



המכון הישראלי לייצוא ולשיתוף פעולה בין-לאומי
The Israel Export & International Cooperation Institute

DEVELOPMENTS AND TRENDS IN ISRAELI EXPORTS

Summary of First Half 2013



Written by the Economic
Department

August 2013

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Executive Summary

General

In the last two years we have seen a clear deceleration in the growth of global trade on the back of the continued debt crisis in Europe, the slow recovery of the US economy and the restrained growth of Asian economies. In keeping with this trend, there has been a significant deceleration in Israel's goods exports, following stagnation in exports in 2012, which continued into the first half of 2013.

Trends in exports in the first half of 2013

According to the estimates of the Israel Exports Institute, in the first half of 2013, Israel's goods and services exports¹ is expected to point to stagnation compared to the first half of 2012, with total exports of \$47 billion. Exports of goods (according to the balance of payments, including adjustments in respect of continued projects and exports to the Palestinian Authority) is expected to total \$32 billion during the reported period, down by one percent in dollar terms whereas exports of services² is expected to increase by 2% YoY to \$15 billion.

Exports of goods (based on foreign trade data)

During the first half of 2013, exports of goods based on IEI's records (excluding diamonds) rose 5% YoY, to \$24 billion. The increase in exports was primarily the result of the growth in exports of pharmaceuticals, electronic components, chemicals and aircrafts. These highly concentrated sectors, with a very small number of companies, accounted for 525 of total exports in 1H2013, compared to 46% in 1H2012.

High tech exports

In the first half of 2013, total high tech exports grew 5.8% YoY, to \$10 billion. Among high-tech industries, during the period pharmaceutical exports rose 6.5% to \$3.3 billion, exports of electronic components rose 28% to \$2.3 billion while aircraft exports grew 20% to over \$1 billion.

Excluding these dominant sectors (pharmaceuticals, electronic components and aircrafts) an analysis of exports of other high tech industries that represent the critical mass of companies points to a significant decline in these sectors' exports

¹ Exports of goods and services – including adjustments in the calculation of exports of goods and services in the balance of payments with respect to exports to the Palestinian Authority.

² Including balance-of-payment adjustments. Based on the estimates of the Economic Unit.

during 1H2013. During the period, the core index of high tech exports fell 7% YoY, further to a 3.3% decline in 2012 YoY.

Exports of goods in other sectors

Exports of other industrial sectors were substantially affected by the sharp growth in exports of chemicals during the year. Between January and June 2013 exports of chemicals rose 19% YoY to \$5.8 billion and currently accounts for 24% of total exports. Exports of other sectors during 1H2013 fell 5% YoY.

Exports of diamonds, which represents 17% of total goods, grew 1% in 1H2013. During the reported period, agricultural exports was 9% higher YoY and totaled \$930 million – 3% of total goods exports.

Exports of services

During the first half of 2013, exports of services remained on a growth path compared to 2012, but in contrast to previous years this growth did not stem from an increase in exports of computer services, software and R&D, which recorded zero and even negative growth rates YoY. According to the Economic Unit's estimates, in the first half of 2013, services exports are estimated to total 15 billion, up 2% YoY in dollar terms. The growth in services exports in 1H2013 was primarily owing to an increase in exports of transportation services and exports of professional services (legal counsel, engineering, accounting-financial, architectural and different management services).

