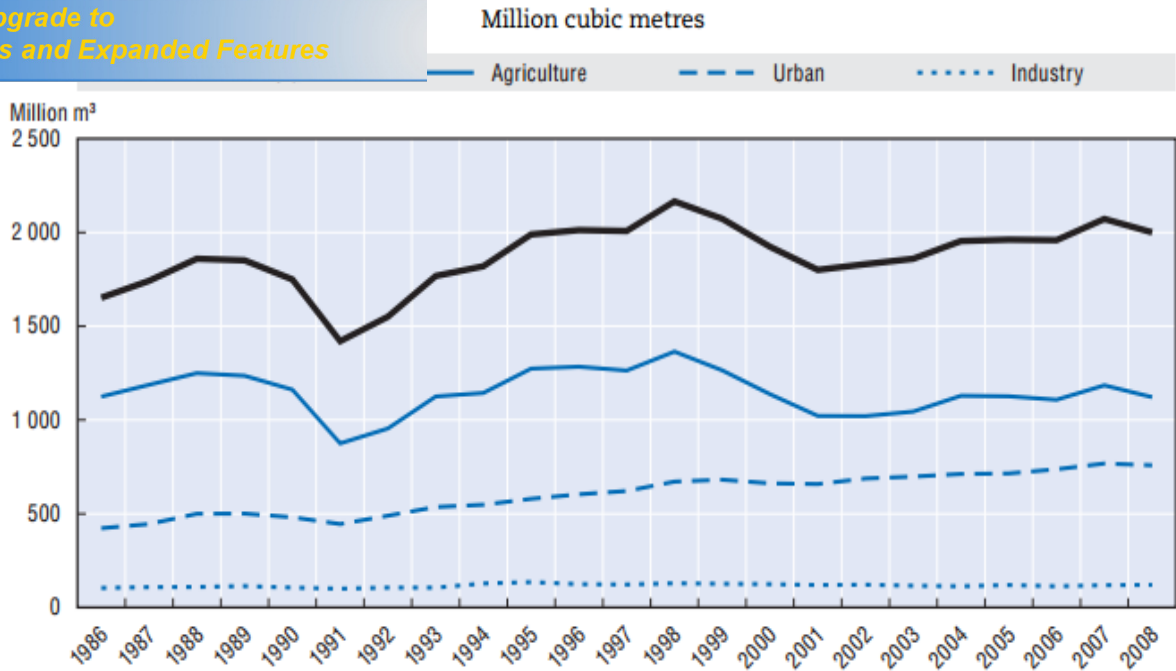


Figure 6: The evolution of water use by sectors in Israel in the period 1986 ó 2008

Source: OECD, 2010

The main source of fresh water is Lake Kinneret which is fed by a river system originating in the mountainous region on the borders with Syria and Lebanon. All the sources of the fresh water remain limited and this is why the Israeli government invested heavily in developing alternative sources. Despite all the initiatives the increasing demand for water put Israel’s water supply under the pressure. (OECD, 2010)

Thanks to **cutting-edge technology** Israel not only produces its own food, but also exports \$ 1.3 billion annually. Israeli farmers and scientists have had to contend with a difficult environment and limited water resource, their experience is relevant for developing countries. Water management together with recycling, desalination and transportation has enabled the country to overcome drastic shortages. (Jewish Virtual Library, 2015) Israel is very dynamic in its water policies, and is also considered the only country in the North Africa and Middle East to adapt to impending water scarcity without the benefit of vast oil resources. (Becker, 2013)

The most innovative development in water utilization is probably **drip irrigation**. Today, there are networks of plastic pipes with small openings for each plant placed across the field. Drip irrigation is used in region where water is scarce, but also in regions where rainfall is high because of its precision. (Jewish Virtual Library, 2015) Drip irrigation was developed as an alternative to flooding or spraying water over the field. The challenge was to

it needed to grow because in the traditional irrigation water to the field is lost. (Zeigler, 2007) The new generation of irrigation technology involves sub surfaces drip irrigation, where the irrigation can be applied under the soil surface. This results in even higher levels of water use efficiently through reduced runoff and provides nutrients to plants while maintaining a dry soil surface. (UN, 2010)

Israel has augmented its water supplies through small to medium size **desalinization** plans to process brackish groundwater and seawater for agricultural use and domestic supply as well. The use of desalinated water is increasing and it is also expected to grow further up to 2025, especially with the major expansion in seawater desalinization plant capacity. (OECD, 2010) Since 2005 Israel opened five desalinization plants already. Almost 35 % of Israel's quality drinking water comes from desalinization. This number is expected to exceed 40 % this year and hit 70 % in 2050. (Israel News, 2014)

Israel's water policy is determined by the Ministry of National Infrastructure and the regulations are controlled by the Water Commissioner. All producers in Israel have a quota for water irrigation which can be reduced in the times of water shortage. The water price ranges within the margin of origin of economically profitable agricultural production. (Mayer et al, 1999)

5.3 Research and development in agrarian sector in Israel

Modern agriculture is largely dependent on advanced Research and Development, which is also one of the cornerstones of the Israeli agriculture. Israel has developed a range of **innovative agriculture** because of its obligation to live with limited arable land and water resources. Investments in agriculture and rural development remain a high priority. One direct result is that Israel has become a **world leader in agricultural innovations**. (Ministry of Agriculture and Rural development of Israel, 2012)

In 1971 the **Agricultural Research Organization** (hereafter called as ARO) was established incorporating all agricultural research within the Ministry of Agriculture to serve the development of the Israeli agriculture by an efficient use of the limited water resources, ensuring the decent income for the farming community, development of crops for export markets, developing and adapting crops and technologies. (Loebenstein and Thottappilly, 2007)

National priorities for research are set every year by National Steering Committee for agricultural research and development and for each section there is a and experts' panel that

the achievements of the research activities. Agricultural research is funded by the public sector, and since 2001 average annual government spending on agricultural research and development is about USD 51 million. (OECD, 2010) Other contributions come from international entities like bi-national research funds set up jointly with the United States and the EU, also farmer's organizations at regional and national level or private business investments. Most of the research is conducted by companies that produce inputs for agriculture like pesticides, fertilizers, seeds, plastics or related products. (Ministry of Agriculture and Rural development of Israel, 2012)

The vast majority of the applied agricultural research in Israel is undertaken by the ARO which is involved in solving current problems in agricultural production for the benefit of farmers and customers with the introduction of new products, process and equipments. Research in agriculture is also carried out by several universities and some regional research institutions. (OECD, 2010)

In the field of research and development in agriculture Israel cooperates with the United States, within a competitive funding program for mission-oriented, strategic and applied research of mutual-interest agricultural problems, this program is called **The United States ó Israel Bi-national Agricultural Research and Development Fund** (hereafter called as BARD). BARD was created in 1978 and its funds projects for a period of three years in both countries over that period. Since its inception it evaluated over 4400 projects and has awarded more than \$ 210 million. BARD ó sponsored research has led to innovative developments, new technologies and renewed focus in drip irrigation, pesticides, fish farming and others. (The Jewish Virtual Library, 2014)

5.4 Main International Agricultural Cooperation of Israel

Israel has trained thousands of trainees from more than 80 countries in Asia, Africa and South America over the last twenty years. Israel has provided over 200 foreign courses to foreign agricultural officials which covered a wide range of fields such as irrigation, fertilization, plant protection, fish culture and others. Funding these projects comes from the Israel government and international organizations like World Bank, United Nations or European Union. (Fajardo, 2004) The programs and projects combine Israeli knowhow, agrotechnology, production practices or added value for market driven development. Israel's **international agricultural cooperation program** is accomplished on the basis of cooperation with donor countries and the international community to meet the millenium goals. (Ministry of Agriculture and Rural Development of Israel, 2012)

to promote and facilitate the lateral and agricultural **Canada and Mexico**. This mission focuses on the wide spectrum of agriculture, research and development, trade, technology, agri-business and so on. (Frank, 2014)

Israel signed a declaration with India in January 2015, advancing the third phase of the **Indo-Israel Agricultural Cooperation** Project. This project is focused on building agricultural centers around the subcontinent. The goal is to establish 29 centers for introduction and adaptation of Israeli farming technologies in order to increase the farmers' production. This cooperation is strengthening the relations between these two parties. (Udasin, 2015)

6. AGRICULTURAL PRODUCTION OF ISRAEL

The productive performance of Israeli agriculture has been strong. Between 1990 and 2007, agricultural output increased by 60 %, with separate production indices for livestock and crops both recording a 60 % increase. Israeli crop production accounts for almost 60 % of output value with livestock products contributing just above 40 %. The development of total crop production has been considerably smoother than for most individual crops, because in the short-term some of the crops are susceptible to the climatic conditions. (OECD, 2010)

As visible in the table 3, the crops production declined during these two decades while the livestock production increased. Fruits and vegetables are the most important products in the crops production contributing almost 50 % of the output value and poultry and cow's milk are the most important products in the livestock production. The production value of the fruits declined in the period of 1990 to 2008 while the production value of vegetables increased by almost 8 %. It is also significant that the production value of the flowers and garden plants declined and on the contrary the cattle (meat) production value almost tripled during this period. There is a decline in the milk or egg production, as well as in fishery, but there is a visible increase of the sheep, goats, pigs and others production. In the crops production probably the most significant increase is in the vegetable production.

sition of the value of the agricultural production 1990 ó

	1990	2000	2008
Crops	60.8	55.8	58.3
Fruits	29.7	26.5	24.1
Vegetables, including melons	16.7	18.1	23.6
Field crops	8.0	7.3	7.0
Flowers and garden plants	6.3	4.0	3.6
Livestock	39.2	44.2	41.7
Milk	13.9	13.2	11.6
Poultry	12.7	13.5	12.3
Egg	7.3	6.5	5.9
Cattle (meat)	2.0	4.0	5.8
Sheep, goats, pigs and others	1.3	3.9	4.1
Fish	2.0	3.0	1.9
Total	100	100	100

Source: OECD, 2010

Israel produces a wide range of fruit, including citrus, table grapes, avocados, apples, pears, mangoes, dates and others. Its varied climate enables it to harvest fruit throughout the year and that gives Israel a **clear competitive advantage** over many other countries. The main vegetables are table tomatoes, cherry tomatoes, peppers, melons and others. (OECD, 2010)

Table 4: *Top ten commodities production quantity 2012 in tonnes*

Commodity	Quantity
Milk, whole fresh cow	1366406
Potatoes	565628
Meat indigenous, chicken	479381

	392154
nips	282861
Grapefruit (inc. Pomeloes)	246618
Chillies and peppers, green	240776
Tangerines, mandarines, clementines, satsumas	184938
Vegetables, fresh nes	145509
Apples	131608

Source: FAO, 2014

The table 4 reflects all the information mentioned above. Mostly the top commodities in production quantity are crops products, mostly fruits and vegetables. Citrus are very important in the Israeli production, almost all kinds of the citrus crops are in the top ten commodities, followed by apples in the fruit section. Vegetables are also very important in the Israel’s production, including potatoes, tomatoes, and others. The top livestock production includes milk and poultry.

5.1 Evolution of production quantity for selected commodities in crops production

For the analysis of the evolution of production quantity of selected commodities in crops production, there were 4 commodities chosen. Because the vegetables and fruits production of Israel is very important, I will analyse the evolution of potatoes and tomatoes as two most important vegetable commodities, and grapefruit production comparing to the total citrus production in the period of 1997 to 2011. All the data used for this analysis are in tonnes.

