



# Doing Business in ISRAEL

## Understanding the Market

In 2007, despite difficult challenges, the Israeli economy enjoyed continued resilience and growth. This impressive achievement was helped by the expansion of Israel's global trade, ongoing demand for high-tech products and the maintenance of a firm fiscal policy and open monetary policy. The International Monetary Fund (IMF) in February 2008 called Israel's economic performance "exceptional." They added that in spite of the war in the north during 2006, real GDP growth averaged about 5 percent during 2006 and 2007. The World Economic Forum (WEF) ranked Israel the 17th (out of 131) most competitive economy in its 2007 Global Competitive Index, ahead of Canada, France and Korea. Israel's technological readiness saw the greatest improvement, leaping 20 places to rank third in the world, while market efficiency increased by 7 places. Israel ranked first for availability of scientists and engineers, an improvement of 3 places, and ranked second for venture capital availability. Israel ranked seventh in the world for innovation. Additional improvements were noted in macroeconomic management, market efficiency and various areas of infrastructure.

In February 2008, Fitch Ratings upgraded the State of Israel's foreign currency Issuer Default rating ("IDR") to 'A' from 'A-' and the local currency IDR to 'A+' from 'A'. Following the upgrade, the outlooks on both ratings are now stable.

Israel currently enjoys an expanding national product, record international investment activity and a flourishing high-tech sector. The international business community is taking advantage of the many opportunities offered by the Israeli economy. Cumulative foreign investment in Israel totaled \$48.8 billion between 2003 and 2006.

Israel's foreign trade activity remained robust. The significant rise in the value of the Euro and the falling dollar vis-à-vis the shekel has worked to refocus attention on the United States for the supply of a growing number of products. Pricing is still a salient issue, but Israeli importers have expressed a growing interest in American items from a vast array of industrial and agricultural sectors.

Israel and the U.S. also have a 30-year free trade agreement in place so there are virtually no customs duties applied on any exports from the U.S. to Israel.



## Distribution and Sales Channels

### ISRAELI DISTRIBUTOR

- Recommended for U.S. firms in almost every case.
- Allows the manufacturer to build on the expertise and client base of an established Israeli firm.
- The local distributor will take full responsibility for securing all permits and handling all labeling of imported goods in accordance with local laws.

### AGENT/REPRESENTATIVE

Efficient for those manufacturers who deal in customized goods.

### FRANCHISING

No barriers to the franchising of any product or service in Israel.

## Opening an Office in Israel

U.S. companies that wish to establish a presence in Israel should carefully select the appropriate type of business entity, as this determines the operations they are allowed to perform in Israel and their tax obligations among other liabilities.

There are no restrictions on foreign companies opening branches or subsidiaries in Israel, nor are there restrictions on foreign ownership. Of course, any company opening up in Israel needs to abide by local laws. Companies can be partnerships, sole proprietorships or limited corporations but LLCs do not exist here.

## Due Diligence

Due diligence is essential before entering any type of agreement in Israel, as anywhere else. Keep the following points in mind when choosing an Israeli business partner:

- Product and industry knowledge, track record, enthusiasm and commitment should be weighted heavily.
- Personally interview potential candidates at their home offices if possible.
- Provide appropriate training, product support and timely supply of spare parts.
- Obtain information from a local consulting or law firm or local business chamber.
- Establish clear performance goals with your Israeli partner in writing.
- The Israeli legal system was developed from British law in effect prior to 1948 and differs somewhat from the U.S. system.

## Pricing a Product

- Look carefully at brokers' fees, transportation costs, and taxes to determine if the product/service can be priced competitively.
- Israeli Customs collects a 15.5 percent value-added tax or VAT (assessed on the value of the invoice plus all costs) from the importer on all foreign transactions before the goods are released from the port of entry. The VAT typically is recovered at the point of sale.
- Payment terms and financing costs also make a difference in the pricing structure.