Exports by trading regions

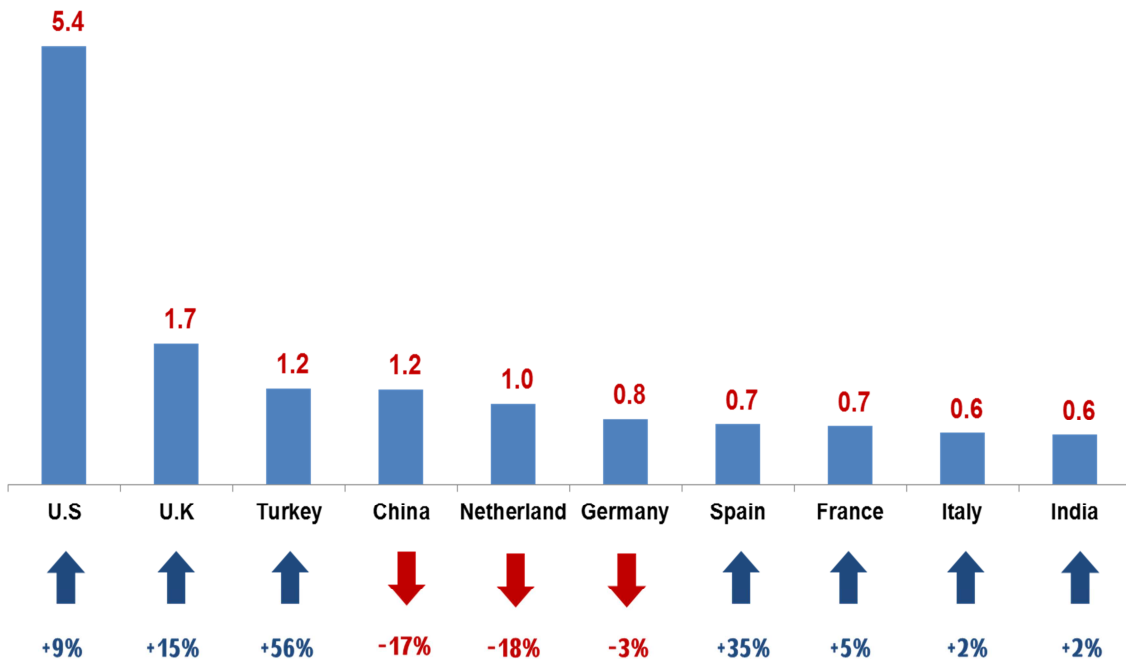
The growth in goods exports during the period stems from a significant increase in exports to the US and the EU, as well as exports to East European and Latin American countries.

Exports by countries

During the first half of 2013 exports increased to 7 of Israel's 10 leading export destinations, compared to the same period of 2012. Even when compared to the first half of 2011, which was a record year for Israeli exports, there is an increase in exports to 6 out of 10 major markets.

Israel's 10 leading export markets – January-June 2013

Exports of goods excluding diamonds, in \$ billion, excluding exports to the PA



Significant changes in key export industries (pharmaceuticals, electronic components and chemicals) had a clear impact on the ranking of Israel's export markets in the first half of 2013. For example, the sharp increase in exports of chemicals was reflected in an unusual growth in exports to Turkey, which rose to the 3rd place among key export markets, and in exports to Spain, which climbed to the 7th place.

A significant decline in exports of components to China pushed it down to the 4th place among export targets, while a sharp increase in these exports to Malaysia, moved the country up to the 11th place. The continued accelerated growth in exports of pharmaceuticals to the US and the UK was a significant fact in the growth of exports to these destinations, which landed in the top two places, while the decline in pharmaceutical shipments to the Netherlands and Russia, was the main reason for the contraction in exports to these markets.

Change in the ranking of 10 export markets – January-June 2013

Exports of goods excluding diamonds, in \$ billion, excluding exports to the PA

Country	Exports H1.2013 (\$B)	% change	2013 ranking	2012 ranking	Change in ranking
US	5.4	9%	1	1	(-)
UK	1.7	15%	2	2	(-)
Turkey	1.2	56%	3	6	+3
China	1.2	-17%	4	3	-1
Netherlands	1.0	-18%	5	4	-1
Germany	0.8	-3%	6	5	-1
Spain	0.7	35%	7	12	+5
France	0.7	5%	8	7	-1
Italy	0.6	2%	9	8	-1
India	0.6	2%	10	9	+1

The exchange rate

In the first half of 2013 the shekel-dollar average exchange rate was NIS 3.67/dollar, down 3.5% from the average exchange rate in the first half of 2012. During July and in the first half of August the shekel's rapid strengthening vis-à-vis the US dollar continued to a level of NIS 3.53/dollar, 8.5% below the 2012 average.

The shekel's renewed appreciation against the dollar began at the end of 2012 and continued into 2013. In the third quarter of 2012 the US\$-shekel average rate was 3.99 while in the second quarter of 2013 the shekel's average rate was NIS 3.63/dollar, down 5.2% from NIS 3.82/dollar in the second quarter of 2012. In summary, during 2012 the US\$-shekel average exchange rate was 3.86 – 7.8% higher YoY.

