Jerusalem Institute for Market Studies:

The Miracle of a Jug of Oil: Why It Costs More in Israel

In Israel, the biblical land of olives, olive oil costs two to three times what it costs in the U.S. and Europe. A new study by the Jerusalem Institute for Market Studies (JIMS) shows that while Israelis pay approximately 50 shekels for a liter of olive oil, in Spain and Greece, the world's biggest exporters of olive oil, consumers pay one-third of what Israelis pay: the equivalent of 17 shekels. In England and the U.S. that liter would cost 23 shekels, in France 25 shekels, and in Australia 18 shekels.

JIMS economist Keren Harel-Harari, author of the JIMS study, explains that the industry in Israel is plagued with bad policy and intentional misdeeds: "In the past, a state-backed agency awarded seals of quality approval without establishing any system for examining the products; then it awarded 'stamps of approval' to inferior oils without explaining the difference. Last month the ministry of health found that 16 companies were selling substandard oil. The Chief Rabbinate even had to issue a warning before the Hanukkah holiday about using substandard oil."

The higher prices in Israel are the result of:

1. An official "recommended" price for growers to sell their produce, which at 18-21 shekels is already higher than or near the retail price in many other countries.
2. The government allows 1200 tons of oil to be imported each year free of duties, but forces would-be importers to also buy from local producers at the higher price, a move that makes the duty-free discount irrelevant.
3. Another 2000 tons of oil in bottles larger than 750 ml are also allowed in at reduced rates of duty, but without any regularity, timetable or advance notice.

"The higher prices are a direct result of government policy," says Harel-Harari. "Other countries encourage or allow imports and Israel puts up obstacles."

JIMS recommends: Reducing or eliminating the duties on imported olive oil, at least for the amount imported to meet expected local demand; or, setting procedures for awarding duty-free permits, abolishing the favoring of local producers in the awarding of permits, and ending the requirement that importers buy from local producers; streamlining the bureaucracy and having one ministry or institution be responsible for olive oil instead of the current division between the ministries of agriculture and industry, as well as the Plant Council; adopting the standards Western countries have used since the 1990s to define the different types of oil.

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