## Essential Factors for Success

- High quality products at competitive prices
- Financing, delivery, brand name recognition, before and after sales support and customer service
- Efficient business culture



## Import Requirements

The basic Israeli import document is a valid invoice from the U.S. shipper. This document can be in English and must accompany a bill of lading and documents demonstrating compliance with Israeli product safety and performance regulations, if applicable. Products qualifying as U.S.-produced must use the Certificate of Origin provided by any local Chamber of Commerce in order to receive preferential treatment.

Some products entering Israel, particularly electrical and mechanical items, must comply with the requirements of Israel Standards Institute. Food, pharmaceuticals and other health-related items that are either taken orally or applied to the skin may also need the sanction of the Ministry of Health. It is important to make sure imported items comply with these standards and to obtain the appropriate product certification from authorities before entering the country. In almost every case the importer will handle these issues.

All products intended for retail sale in Israel must bear a label in Hebrew prior to their importation to Israel. Once again, the importer will deal with this issue.

## Government Procurement

All government procurement for Israel is handled by the Government of Israel's buying office in New York in order to track "offset" requirements against the U.S.'s foreign aid package to Israel. Contact the GDECD Israel Office for further information.

## BUSINESS AND CULTURAL PRACTICES IN ISRAEL

- The typical Israeli who does business internationally is secular, not religious although in the high tech world there are a larger percentage of religious people. He or she will probably deal with you much as any North American businessperson would. The most obvious differences will be that Israelis tend to be less formal, speak louder and stand closer than most North Americans would.
- Expect Israelis to ask you very personal questions. Nothing is considered off-limits, from your age to your marital status to how much you earn. You can answer these questions or not as you please.
- To foreigners, it often seems that Israeli businesses operate at only two speeds: glacially slow or right now. Even if your deal seems to be indefinitely delayed, be prepared to deliver quickly if the situation changes.

## Punctuality, Appointments, and Local Time

- Israel has become very Western in its business practices. People expect meetings to begin no later than 15 minutes from the time the meeting was scheduled. Foreigners should arrive at meeting locations promptly as a sign of respect.
- Occasionally someone will take a phone call during a meeting. This is not out of the ordinary in Israeli business society.
- The Jewish holy day, the Sabbath, begins at sunset on Friday and ends at sunset on Saturday. In deference to the religious Jewish community, no business is conducted on the Sabbath. The work week runs from Sunday through Thursday. Most offices are closed on Fridays.
- The days businesses are open depends upon the religion of the owner. Most Jewish businesses close on Fridays (especially in the afternoon) and Saturdays. Islamic-owned establishments will be closed all day on Fridays; Christian-owned ones will be closed Sundays.



- Normally Israel is two hours ahead of Greenwich Mean Time (G.M.T +2), or seven hours ahead of Eastern Standard Time (E.S.T. +7). There are periods of the year when Israel goes on or off daylight saving time before or after the US. It pays to check this before making appointments.

## Negotiating

- Most Israelis have a very confrontational negotiating style, which may become very emotional. Expect shouting.
- Unlike most Israeli Jews, an Israeli Arab will not even consider doing business with you until he knows and likes you. Thus, the social aspects of a deal are just as vital as the business ones.
- In general, the pace of decision making can be slower in Israel than it is in the West. Be patient.
- Business meetings traditionally start slowly, with long inquiries into one's health and journey.
- Business cards are important. Although most Israeli businesspeople speak English, many foreigners have cards printed in English on one side and in Hebrew on the other. Hebrew is read from right to left.
- Do not back up or shy away in conversation. Conversations often involve touching. However, foreign businesswomen should avoid initiating physical contact.
- Arabic is a language of hyperbole. When an Israeli Arab says "yes" it usually means "possibly." Be encouraged by this, but do not assume that the negotiating is over.
- Sports are always a good topic of conversation. Swimming, soccer, and basketball are among the most popular Israeli sports.

For more information on doing business in Israel or how to export to Israel, contact your Trade Specialist in Atlanta or the State of Georgia Israel office:

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