It should be noted that each 5% appreciation in the real-effective exchange rate contributes to a 1% real decrease in Israeli exports, with a 8-14 months' lag in effect. A continued appreciation of the Israeli currency will have an adverse impact on export growth in 2013 and in 2014.

Exports based on Foreign Trade Data, the Balance of Payments and National Accounting - Differences and Adjustments

Export figures based on foreign trade data (deriving from export records) do not include various adjustments in the calculation of goods and services exports in the balance-of-payment:

Most of the adjustments in exports arise from the following:

1. Sales are recorded based on the work-in-progress in large plants: these plants carry out large-scale projects, while a partial execution of the projects is recognized as a sale that can be recorded in the company's books. The entry in the balance-of-payments is based on the reports of companies that use this method, while the amounts reported by customs for such exports are deducted from foreign trade data.
2. International trade in goods sold overseas, where such goods do not enter or exit the country: pursuant to the new international guidelines for entry in the balance-of-payment, these transactions are recorded as exports of goods (in 2010 such transactions were recorded in the balance-of-services), where the purchase of goods overseas or the cost of production overseas by subcontractors are recorded as negative exports, and the sale of goods overseas to the end customer is recorded as a positive export. The summary of the two transactions will be recorded as net exports of goods.
3. Exports to the Palestinian Authority: these exports are recorded based on VAT invoices rather than customs documents, and are therefore not included in foreign trade data.

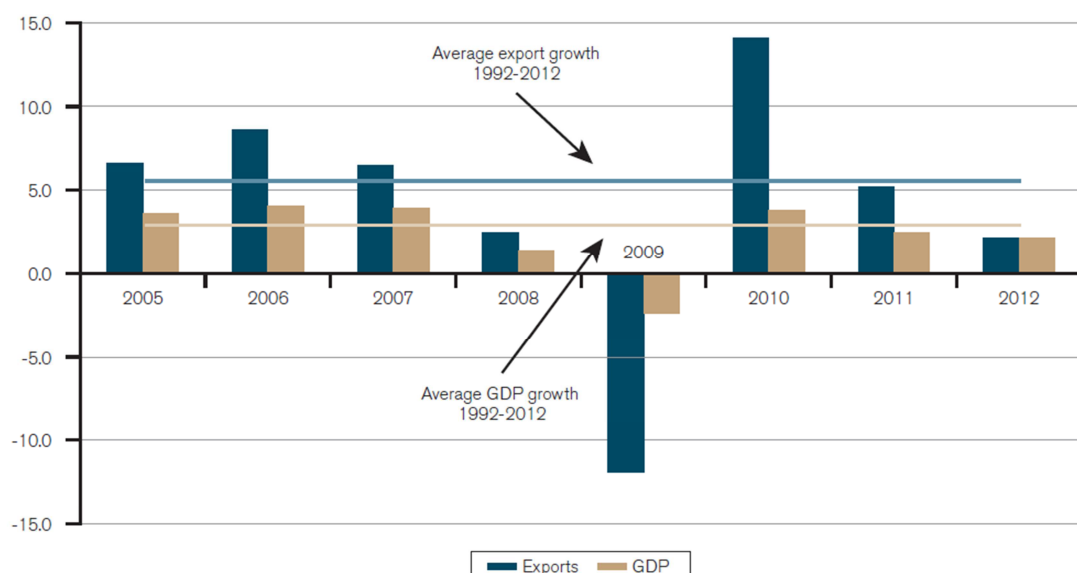
General – Trends in world economy

In the last few years there have been prominent developments both in global trade and in Israeli exports: in 2009, on the back of the deep global crisis, which led to a sharp decline in global demand and commercial activity, the contraction in global trade had an adverse impact on Israel's goods exports. After the rapid recovery in 2010-2011, Israeli exports bounced back.

In 2012 we witnessed a clear deceleration in the growth of global trade amid the continued debt crisis in Europe, the slow recovery of the US economy and the tepid growth of Asian economies. The deepening recession in Europe, the sluggish growth of the US economy and indicators of a marked slowdown in China, contributed to the stagnation of the global economy and international trade in 2013.