Production of selected commodities 1997 - 2011

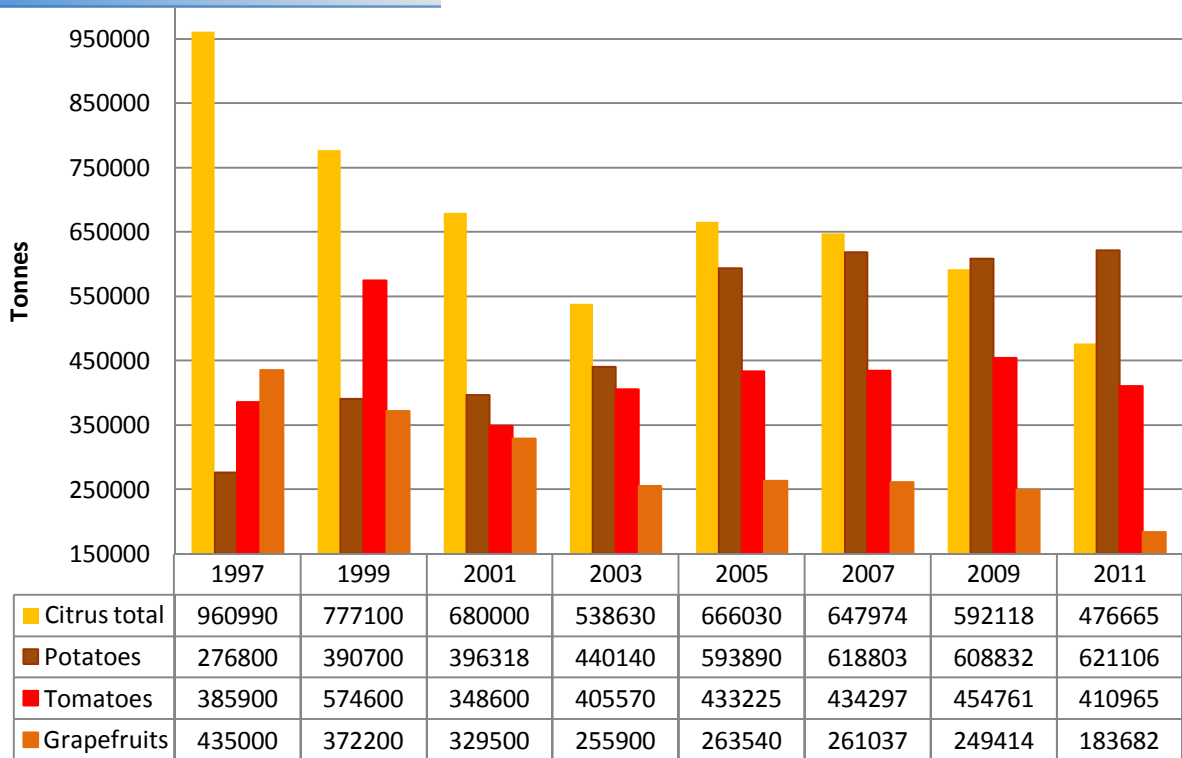


Figure 7: Evolution in the production of selected commodities during the period 1997 ó 2011 in tonnes

Source: FAOSTAT 2014

The evolution of all the commodities chosen for this analysis is very different. There is a significant decline in the citrus total production from the 1997 till 2003, which could be effected by the drought and limited water resources in Israel during this period and also due to a shift from agriculture oriented economy to industrial and high ó tech oriented economy and because of the strong competition with other producing countries. But the decline of the citrus production was mainly due to the shortage of the labor in Israel. The figure has fallen sharply because of rising costs and bans on the entry of Palestinian workers over security fears. (Israel News, 2006) After 2003 there is a visible rise in citrus production, which could be due to the raised export demand for these commodities and also thanks to the better situation in Israeli ó Palestinian conflict. Grapefruit production declined gradually during the period of 1997 and 2011. It is also visible that the production of potatoes was rising gradually and during this time the production of potatoes doubled.

Generally the production of crops commodities in Israel is effected by efficiency of water use, climatic conditions, advancements in technologies such as the drip irrigation system

political situation, especially considering the Israeli ó terms of fruit production, there has been a **decline in the citrus production** but on the other hand there was a decrease in other fruit commodities. For example the area for production of apples, peaches, avocados, table grapes and others expanded. (OECD, 2010)

Israel markets a wide variety of oranges, grapefruits, easy peelers, lemons as well as a range of more exotic citrus fruit such as lime, kumquat, limquat or pomelo. In total, citrus production amounts for 5 % of Israel’s agricultural production. (United with Israel, 2002) In recent years the citrus sector of Israel has undergone changes as it introduced new agro ó technologies to facilitate improved operations like planting new citrus varieties. The citrus production is designated for three destinations, for export, the local market and juice industry. (Ministry of Agriculture and Rural Development of Israel, 2012) As visible in the table 6 below, the grapefruit production is the most important in the citrus industry, followed by lemon and orange production.

In the terms of the crop production potatoes and tomatoes are very important commodities. The **vegetable sector in Israel is growing** and Israel is outstanding for its ability in the vegetable growing field and developing objective ó based technologies in accordance with changing environmental conditions. (Ministry of Agriculture and Rural Development of Israel, 2012)

Table 5: *The varieties of citrus production*

Varieties	Yield in Hectare per ton
Oranges	42.5
Grapefruits	65.0
Easy peelers	35.0
Lemons	50.0
Exotics	20.0

Source: Ministry of Agriculture and Rural Development of Israel, 2012

5.2 Evolution of production quantity for selected commodities in livestock production

Since the livestock production of Israel is not as important as the crops production, that is why only two commodities were chosen for the evolution analysis, milk, whole fresh cow and poultry production.

Evolution in livestock production 1997 - 2011

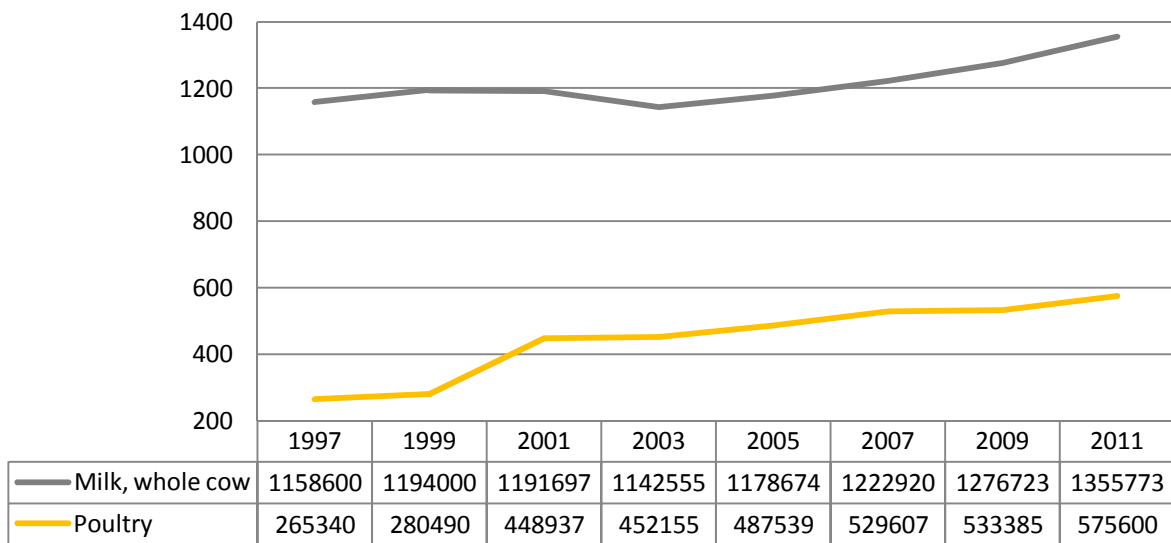


Figure 8: Evolution in livestock production in the years 1997 - 2011 (in ths. of tons)

Source: FAOSTAT, 2014

Even though the milk production in Israel is very important and in the quantity production is at the first place, during the time 1997 ó 2011 the quantity of the production did not change a lot. Basically the production is quite stable and is not effected by any climatic condition like the crop production is and also is not affected by the political situation in the country. However the production of the poultry changed rapidly during this period, more specifically the production of chicken meat in total doubled during this period.

Currently the dairy sector of Israel is challenging the meeting demand for milk and dairy products in the country whose population has ten ó fold since its establishment in 1948. The dairy sector supplies more than 80 % of the country's dairy requirements and the potential of the country is to exceed the domestic needs. (Ministry of Agriculture and Rural Development of Israel, 2012) Also the dairy industry in Israel has been an important aspect in the development of the agricultural sector since the first days. Dairy farming has been transformed into industrialized system producing more milk with less dairy products. The Israeli dairy farmers incorporate modern equipment and also Israeli companies have developed manufactured õhigh ó techõ computer based management system and dairy equipment, which are sold worldwide. (Israeli Dairy Board, 2013)

... was affected by the quota changes in the late 1990s. ... at the end of the 1990s and also the poultry sector is supported by **Galilee Law** and its subsidies. The intention of the Law is to promote the development of the Galilee area, so that could be the reason for the rising production in the poultry production of Israel. (OECD, 2010)

7. AGRARIAN INTERNATIONAL TRADE OF ISRAEL

Israel and the European Community signed a new agreement concerning reciprocal liberalization measures on agricultural products on 4th of November 2009. This agreement improved market access significantly and abolished over 95 % of customs duties and levies on processed agricultural products. The new agreement is the update for the agreement that was signed in 1970s. (Israeli Mission to the European Union, 2010)

Table 6: *Top ten commodities export quantity 2011 in tonnes*

Commodity	Quantity
Potatoes	260007
Carrots and turnips	157875
Chillies and peppers, green	101874
Oranges	73244
Grapefruit (inc. Pomeloes)	59633
Food prep nes	58533
Vegetables fresh nes	56514
Juice of grapefruits	45691
Maize	37716
Avocados	35744

Source: FAO, 2014

As obvious from the data in the table 6, the most exported commodities are also between the most produced commodities in Israel. It is noticeable that the citrus production is very important in the agriculture of Israel, as much as the production of potatoes or chillies and peppers. Also all the top exported commodities regarding exporting quantity are crops production, there is not even one livestock commodity. So it is evident how important the crops production is, especially in the international agrarian trade of Israel.

accounted to 2.13 billion US dollars and 4.2 % of the
 ice exports 1.33 billion US dollars and 2.87 billion US
 dollars in agricultural outputs. (Ministry of Agriculture and Rural Development of Israel,
 2012) In 2012 Israel's food exports totaled 2 billion US dollars, with the growth 2.5 over
 2011. Exports of fresh fruits and vegetables reached more than 1 billion US dollars in 2012
 with a growth of 5.2 %. Processed food that is most influenced the growth were edible oils
 and margarine with a growth of 54 %. (The Israel Export & International Cooperation
 Institute, 2013)

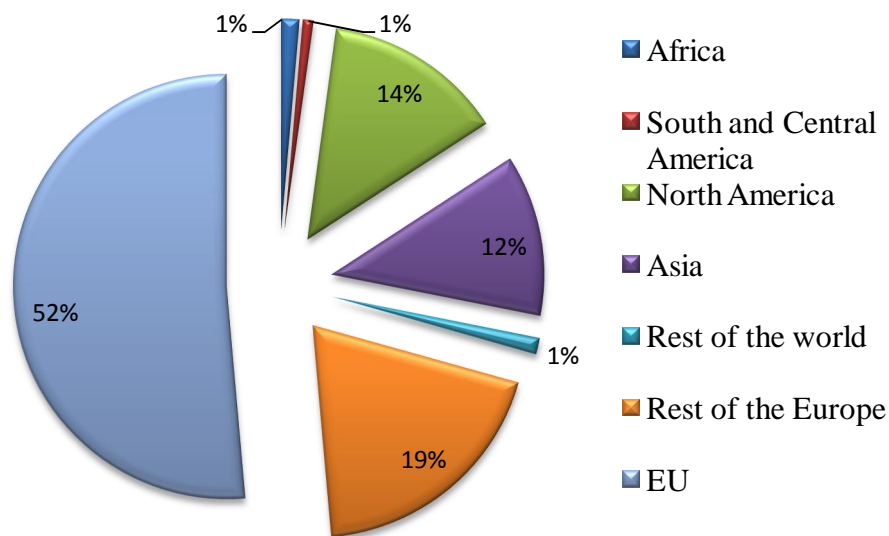


Figure 9: Food exports by regions in 2012 (in millions of USD)

Source: The Israel Export & International Cooperation Institute, 2013

The European Union together with the rest of the Europe is the biggest export partner
 of Israel, followed by North America and Asia. Other parts of the world and its agrarian trade
 with Israel are not important.