2012 was one of the slowest years in the growth of global trade, with a growth rate of 2% only – the lowest in the last 30 years, apart from 2009 which was hit by the global financial crisis. Based on current projections, and in line with the growth forecasts for the global economy, 2013 is expected to be just as slow. The forecast for global trade growth in 2013 has just been revised downward by the World Trade Organization (WTO) from 4.5% to 3.3%, on the back of the continued weakness of the Euro economies and the slowing growth of emerging markets.³

Figure 1.1: Growth in volume of world merchandise trade and GDP, 2005-12
(annual percentage change)



Source: WTO

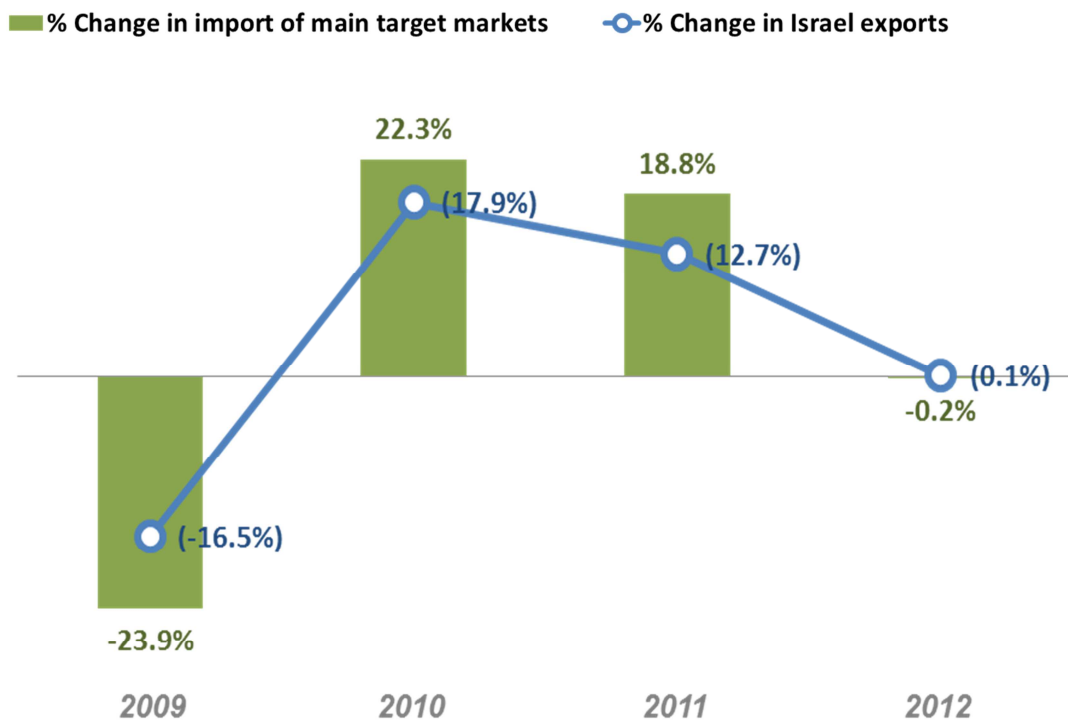
³ This is the second time in less than one year that the WTO revises its global trade forecast downward so sharply. In October 2012 the WTO revised its forecast for 2013 from 5.6% to 4.5%.

Accordingly, we can see a significant deceleration in the growth of Israeli exports in 2012 and in the first half of 2013.

A further indication of global effects on Israeli exports is provided by a model that, based on the forecasts of research institutions, weights the change in total exports of Israel's major target markets. This weighting provides a reliable estimate for the direction in which Israeli exports is headed in the near future. **This model clearly shows the sharp deceleration in 2012 in the weighted imports of these countries and the stagnation of Israeli exports in dollar terms. In 2013 the model points to continued slowdown and stagnation but in subsequent years (2014-2015) it anticipates a gradual recovery.**

Trends in global trade and in Israeli exports

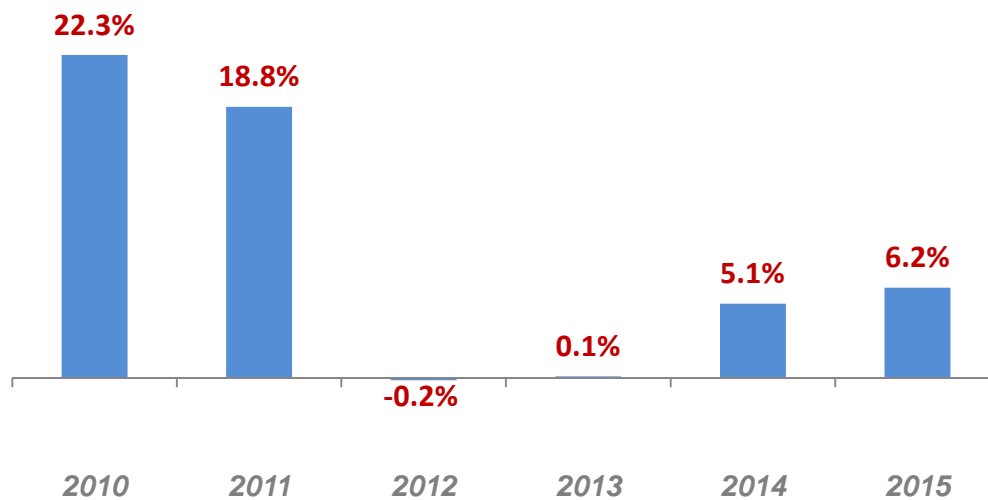
Rates of change in dollar terms, in brackets – rate of change in Israeli exports



Analysis: Israel Export Institute, Data: Economist Intelligence Unit

A projected gradual increase in imports from Israel

Weighted forecast imports in Israel's key export markets, 2011-2015



Analysis: Israel Export Institute, Data: Economist Intelligence Unit

Exports of Goods and Services⁴

Based on IEI's estimates, in the first half of 2013 exports of goods and services remained unchanged compared to the first half of 2012, at \$47 billion. According to IEI's estimates, exports of goods during the period fell 1% in dollar terms to \$32 billion, while exports of services rose 2% YoY to more than \$15 billion.

Exports of Goods by Sectors⁵

Analysis of export data excluding diamonds, in dollar terms, based on export records

During the first half of 2013 exports of goods (excluding diamonds) rose 5% YoY to \$24 billion. In the second quarter of 2013, exports grew 6% from the second quarter of 2012 and 5% from the first quarter of 2013, in dollar terms.

⁴ As stated, the export figures presented below do not include various adjustments in the calculation of goods and services' exports in the balance-of-payment. These adjustments include ongoing projects where no shipments have left the ports of Israel as well as sales made directly by subcontractors that carry out projects for Israeli companies.

⁵ All export figures presented below relate to the exports of goods excluding diamonds, ships and aircrafts – unless otherwise stated. Previous period relates to the previous quarter and is based on seasonally-adjusted data. Corresponding period relates to the same quarter of 2011 and based on original data.

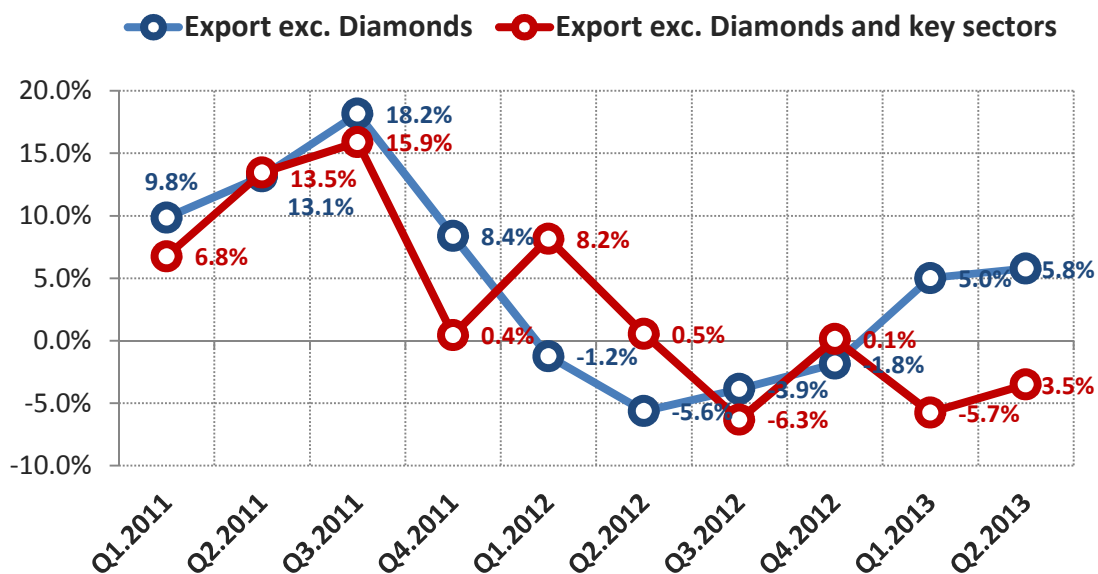
The growth in total exports stems from an increase in exports of pharmaceuticals, electronic components, chemicals and aircrafts. These highly concentrated sectors (very small number of companies) accounted for 52% of total exports in the first half of 2013.