Table 7: Israel's top ten export value partners in 2011

Partner	Value (1000 USD)
Netherlands	337379
Russian federation	307783
United States of America	259217
United Kingdom	163376
France	135434

	122321
	92434
Slovenia	91515
Japan	86388
Italy	70976

Source: FAO 2014

As can be seen in the table 7 mostly the top partners of the Israel in the international agrarian trade are from the European continent, which is mainly due to the geographical closeness of these two parties, and due to the Israeli history and Israel’s not positive relations with its neighbour countries and countries in the Middle East. The relations with the United States of America are positive and also Israel is the main partner of the USA in the territory of the Middle East which is also reflected not only in the cooperation in the agrarian sector but also in the trade between those two parties. Israeli ó Russian relations are getting closer currently, Israel’s key economic trade partner is the European Union, however Israel feels like it can’t rely only on one relationship and needs to diversify to the east. Although the truth is that the cooperation in trade is much more intense in other sectors than in agriculture.

8. AGRARIAN FOREIGN TRADE EU < > ISRAEL

Generally the agricultural trade of the European Union in the Mediterranean region is considered as a small, asymmetrical and also fragmented. But due to the geographical closeness the European Union is one of the main trading partners for all the Mediterranean countries, especially after the Barcelona process which was launched in 1995. (Petit, 2012) Israel’s agricultural exports reflect its advantage in season and expertise ó mainly winter vegetables, flowers and citrus in addition to seeds of improved variety. Israel is also large exporter of agricultural inputs and technologies. (OECD, 2010)

Table 8: Trade preferences of the EU granted to various Mediterranean countries

	EU share in imports	EU share in exports
Algeria	45 %	65 %
Egypt	20 %	28%
Israel	31 %	67 %
Jordan	12 %	1 %
Lebanon	45 %	17 %

	41 %	70 %
	21 %	6 %
Tunisia	39 %	71 %
Turkey	31 %	46 %
Total	32,6 %	52,2 %

Source: Petit, 2012

The table 8 shows that the export and import shares greatly from country to country. But it is obvious, that Israel is one of the main partners of the EU from the Mediterranean region in agricultural trade in exports with its share 67 %, although the agrarian imports share is only 31 %, comparing for example with 45 % in Algeria or Lebanon. This fragmentation of the import and export of individual countries and the EU is due to the bilateral nature of the concrete trade agreement. And these differences also reflect the EU trade preferences.

As one of the Mediterranean countries, the relation of Israel and the EU is governed by the **Euro ó Mediterranean Partnership**. The EU has concluded the Associate Agreement with Israel⁵, therefore as an associated country Israel enjoys duty free access to the European market for manufactured goods and preferential treatment for exports of agricultural and fishery products. (Ahearn, 2011) Most of the Israeli agro ó food trade is exported to the European market, with the EU accounting for around **70 % of total** Israeli agro ó food trade exports. And within the EU the Netherlands is the key market, accounting for 17 % of total agro ó food exports. Other important EU export markets include the UK, Germany, France and Belgium as mentioned in the chapter above. (OECD, 2010)

As mentioned in the chapters above, the legal framework for the EU óIsraeli relations is the Association Agreement which was signed in Brussels in 1995 and entered in the force on the 1st of June 2000. This agreement reinforced the arrangements for free trade in industrial products. (European External Action Service, 2014) In 2009 Israel and EU signed **The Agreement concerning liberalization measures on agricultural and processed agricultural products**. This agreement includes many benefits and anebles a significant extension of the range of food exported to the European Union. Food products like chocolate, bakery, pasta, coffe is enjoying free access to the European market which was limited in the past due to the high levies and limited quotas. (Ministry of Economy of Israel, 2009)

⁵ As mention in the Chapter EU – Israel relations.

ary market for the Israeli processed food industry and the
Israel is the European Union and 44 % of total exports is

facing the EU markets, worth 650 million USD. (Ministry of Economy of Israel, 2009)

European countries also remain the main source of Israel's agro food imports with the share about 50 to 55 % of the total over the last decade. The share of the EU alone was at about 40 % and in 2006 to 2008 the Netherlands, the UK, Germany and France were the most important EU suppliers exporting to Israel commodities like cereals, raw sugar, bovine cuts and food preparations. (OECD, 2010)

8.1 Import of the agricultural products from Israel into the EU

As seen in the table 9, the most imported products in agrarian trade of Israel to EU are live trees and other plants, fruits, vegetables, oil seeds, miscellaneous edible preparations. The least imported products into the EU are generally livestock products and cereals, tobacco, products of the milling industry and cocoa. Generally in the agrarian trade of the EU and Israel is visible decline in the imported products during the period of 2004 till 2008, which could be a consequence of the Israeli to Palestinian conflict and the second intifada which ended in 2005, and also influenced the agricultural production of Israel, as mentioned in the chapter above.

Table 9: *Import of agricultural products from Israel to the EU in the period 2004 to 2013 in million of Euro*

PRODUCT	2004	2006	2008	2010	2012	2013
Live animals	4.7	2.7	5	3.5	3.8	3.8
Meat and edible meat offal	11	6.6	8.4	14	12	11
Dairy products	3.5	5.3	4.1	4.1	5.9	6.6
Products of animal origin	0.2	0.2	0.1	0	0.2	0.2
Live trees and other plants	143	137	129	127	107	99
Edible vegetables (including potatoes)	241	290	281	305	277	254
Edible fruits & nuts	209	245	217	238	263	250
Coffee, tea, mate & spices	12	11	10	6.8	6.5	7.4
Cereals	0	0.1	0	0	0	0
Products of the milling industry	0	0	0	0.1	1.2	1.8
Oil seeds	64	68	88	88	86	78
Lacs, gums	4.5	5.2	8.1	9.2	7.6	7.4
Vegetable products	0.8	1.8	1.7	0	0	0.1
Animal or vegetable fats	2.6	3	4.7	2.9	7.2	6.1
Preparation of meat	16	14	22	14	13	13
Sugar	51	63	52	34	40	37
Cocoa	4	3.4	1.4	1.4	1.6	1.3

	15	15	15	15	18	16
	76	98	84	81	83	75
Miscellaneous edible preparations	76	79	76	70	71	74
Beverages, spirits, vinegard	4.9	7.6	9.1	11	11	11
Residues and waste from food industry	1.6	4.1	2.8	0.7	2.5	1.5
Tobacco	0	0.1	0.1	0.5	0.2	0
Other WTO product	23	18	14	12	19	12

Source: EUROSTAT, 2014

It is also visible that the import to the EU was affected by the Agreement concerning liberalization measures on agricultural and processed agricultural products, because after it came in effect in 2010 the exports in agricultural products increased in the majority of the products. Although the export of the products who benefited from this Agreement like sugar, coffee and others did not change as it was expected, mostly the exports of these products decline, probably due to the strong competitions of other countries.

The most important commodities entering the European markets are fruits and vegetables from Israel. The expansion of the horticultural export is another important trend in the agrarian trade of EU ó Israel. Israel's climate together with its extensive greenhouse production enables production of vegetables, fruit and flowers during the winter off ó season, especially to the European markets. (OECD, 2010)

Table 10: *The evolution of the share of the agricultural products in all agriculture in %*

PRODUCT	2004	2013
Live animals	0.5	0.4
Meat and edible meat offal	1.1	1.2
Dairy products	0.4	0.7
Products of animal origin	0	0
Live trees and other plants	14.9	10.2
Edible vegetables (including potatoes)	25	26.3
Edible fruits & nuts	21.7	25.8
Coffe, tea, mate & spices	1.2	0.8
Cereals	0	0
Products of the milling industry	0	0.2
Oil seeds	6.6	8
Lacs, gums	0.5	0.8
Vegetable products	0.1	0
Animal or vegetable fats	0.3	0.6
Preparation of meat	1.7	1.4
Sugar	5.2	3.8
Cocoa	0.4	0.1

March	1.6	1.8
... , nuts	7.9	7.8
Miscellaneous edible preparations	7.8	7.6
Beverages, spirits, vineyard	0.5	1.1
Residues and waste from food industry	0.2	0.2
Tobacco	0	0
Other WTO product	2.4	1.2
TOTAL	100	100

The table 10 demonstrated all the information above and that is that the most imported agrarian products from the Israel into the European markets are vegetables and fruits products, followed by live trees and other plants. It also shows how the share in all agriculture changed during this period. Especially the import of live trees and other plants declined by 4,7 % which could be due to the strong competition from the European countries, like Spain, Italy or Greece. On the other hand there is high growth of exported fruit into the EU. The exports of other commodities and their share in all agriculture remain more or less the same.

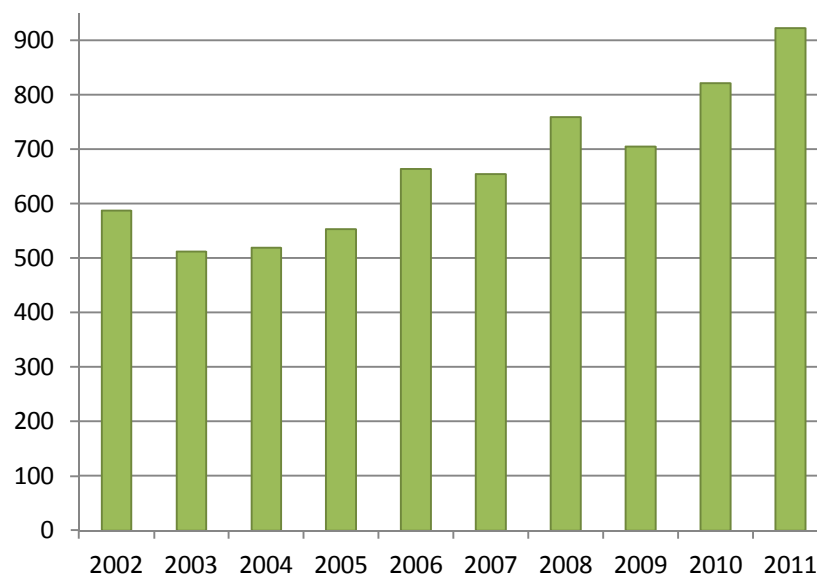


Figure 10: Export of the food, drinks and tobacco to the EU from Israel in the period 2002 to 2011 in million of euro

Source: EUROSTAT, 2014

As seen in the figure 10, the agricultural exports from Israel into the EU are increasing gradually year after year. However there is a decline in the agricultural exports in 2005, probably due to the lower production of agricultural products in 2005 in Israel, because of the Israeli-Palestinian conflict, another decline is visible after 2008, the reason is the economic crises which affected especially the European markets. There is also obvious increase after

ization of the EU ó Israeli agricultural trade. But it is very from Israel to the doubled during this period.