Other export industries recorded a negative trend compared to the same period of 2012. For example, while exports of pharmaceuticals, electronic components, chemicals and aircrafts rose 17% in dollar terms in the first half of 2013 YoY, exports of other sectors fell 5% (6% in the first quarter and 4% in the second quarter).

During the first quarter of 2012 exports of goods excluding diamonds declined 4.2% in dollar terms compared to the fourth quarter of 2011, the first significant decrease since the second quarter of 2010 and the steepest since the first quarter of 2009 – **export data for the second quarter point to a continued contraction of Israeli exports. During this quarter exports fell by 2% in dollar terms, a decline that was reported by most sectors.**

Exports of goods, excluding diamonds, and excluding key sectors*

Change in export volumes – quarter vs. previous quarter, original data, in %



* Key sectors includes pharmaceuticals, chemicals, electronic components & aircrafts

Analysis: Israel Export Institute

High Tech Exports

Total exports of the high tech industry grew 6% YoY in the first half of 2013, to a total of \$10 billion.

Among high tech industries, during the period exports of **pharmaceuticals** rose 6.5% to \$3.26 billion, exports of **electronic components** rose 28% to \$2.3 billion and exports of **aircrafts** in H1.2013 grew 20% to more than \$1 billion.

These segments, which are part of the high tech industry, were the key driver of growth in Israel's goods exports. **These are high concentrated sectors dominated by a small number of giant corporations that substantially affect production and exports volumes in each segment.** Exports in the pharmaceutical industry, for example, which is materially affected by Teva's business activity, currently⁶ accounts for 32% of total high tech exports and 14% of total exports of goods⁷.

Teva's manufacturing, marketing and selling activity has substantial impact on pharmaceutical exports and it is almost an exclusive player in the exports of this sector. According to Teva's publications⁸, **as of year-end 2010, the company's weight in Israel's pharmaceutical exports is more than 88%.** However, although Teva's production and exports from Israel account for a significant portion of the company's global revenues – most of Teva's drug production is outside Israel. The pharmaceutical giant operates production facilities in East Europe (mainly Hungary, the Czech Republic, Croatia and Poland), in West Europe (Germany, Spain, UK, Ireland and Italy), in Asia (mainly Japan and India) and in the US – with most of the manufacturing, apart from Israel, carried out in Germany, the Czech Republic, Hungary and the US⁹.

Exports of electronic components, which is dominated by the global chip production giant Intel, is currently 22% of the total high tech industry and 10% of total exports. Similar to the pharmaceutical industry, the electronic components sector is materially affected by the Intel's production and export activities. According to statements by Intel's top executives in Israel¹⁰, and based on the estimates of the IEI's Economic Unit, Intel's share of electronic components exports in 2012 was estimated at 75% of total exports of this sector. Assuming Teva's weight in

⁶ According to export data for January-June 2013

⁷ Excluding diamonds

⁸ In its website Teva states that its exports in 2010 totaled NIS 22 billion. According to the CBS' data, pharmaceutical exports in NIS during that year totalled NIS 24.8 billion.

⁹ The largest staff engaged in Teva's production activity works in the US, Germany and Hungary (13% each of total employees in production), in Israel and Japan (12% each) and in the Czech Republic (8%). In total, 14,000 are employed in the production facilities according to the company's reports in its periodic and annual statements for 2012.