As seen in the figure 11, most imported type of agricultural products into the EU is final products, followed by intermediate products and commodities. As seen in the table below the figure, the other products and confidential trade is irrelevant and due to its low importance is not even visible at the figure. The exports of all the kinds of agricultural products remain stable in the period of 2004 ó 2013. In the final products export, there was a decline in 2008 due to the economic crises and it is also visible in the evolution of other types of agrarian products.

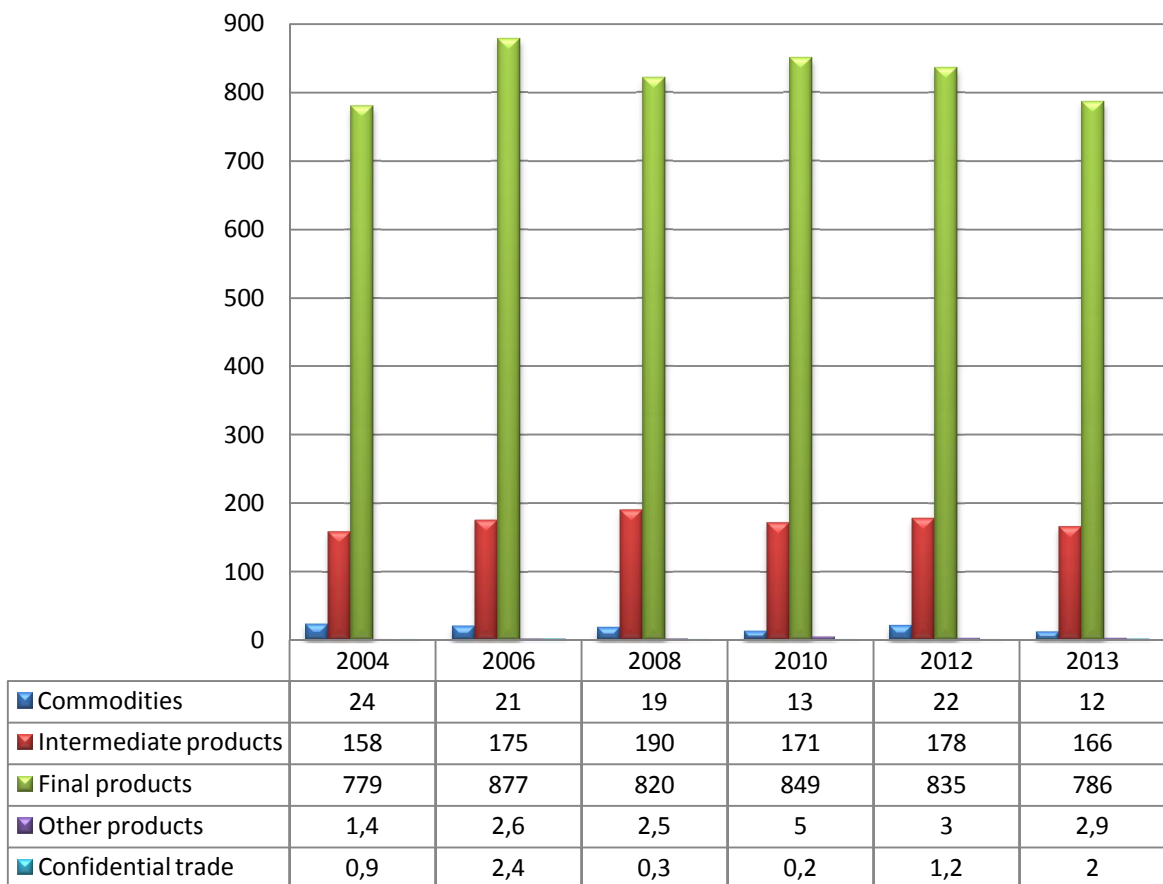


Figure 11: Agricultural exports to the EU by type of product in million Euro

Source: EUROSTAT, 2014

The share of agricultural exports in total exports is increasing gradually, with the 11 % in 2004, and its progressive decline to 7.8 % in 2013. The truth is that the agricultural exports in value are growing, but its share in total is declining, probably because the exports from other sectors are more important nowadays, especially industrial products. (EUROSTAT, 2014)

Commodities from Israel into the member states of the

In this chapter the exports of selected commodities exported from Israel to the European Union will be analysed. The aim of this chapter is to analyse which of the member states import the most from Israel, but due to the extent of the thesis only several commodities will be described. The commodities were chosen the most exported into European markets, so it means potatoes, tomatoes, avocados, chillies and peppers, green and grapefruits (including pomelos). All the data used for these analyses are from the Food and Agricultural organization database.

8.1.1.1 Potatoes export into the EU in 2011 in quantity in thousands of tonnes and value in thousands of USD

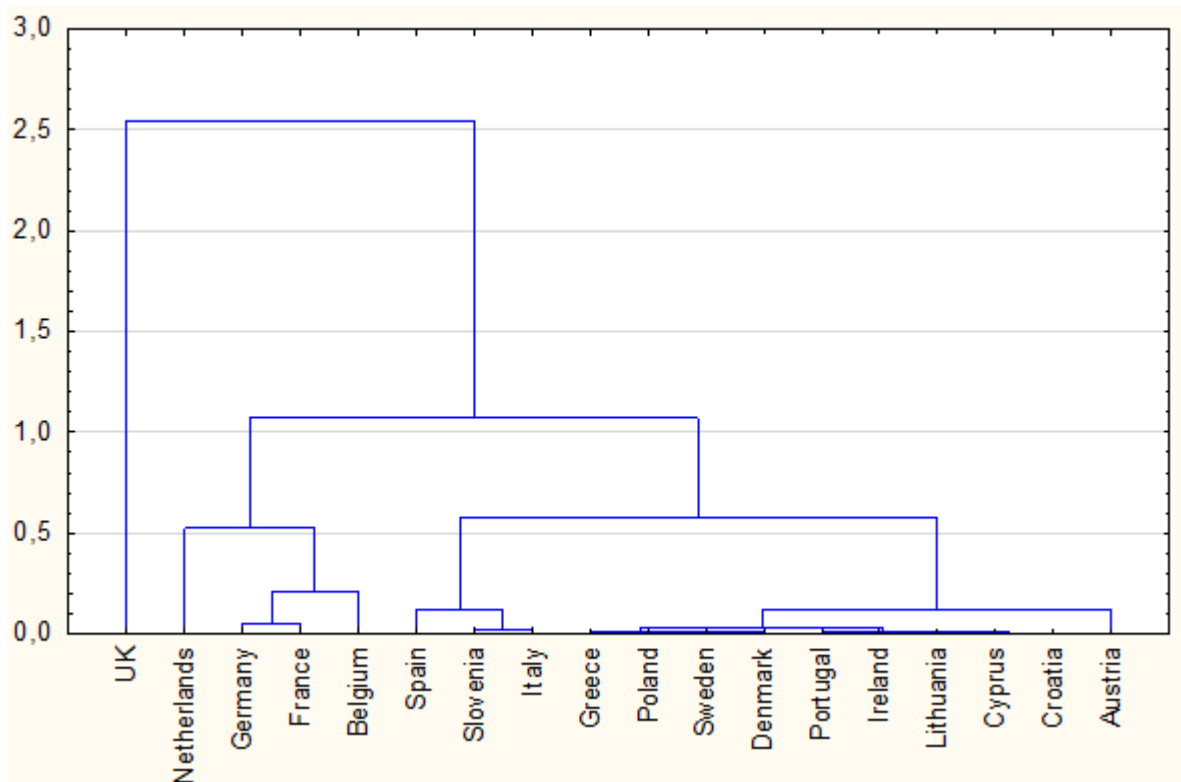


Figure 12: Cluster analysis 1: Potatoes export into the EU

As seen at the Cluster analysis 1, there are five clusters, and potatoes from Israel are exported into 18 member states of the EU. The first cluster includes one state – the United Kingdom, that is because the quantity of the imported potatoes from Israel into **the UK is the biggest importer** among the member states of the EU with the quantity of 59 925 thousands of tonnes, which is double export comparing to the second biggest importer of Israeli potatoes.

ist one state, Netherlands, which is the second biggest and cluster composes of three states, Germany, France and Belgium, this cluster is characterised the imports around 23 000 thousands of tonnes. The fourth cluster composes of three states as well, Spain, Slovenia and Italy, characterised by importing around 10 000 thousands of tonnes of potatoes. The fifth cluster is the biggest cluster, composing of ten European countries, Greece, Poland, Sweden, Denmark, Portugal, Ireland, Lithuania, Cyprus, Croatia and Austria. These countries import potatoes from Israel with the quantity below 1 000 thousands of tonnes.