¹⁰ According to publications on the company's website and statements made by Israel Intel's president, Moly Eden, in a press conference held on February 17, 2013.

pharmaceutical exports is 88% and Intel's weight is 75%¹¹, **we estimate that Teva and Intel alone account for 45% of total high tech exports and one fifth of total Israeli exports¹².**

The aircraft sector, which is mainly occupied by the Israel Aircraft Industries and by Elbit Systems, accounts for 10% of total exports of high tech industries and 4.5% of total exports. **Exports of pharmaceuticals, electronic components and aircrafts constitute 64% of total exports of high tech industries and 27% of total exports.**

The Core Index of High Tech Industries

The dominance of these sectors and the high growth rates they exhibited in the last six months disguise the real situation of high tech exports in these days of global recession. While total high tech exports posted an impressive growth rate and had a favorable impact on overall exports, **excluding these sectors (pharmaceuticals, electronic components and aircrafts), an analysis of other sectors that represent the critical mass of high tech companies, shows that exports of these sectors decreased substantially during 2013.**

In the last two years there has been a continued contraction in high tech exports **excluding pharmaceuticals, electronic components and aircrafts – which constitute the “core index of high tech exports”.** During the first half of 2013 the core index of high tech exports fell 7% YoY, following to a 3.3% decline in 2012 YoY. **The trend of contraction in the exports of core high tech industries has persisted since the last quarter of 2011, with a steady decline in exports in the last five consecutive quarters. Total exports of core high tech industries in Q2/2013 totaled \$1.8 billion, the lowest level of these exports since the second quarter of 2010.** Total exports of these sectors in 1H2013 came at \$3.8 billion, 38% of total high tech exports and 16% of total exports of goods and services.

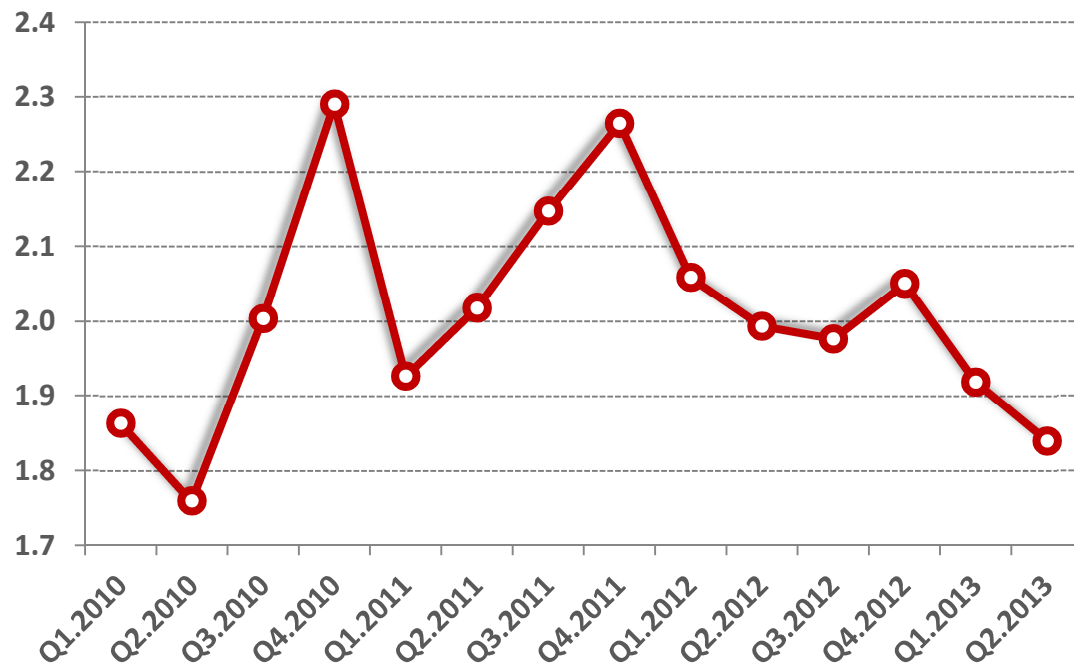
¹¹ This is a conservative assumption given the rapid growth in 2013 in exports of pharmaceuticals and electronic components and the dominance of these companies in each sector.