8.1.1.2 Tomatoes export into the EU in 2011 in quantity in thousands of tonnes and value in thousands of USD

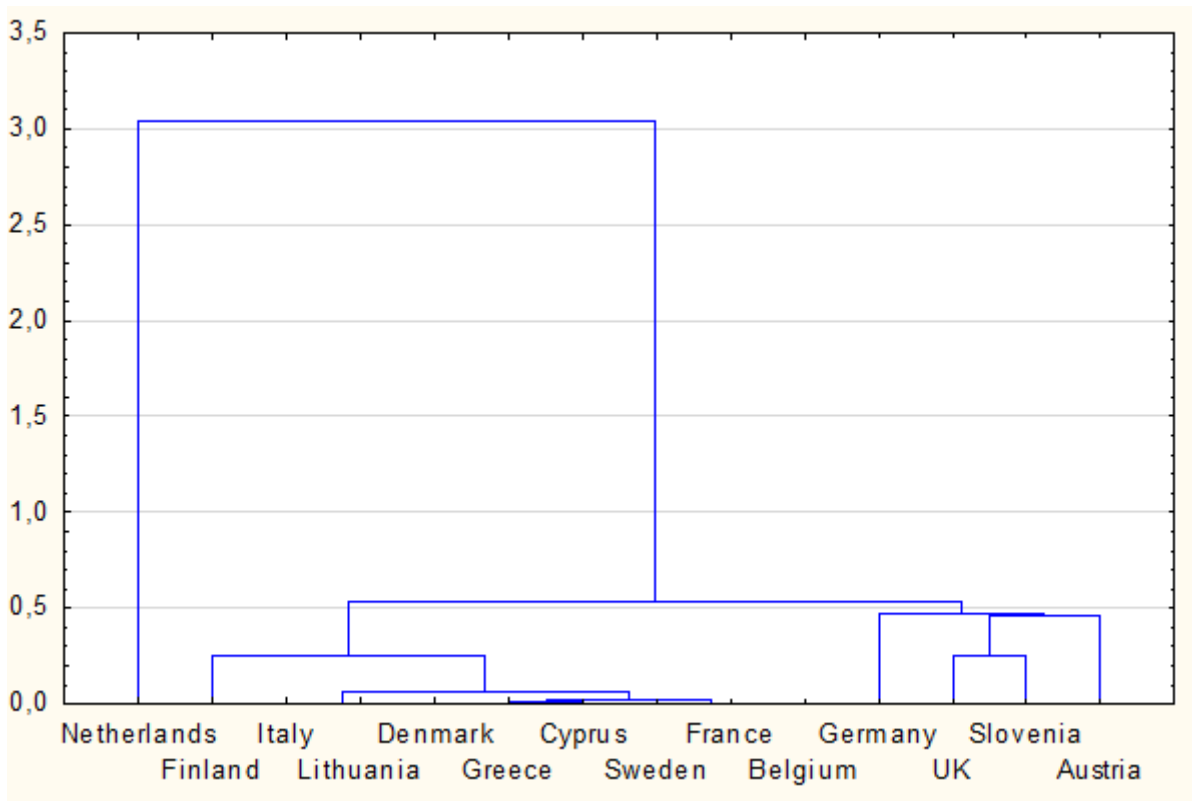


Figure 13: Cluster analysis 2: Tomatoes export into the EU

As demonstrated in the cluster 2, the tomatoes are exported into 14 European Countries. This cluster consists of three clusters. The first cluster is composed of one state, Netherlands. **Netherlands is the biggest importer** of Israeli tomatoes. The second cluster consists of nine European states, Finland, Italy, Lithuania, Denmark, Greece, Cyprus, Sweden, France and Belgium. Finland is the biggest importer of this group, the country importing fewest is Cyprus. The quantity of the imported tomatoes into this group of states stays below 1 000

is composed of 4 countries, Germany, the United Kingdom, Italy and Denmark. These countries are the biggest importers after the Netherlands with the average quantity around 2 000 thousand tonnes.

8.1.1.3 Avocados exports into the EU in 2011 in quantity in thousands of tonnes and value in thousands of USD

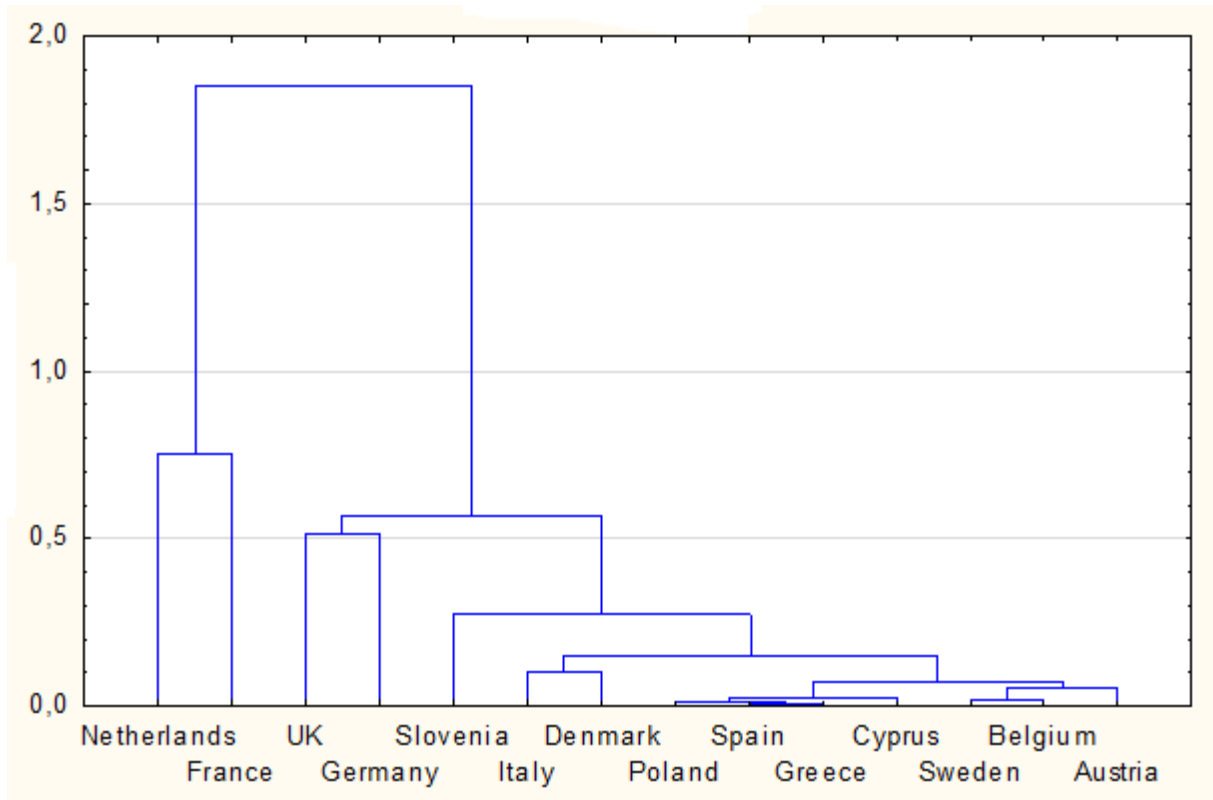


Figure 14: Cluster 3: Avocados export from Israel into the EU

At the cluster 3, there visible seven clusters and the Israeli avocado is exporter into 14 European Union member countries. The first cluster composes of only one state, the **Netherlands**, which is a country with **the biggest value of the exported avocados** from Israel. The second cluster composes of **France**, as **the biggest importer** of the Israeli avocados **in quantity** of over 10 000 thousands tonnes. The third cluster composes of one state too, the United Kingdom with the third biggest exports of avocados in quantity and value. The fourth cluster composes of one state, Germany with the exports of almost 3 000 thousands of tonnes. The fifth cluster is the last one composing of only one state, in this case it is Slovenia with the export quantity above 1 600 thousands tonnes. The sixth cluster composes of two states, Italy and Denmark. These two states imported Israeli avocado in quantity of around 1 000 thousand tonnes. The last cluster is the biggest cluster, and it

l, Spain, Greece, Cyprus, Sweden, Belgium and Austria. avocados are not significant.

8.1.1.4 Chillies and peppers exports to the EU in 2011 in quantity in thousands of tonnes and value in thousands of USD

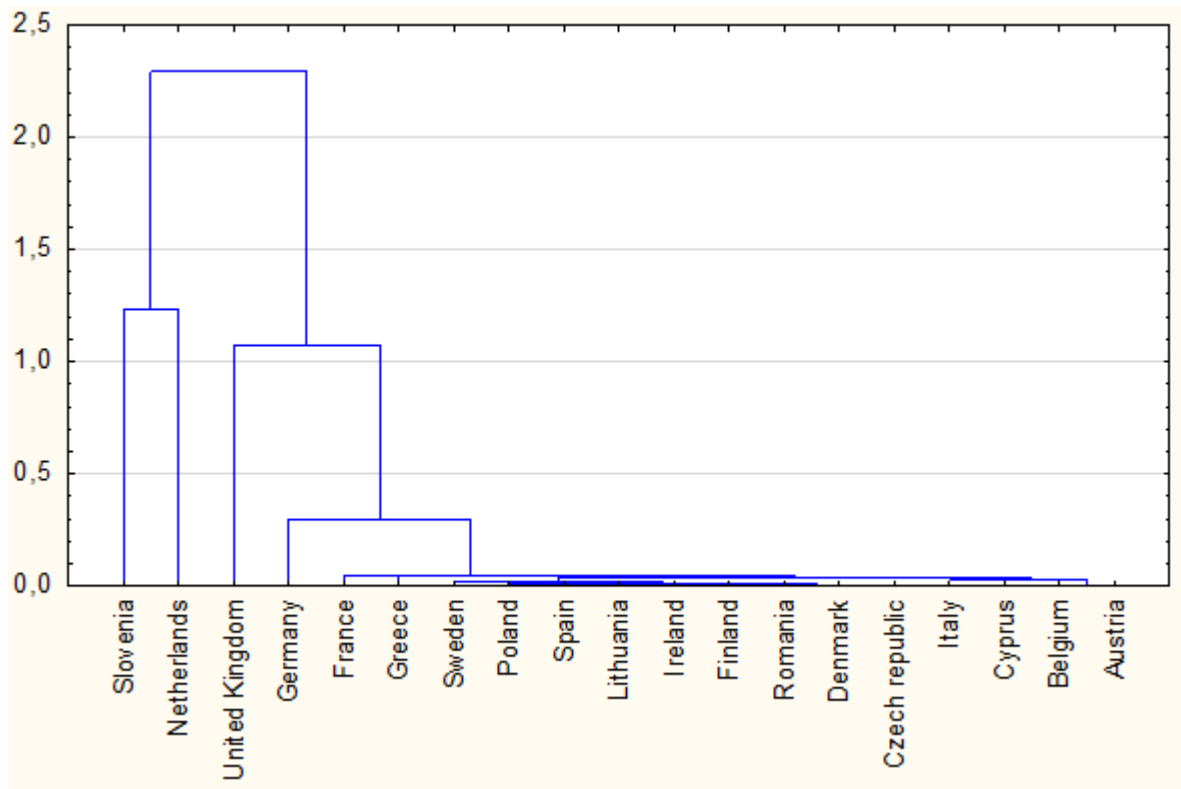


Figure 15: Cluster 4: Chillies and peppers, green exports to the EU from Israel

As cluster 4 demonstrates, chillies and peppers were exported to 19 European Union member states from Israel in 2011. In this analysis we can see five clusters. The first cluster composes of only one state and that is Slovenia the second biggest importer, the second cluster composes of one state as well, and that is **Netherlands, as the biggest importer** of the Israeli chillies and peppers. The third cluster consists of one state too, United Kingdom. United Kingdom is the third biggest importer with the quantity of 9342 thousand tonnes. The fourth cluster composes of one state and that is Germany which is also one of the biggest importers. The fifth cluster is the biggest and composes of the rest of the importing states of the EU, it composes of 15 states, who are not importing as much as the previous mentioned countries. The fifth cluster composes of France, Greece, Sweden, Poland, Spain, Lithuania, Ireland, Italy, Finland, Romania, Denmark, Czech Republic, Cyprus, Belgium and Austria. The least importing state is Spain with the quantity of 20 thousand tonnes. Usually the quantity in thousand tonnes is below 1 000 thousand tonnes.

(pomeloes) exports to the EU in 2011 in quantity in value in thousands of USD

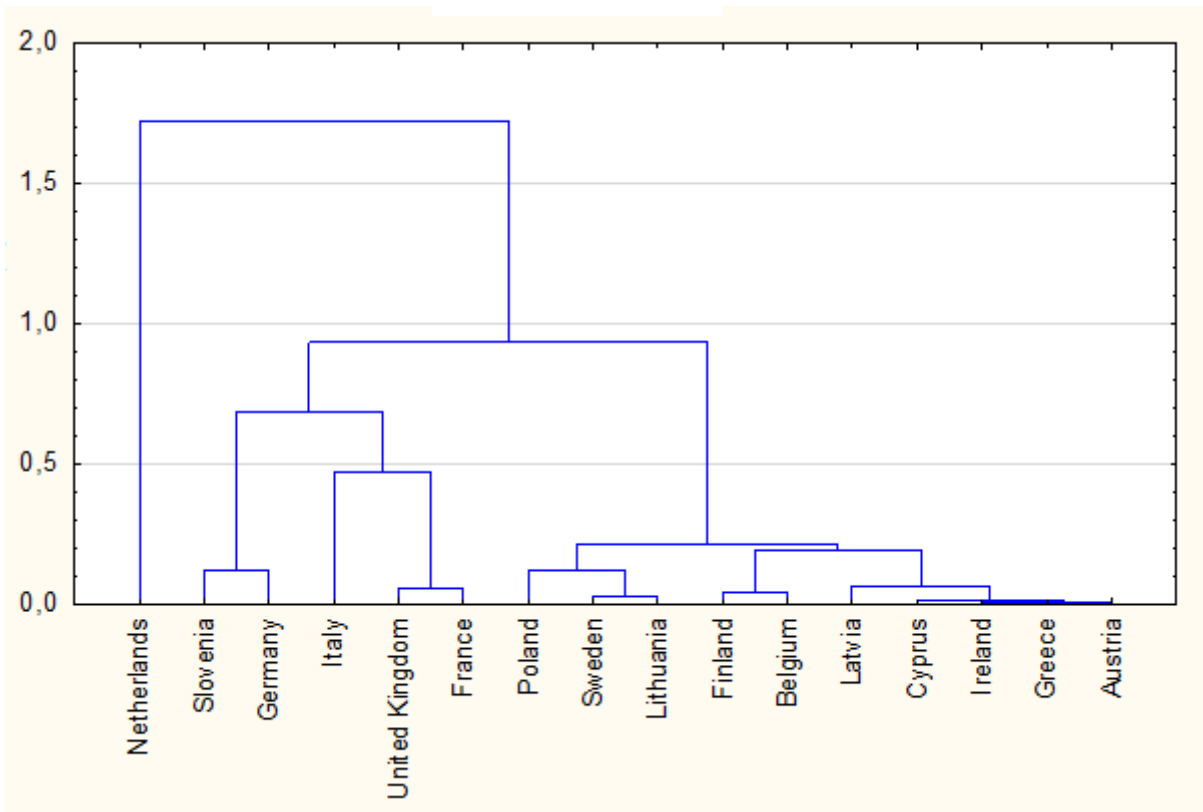


Figure 16: Cluster 5: Grapefruits (inc. Pomeloes) exports into the EU from Israel

Cluster 5 demonstrates that Grapefruits (including pomeloes) are exported into 16 European Union countries. As seen in this cluster analysis, there are six clusters. The first cluster composes of one state, Netherlands. **Netherlands are the biggest importer** of grapefruits from Israel, with its quantity almost twice as big as the second biggest importer. The second cluster composes of two states, Slovenia and Germany. Both states imports Israeli grapefruits with quantity above 3 000 thousand tonnes. The third cluster consists of one state, Italy. Italy is the fourth biggest importer of Israeli grapefruits. The fourth cluster composes of two states, United Kingdom and France, these two countries are second and third biggest importers with the quantity above 5 000 thousand tonnes. The fifth cluster composes of three states, Poland, Sweden and Lithuania, all of the countries import the Israeli grapefruits in quantity above 1 000 thousand tonnes. The last cluster consists of seven states, Finland, Belgium, Latvia, Cyprus, Ireland, Greece and Austria. All the countries in the cluster six import with the quantity not very significant, around 600 thousand tonnes and lower.

8.2 Export of the agricultural products from the EU into Israel

number one exporter of agricultural and food products.

0 billion Euro in 2013 and this growth was stimulated by demand for particular commodities in the developing countries and was achieved also despite strong euro currency in 2013. The EU also remains the world's biggest importer of agricultural products. (European Commission, 2013D)

Table 11: *The evolution of the export of agricultural products from the EU to Israel in the period 2004 -2013 in million of Euro*

PRODUCT	2004	2006	2008	2010	2012	2013
Cereals total	15	70	114	75	33	93
Rice	7	5,1	4,2	5,2	2,3	1,9
Animal feed	18	72	126	99	53	128
Vegetables	1,3	0,6	5,9	3,4	2,7	4,8
Fruits	0,3	1,4	3,9	5	9,1	13
Prep of fruits and vegs	11	11	13	20	32	29
Potatoes	15	15	20	20	15	21
Olive oil	4,7	2,1	3,8	15	8,2	7,9
Veg fats and oils	7,1	9,7	22	23	60	54
butter and butter fat	0,7	0,7	1,1	3,9	1,5	3,1
SMP	3,3	3,8	4,7	6,3	6,2	4,6
Cheese and curd	5,4	4,9	6	9	13	12
Milk	12	14	17	18	19	21
Lactose	0,1	1,8	3,7	5,4	2,7	3,1
Carseinates	3	6,7	5,8	2,9	3,6	3,1
Sugar	104	153	91	80	132	93
Raw tobacco	3	2	2,4	2,3	1,7	1,1
Wine	6,8	6,8	10	14	14	16
Beef meat	5,3	10	12	31	37	40
Pork meat	0,9	0,4	0,2	0,3	0,3	0,2
Sheep and goat meat	0	0	0	0,1	0,1	0,1
Poultry meat	3,4	4,2	5,2	7	6,1	8

Source: EUROSTAT, 2014

As demonstrated in the table 12, the most exported agricultural product from the EU to Israel is sugar. Another important products exported to Israel are cereals, animal feed, milk, beef meat and vegetable fat and oils. The table 12 also shows how the exports from the EU changed during the period 2004 and 2013. The cereals export grew rapidly, from 15 million euro in 2004 to 93 million euro in 2013, which means that the cereals export to Israel is six times bigger nowadays. Visible change is also in the export of animal feed, whose exports are seven times higher in 2013 than in 2004. There are big changes in the exports of fruits as well,

atically during this period. The same situation is with the those exports rose especially in the last years. Beef meet exports increased from 5.3 million euro in 2004 to 40 million euro in 2013. Also the exports of poultry meat doubled during this period. The main trend in the export of agricultural products into the Israel is that there is a significant increase of exports of most of the products. There is no striking decline in any of the products exported into Israel. All the important changes are more visible in the figure 9 below.

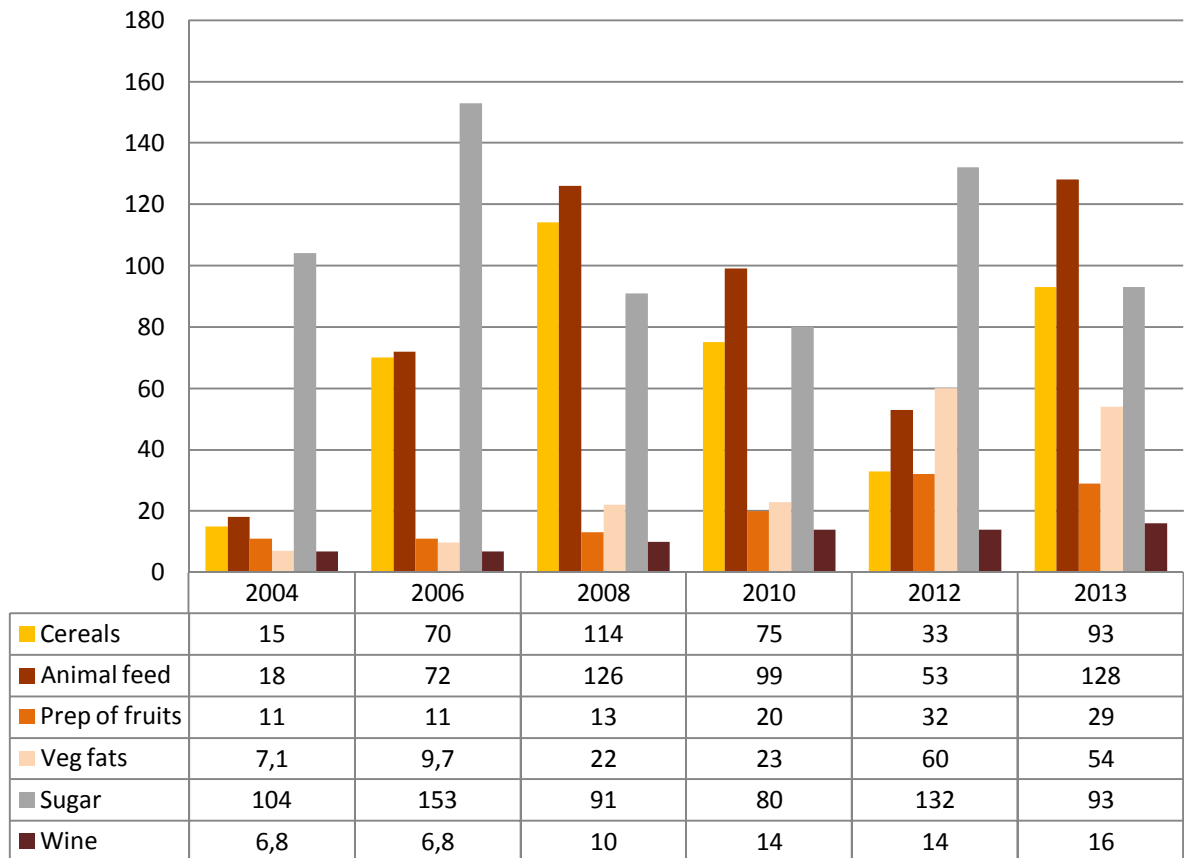


Figure 17: Evolution of export for selected agricultural products in crops production in million of euro

The European Union is currently the **biggest producer of beet sugar** and the principal importer of raw cane sugar for refining. Most of the EU’s sugar beet is grown in the northern part of the Europe and the most producing area are in France, Germany, Poland and the United Kingdom. The EU has several sugar import quotas that allow a total of about 1 million tonnes of reduced or zero ó duty imports each year. (European Commission, 2015D) **Israel** was also **the main importer of the sugar from the European Union** with its 16.46 % in quantity of the export and 14.46 % in the value of the export, followed by Algeria,

s. Considering the size of the Israel the share of 16.46 %
e EU is significant. (EUROSTAT, 2014)

The beef exports from the EU were affected by the lower consumption in Europe and also due to many other players like Brazil and other Southern American producers. Some of the European countries saw Israel and Middle East countries as the best opportunity for growth. The most important beef exporter of the European countries is Poland, mainly due to the historical connections with Israel and also due to the using the method of death that is common for kosher and halal butchery. (Israel News, 2013)

Israel is also one of the main importers of the European potatoes and in 2005 Israel imported 45.1 % of all exported potatoes from the EU. And Israel is also one of the main suppliers of the potatoes for the European markets as mentioned in the chapter 6.1. Also the competition of the potatoes from Israel is higher nowadays. The potatoes exports from Israel into the EU increased significantly in the last years. (European Commission, 2007)

8.2.1 Import of selected commodities from the countries of the EU into Israel in 2011

In this chapter the imports of selected commodities from the European countries into Israel will be analysed. In this chapter there will be analyse the import of wheat in 2011 into Israel from the EU markets and sugar imports (including confectionery sugar, raw centrifugal sugar, sugar refined). These two cluster analyses will demonstrate which European countries export the selected commodity into Israel. All the data are for the year 2011, as the year with the newest information about trade in quantity in thousands of tonnes and value in thousands of USD.

EU countries into Israel in 2011 in quantity in thousands
thousand of USD

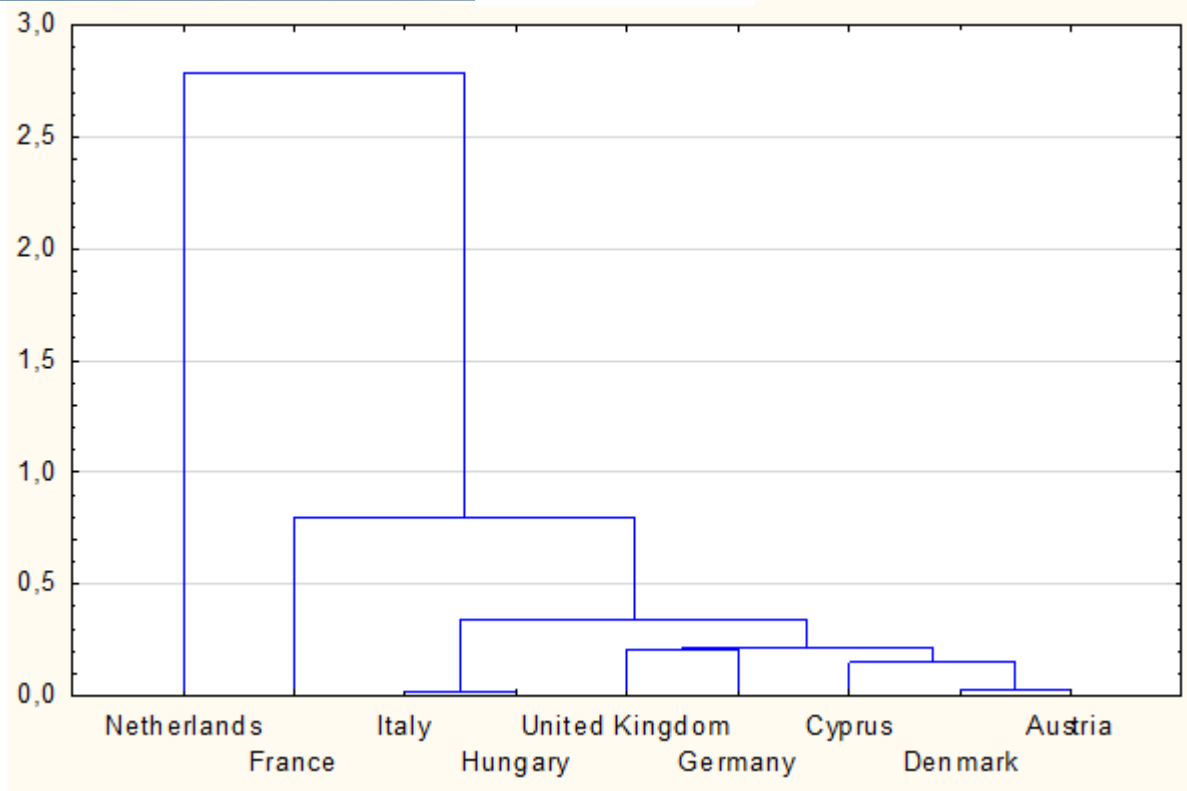


Figure 18: Cluster analysis 6: Wheat imports into Israel from the EU countries

As demonstrated at the cluster analysis 6, the wheat is imported into Israel from 9 European countries. There are visible four clusters. The first cluster composes of one state, the Netherlands. **Netherlands are the biggest exporter** of the wheat to Israel. The quantity of imported wheat from Netherlands to Israel is above 200 000 thousand tonnes, which is more than three times as much as the import from the second biggest importer of wheat into Israel. The second cluster consists of one state too, France, which is the second biggest exporter of wheat to Israel. The third cluster composes of two countries, Italy and Hungary, these two countries are exporting wheat into Israel the least. The last cluster composes of five countries, the United Kingdom, Germany, Cyprus, Denmark and Austria, all the mentioned countries export wheat into Israel in quantity around 20 000 thousand tonnes.

EU countries into Israel in 2011 in quantity in thousands
 thousand of USD

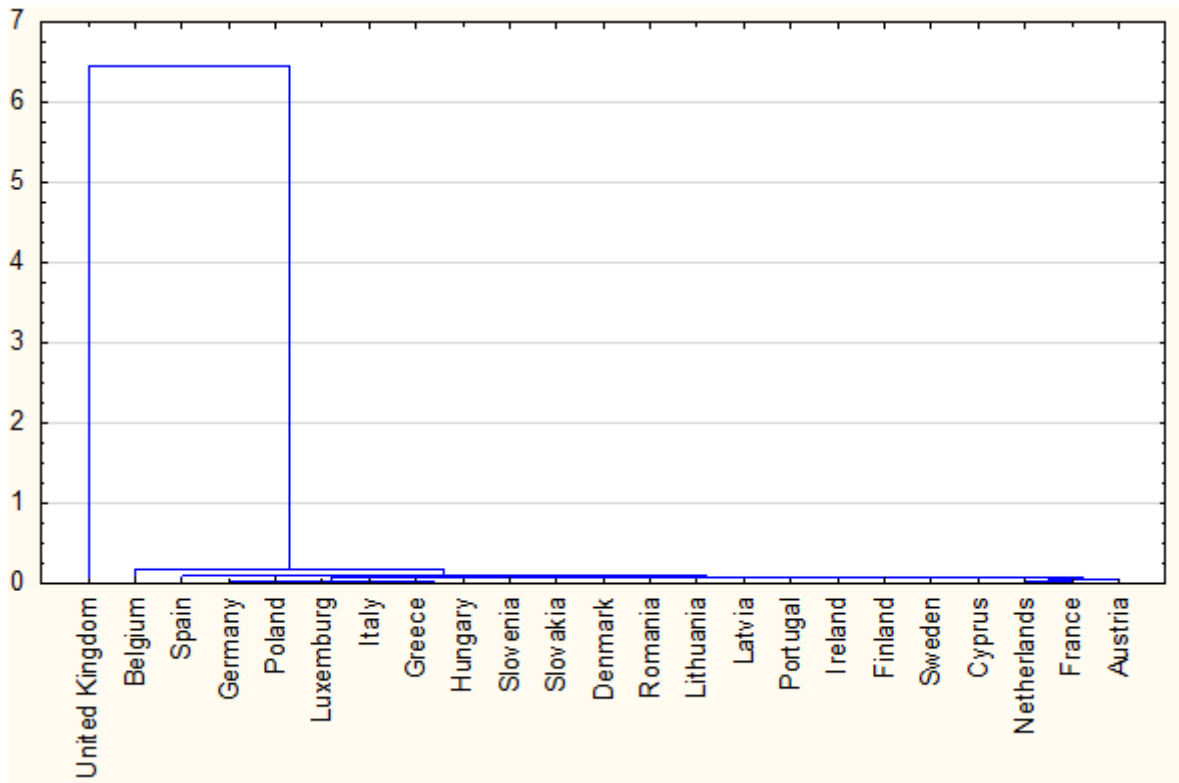


Figure 19: Cluster analysis 7: Imports of sugar into Israel from the EU countries

As shown at the cluster analysis 7, the sugar imports into Israel from the EU are very important, especially due to the fact that 23 of 28 member states of the EU are exporting this commodity into Israel. This cluster analysis composes of three clusters. The first cluster consist of one state only, United Kingdom. The imports of sugar from United Kingdom to Israel are 87 % of all sugar imports. **The UK is the biggest exporter** of the sugar into Israel. The second cluster composes of one state, Belgium, which is the second biggest exporter of sugar into Israel. And the third cluster composes of the rest of the sugar exporting countries into the EU and their export quantity is not significant comparing to the UK or Belgium.

To demonstrate the sugar exports from the EU to Israel for other counties the next cluster analysis will be made without the sugar exports from the UK.

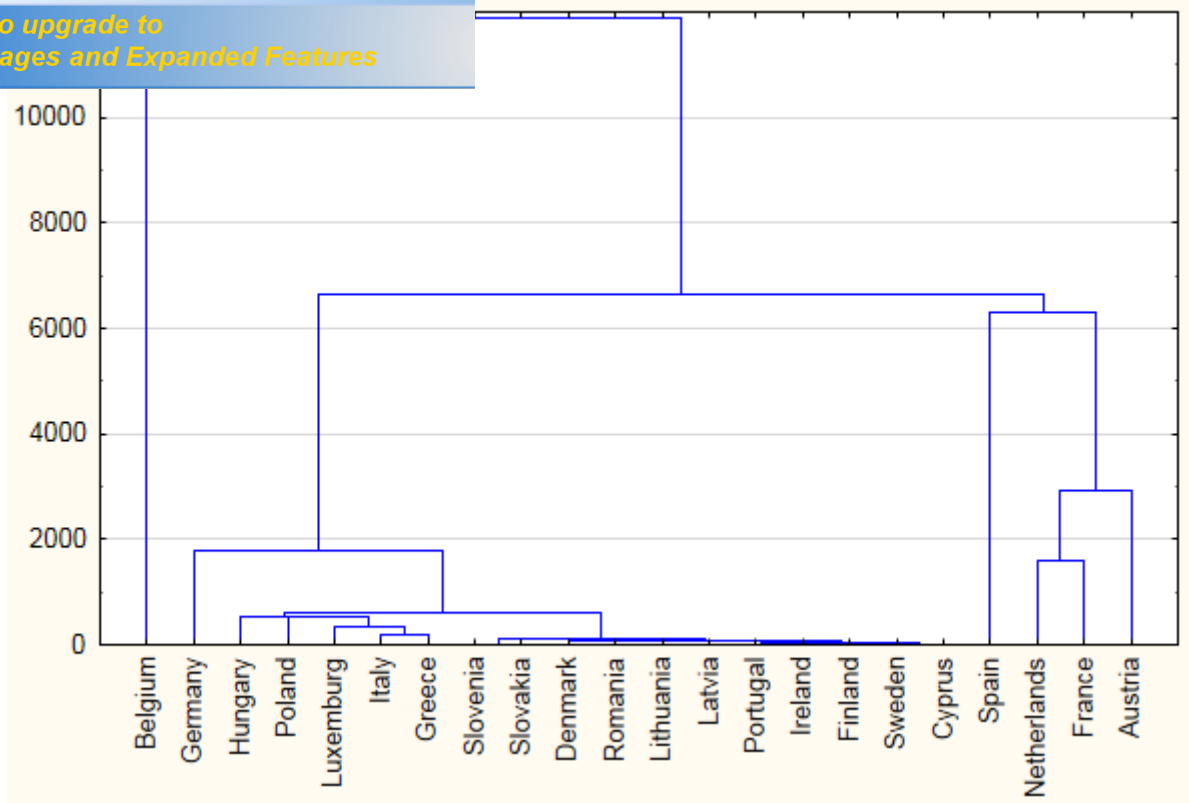


Figure 20: Cluster analysis 8: Imports of sugar into Israel from the EU countries (without the United Kingdom)

As visible at cluster analysis 8, there are four clusters. The first cluster consists from one country, which is **Belgium as the second biggest exporter** of the sugar into Israel with the quantity of almost 20 000 thousands sugar exports. The second cluster composes of 17 European countries, this cluster is the biggest one and connects European exporters with not very significant exports of sugar into Israel. The third cluster composes of one state again and it is Spain. **Spain's exports of sugar are typical for its high value** which is almost double comparing to other European states, even if the quantity is not as big as comparing to the countries mentioned in the fourth cluster. The fourth cluster composes of three states, France, Netherlands and Austria. These countries are exporting sugar into Israel with the average around 7 000 thousands of tonnes.

racial, especially nowadays, when world is shaped by globalization and liberalization of the markets and open policies of the countries. Globalization and its impacts is currently the dominant business environment, we can witness establishment of new free trade areas, the new trade agreement between countries around the world or trade liberalization and abolishment of the trade barriers are more and more often these days.

The trade policy of the European Union is also changing over the time, it is still protecting its member states but the liberalization of European markets is a current issue. The European states are opening their markets in order to increase their opportunities to trade with the world. The trading partners of the EU are for the EU itself very important and the EU is trying to strengthen the ties with its partners using the agreements or action plans to achieve its goals.

The EU is trying to tie with Israel by several agreements, since the cooperation between these two parties started the EU and Israel signed several agreements, mostly focused on the economic, political cooperation. The EU is one of the main trading partners of Israel and Israel is the most important partner for the EU from the Mediterranean region. The trade between the EU and Israel increases every year. The EU is also involved in the Israeli ó Palestinian conflict and tries to support the peace initiatives. The evolution of this conflict also influences the relations between the EU and Israel.

The conclusion of the analytical part is divided into following parts:

The agrarian sector in Israel is very important although the labour force in agriculture is decreasing during the history and currently the labour force in agriculture is below 2 % of the total labour force, also the rural population is decreasing significantly. The Israeli agriculture is highly developed, but the conditions in Israel are not propitious since the most of the country is arid land, but the water management in Israel is highly developed and due to the perfect system of irrigation, Israel's agriculture is successful. The production in Israel is mostly focused on crops production and Israel produces mostly vegetables and fruits, for example chillies and peppers, citrus fruits, avocados, potatoes or tomatoes.

Israel exports its production mostly to the European markets, to the European Union member states but also to other countries in the Europe which are not part of the EU yet. Israel also exports into the USA, Japan or Russia.

Israel is the most important trade partner of the EU from the Mediterranean partner states, the exports from Israel are mostly composed of vegetables and fruits. In general, the

EU are increasing annually. The EU is importing final most important trading partners of Israel from the EU are Netherlands, France, Germany, Italy, Slovenia and the United Kingdom. In this thesis the exports of several commodities were analyzed, the commodities were chosen according to their importance, due to the limit of the thesis it was not possible to analyse all the commodities exported into the EU.

Israeli potatoes are mostly exported into the United Kingdom, Netherlands and Germany. Tomatoes are mainly exported into Netherlands, Finland and Italy. Avocadoes are mostly exported into Netherlands, France, the United Kingdom and Germany. Chillies and green peppers are mainly exported into Slovenia, followed by Netherlands, United Kingdom, Germany and France. Grapefruits are mainly exported into Netherlands, Slovenia, Germany and Italy. From the analysis of the selected commodities Netherlands is the most important partner of the Israel.

The EU is the most important trading partner of Israel. The agrarian trade between these two parties was influenced by Agreement concerning liberalization measures on agricultural and processed agricultural products. The evolution of the exported commodities into Israel showed that the exports of animal feed increased significantly during the period 2004 ó 2013, also the exports of vegetable fats and oils increased.

In this thesis only two commodities and its exports from the EU into Israel were analysed. The first commodity is wheat, which is mostly imported from the Netherlands, France and Italy. The second chosen commodity is sugar. European Union is the biggest producer of the beet sugar in the world and Israel imports 16 % of its sugar exports. Most of the sugar imported from the EU is imported from the United Kingdom, followed by Belgium, Spain, Netherlands and France.

nowadays, especially due to the fact how globalized our society is, international trade grows fast and its importance is increasing. There are plenty of organizations involved in international trade, probably the most important is the WTO, followed by the World Bank, International Monetary Fund, Food and Agricultural Organization, Organization for Economic Cooperation and development and others. The importance of the free trade areas grows as well, one of the most important free trade areas are NAFTA, ASEAN, CEFTA and others. FTAs turned out to be the best one of the best ways to open up the markets and the number of current FTAs is increasing gradually. It causes the reduction of trade barriers and helps to create more stable and transparent environment for trading. But even if the trade is more and more liberalized, countries around the world are still using instruments to protect their markets and these instruments of the foreign trade influences territorial and commodity structure and also value. The foreign trade instruments can be divided into anonymous and contractual trade measures, states are using import controls as well as direct or indirect support of export. The most common import controls are import duties, ad valorem duties, embargoes or quotas. Export is usually supported by various forms of export subsidies like financial subsidies, state loan guarantees or export risk insurance.

Agrarian sectors of the member states of the EU are affected by the Common agricultural policy of the EU. This policy is one of the most important, because almost half of the EU's budget goes into the agriculture and this is also one of the reasons why agricultural policy is very often a reason for conflicts among the member states of the EU. Traditional agricultural policy was conceived in the early sixties, at the time when EU was a net importer of staple agricultural products. The CAP was reformed several times in the past, the first attempt of reforming the CAP was in 1968 with proposal of radical reconstruction of the CAP by the Mansholt Plan. In 1992 the MacSharry reform was adopted as a result of the international pressure and its objectives were among others to greater competitiveness of the EU production in the world trade or prevention of unnecessary accumulation of agricultural products. The CAP was reformed in 2000 by Agenda 2000, in 2003 by Fischler reform, in 2008 the EU agricultural ministers reached a political agreement on the Health Check of the CAP. Currently the new agricultural reform was reached in 2013 for the years 2014 ó 2020.

The economic environment for the EU farmers changed dramatically during the last decades and it resulted in the EU becoming the largest agricultural commodity trading regions

The EU is well known for its protectionism, but recently it liberalize its markets for non ó member countries.

Generally agricultural foreign trade of the EU is characterized by decreasing in global trade, also its share in the global gross domestic product is decreasing, but the last two decades are the period of rapid export growth from developing countries. The EU is the largest exporter and agricultural trade among the EU and developing countries dominates the global agricultural trade. Agriculture started to change with the globalization in the 1990s. Agriculture contributes about 1.3 % GVA in the EU and 5 % of the total employment and its importance varies from one member state to another. The agricultural exports of the EU are growing annually with the exception of the year 2009 due to the economical crises which affected the EU.

Analysis of the agrarian foreign trade of the EU and Israel confirmed the importance of this trade between these two parties. Israel and European Union are very close partners and always have been. Israel was one of the first countries which tried to engage directly the dialog with the newly established EEC. These two parties reached several agreements, action plan and their cooperation is very successful. The EU is currently the largest exporter and importer for Israel and accounts about one third of Israel's total trade. And Israel is one of the leading partners of the EU from the Mediterranean region.

Israeli agriculture is characterized by its intensive production. Even if there is lack of the natural recourses in Israel, due to the close cooperation of scientists and farmers, Israel is able to have highly developed agriculture. Israeli agriculture became the example for all the countries without the natural recourses, because thanks to its system of desalination and especially irrigation its area equipped for irrigation raised from 0.194 million of hectares in 1997 to 0.225 million of hectares in 2012. Even if the population in Israel increased significantly during the last two decades, the labour force in agriculture is decreasing. The labour force in agriculture decreased from 2.72 % of total labour force in 1999 to 1.45 % in 2014. Israel is also country highly urbanized, so also the rural population is decreasing annually, currently the rural population accounts about 7.94 %. Israel is also characterized as a leader in the agricultural innovation. Israel cooperates with the USA, Canada, Mexico and others in the field of agriculture.

The plant production of Israel decreased in the last two decades but on contrary, the livestock production increased significantly, for example the cattle production tripled during last two decades. The most important produced commodities are fruits and vegetables. The citrus production is decreasing but the vegetable production is increasing. Also the production

sed rapidly. The main reason for the rapid growth of the ability in the vegetable growing field and developing objective, based technologies together with changing environmental conditions. The livestock production is increasing during the last two decades, the dairy industry in Israel is very important and is able to supply more than 80 % of the country's dairy requirements.

Most exported commodities from Israel are potatoes, carrots, chillies and green peppers, oranges, grapefruits and others. Most of the Israeli agro ó food exports are exported into European markets. Also after the new Agreement signed between the EU and Israel, which aim is to liberalise the trade with the agricultural products, the exports of mostly all commodities increased.

Generally the agricultural trade of the EU in Mediterranean region is considered as small, asymmetrical and fragmented. Israel's agricultural exports reflect its advantage in season and expertise, mainly winter vegetables, citrus and flowers. Israel exports widely agricultural inputs and technologies.

The most imported products in agrarian trade from Israel to the EU are live trees and other plans, fruits, vegetables, oil seeds and others. The least imported products into the EU are livestock products. During the period of 2004 ó 2013 there was visible decline in the imported products during the years 2004 ó 2008 which was affected by the Israeli ó Palestinian conflict. The visible change in the agricultural exports from Israel into the EU was in 2010, after Agreement concerning liberalization measures on agricultural and processed agricultural products, came into effect. The most imported type of the agricultural products into the EU is final products.

For analysis of the current agrarian trade of the Israel and the EU, several commodities and its exports from Israel and imports to Israel were chosen. These analyses were based on the data from 2011, as the newest source of the agricultural trade between these two parties. The selected commodities were chosen intentionally according to its importance in the agrarian trade of Israel and EU.

The biggest importer of the Israeli potatoes is the UK, which is the double importer comparing to the second biggest importer which is Netherlands. Among other states importing Israeli potatoes are Germany, France, Belgium and others. Israeli potatoes are exported into 18 member states of the EU.

Tomatoes are exported into 14 member states of the EU. The biggest importer is Netherlands, followed by Germany, the UK, Slovenia, Austria and others.

ed into 14 member states of the EU as well. The biggest
greatest value of the exported avocados. The second biggest
importer is France with the biggest quantity, followed by the UK, Germany, Slovenia and
others.

Chillies and peppers are exported into 19 member states of the EU. The biggest
importer of the Israeli chillies and peppers is Netherlands, followed by Slovenia, the UK,
Germany and others.

Grapefruits are exported into 16 member states of the EU. The biggest importer is
Netherlands, followed by Slovenia, Germany, Italy and others.

Israel imports the agricultural products from the EU, the most imported commodity
from the EU to Israel is sugar, cereals, animal feed, milk and others. The cereal exports grew
rapidly from 15 million euro in 2004 to 93 million in 2013, the cereal exports to Israel is six
times bigger nowadays comparing to the exports in 2004. The exports of fruits increased
dramatically during the period of 2004 ó 2013 from 0.3 million euro in 2004 to 13 million
euro in 2013.

The EU is the biggest producer of beet sugar and Israel is the main importer of the
sugar coming from the EU, with its 16.46 % in quantity of the export. Israel imports sugar
from 23 member states of the EU. The biggest exporter of the sugar into Israel is the UK,
followed by Belgium, Spain which sugar exports are typical for its high value.

Israel imports wheat from the EU from 9 member states of the EU. The biggest
exporter of the wheat to Israel is Netherlands, followed by France, Italy, Hungary and others.

The most important partners of Israel from the member states of the EU are
Netherlands, Germany, Slovenia, France, the UK and others. It is very probable that the
exports from Israel to the EU and from the EU to Israel will continue growing, mainly due to
the newly achieved agreement mentioned above.

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