¹² Exports of goods excluding diamonds

Core index of high tech industries,

Exports of high tech excl. pharmaceuticals, components and aircrafts

Change in export volumes – quarter vs. previous quarter, original data, M\$



Analysis: Israel Export Institute

The picture painted by the continued decline in the core high tech index is particularly worrisome given the fact that **most high tech exporters belong to this sector, which incorporates communications, electronics, medical-scientific equipment and computer systems**. Excluding exports of pharmaceuticals, electronic components and aircrafts – **there is a clear trend of contraction in Israeli high tech exports**.

Other Industrial Sectors

Exports of other industrial sectors were significantly affected by the sharp increase in exports of chemicals. Between January and June 2013 exports of **chemicals** rose 19% YoY to \$5.8 billion and accounts for 25% of total exports.

Exports of other sectors fell 3% in 1H2013 YoY. Among others, declines were recorded in exports of **machinery and equipment**¹³ (down 1% to \$2.5 billion),

¹³ Among others, includes machinery in the fields of print, robotics, irrigation and food.

exports of **electric equipment**¹⁴ (fell 14% to \$654 million), exports of **oil distillates** (dropped 21% to \$458 million), exports of **metals** (down 12.5% to \$413 million), exports of **textile** (down 8% to \$385 million) and exports of **paper products and printing** (fell 30% to \$216 million).

On the other hand, increases were recorded in exports of **rubber and plastics** (up 6% to about \$1 billion) and exports of **food and beverages** (rose 1% to \$550 million).

Diamond Exports

Following a notable contraction in exports of diamonds throughout 2012, which overall fell 24% YoY – exports of this sector are finally showing signs of recovery. While in the first quarter the negative trend continued with a 5.5% decline in exports YoY, in the second quarter the trend reversed and diamond exports rose 8.5% YoY. **Overall, in the first half of 2013, diamond exports increased 1% totaling \$4.9 billion – 17% of total exports. According to assessments of industry experts, diamond exports are expected to continue recovering in the second half of 2013.**

Agricultural Exports

During 2011 agricultural exports rose 2.5% YoY to a total of \$1.4 billion, in contrast to the negative sentiment of Israeli exports during the year. **In 2013 the trend of growth in exports of agricultural produce continued with an 11% increase YoY in 1H2013 to a total of \$945 million – 3% of total goods exports.**

¹⁴ Among others, includes equipment and systems in the fields of alternative energy, electricity, electronics and components

Exports of Services

During the first half of 2013 exports of services remained on a growth track but, unlike previous years, it wasn't due to exports of computer, software and R&D services, which recorded zero and even negative growth rates compared to 2012. According to the Economic Unit's estimates, in 1H2013 exports of services are expected to total \$15 billion, up 2% only YoY. **The growth in services exports in the first six months was mainly owing to the growth in exports of transportation services and professional services** (legal counsel, engineering, financial-accounting, architectural and management services).

Exports of business services which accounts for 67% of total exports of services, is expected to have increased 1% only during January-June YoY, to \$10.2 billion. Exports of business services were affected by the decline in exports of R&D services in 2013 – which was offset by the growth in exports of professional services. **Exports of tourism services** (18% of total services exports) grew in 1H2013 by 1% YoY to \$2.8 billion. **Exports of transportation services** rose 8% to a total of \$2.4 billion, 15% of total services exports. Among transportation services, exports attributed to “revenues from “the transportation of cargo between foreign ports” is expected to have increased 10% in dollar terms to a total of \$1.5 billion – 63% of total exports of transportation services and 10% of total services exports.

Among exports of business services (first half of 2013 compared to first half of 2012):

Exports of computer and software services¹⁵, which accounts for 38% of business services exports and 25% of total services exports, is expected to record zero growth and total \$3.8 billion. However, bear in mind that this sector grew by an impressive 11% during 2012.

Exports of R&D services, which accounts for 23% of total business services exports and 15% of total services exports, is expected to decline 4% to a total of \$2.4 billion.

Exports of professional services (legal counsel, engineering, financial-accounting, architectural and management services), which accounts for 15% of total business

¹⁵ Including development of software, computer services and outsourcing (IT)

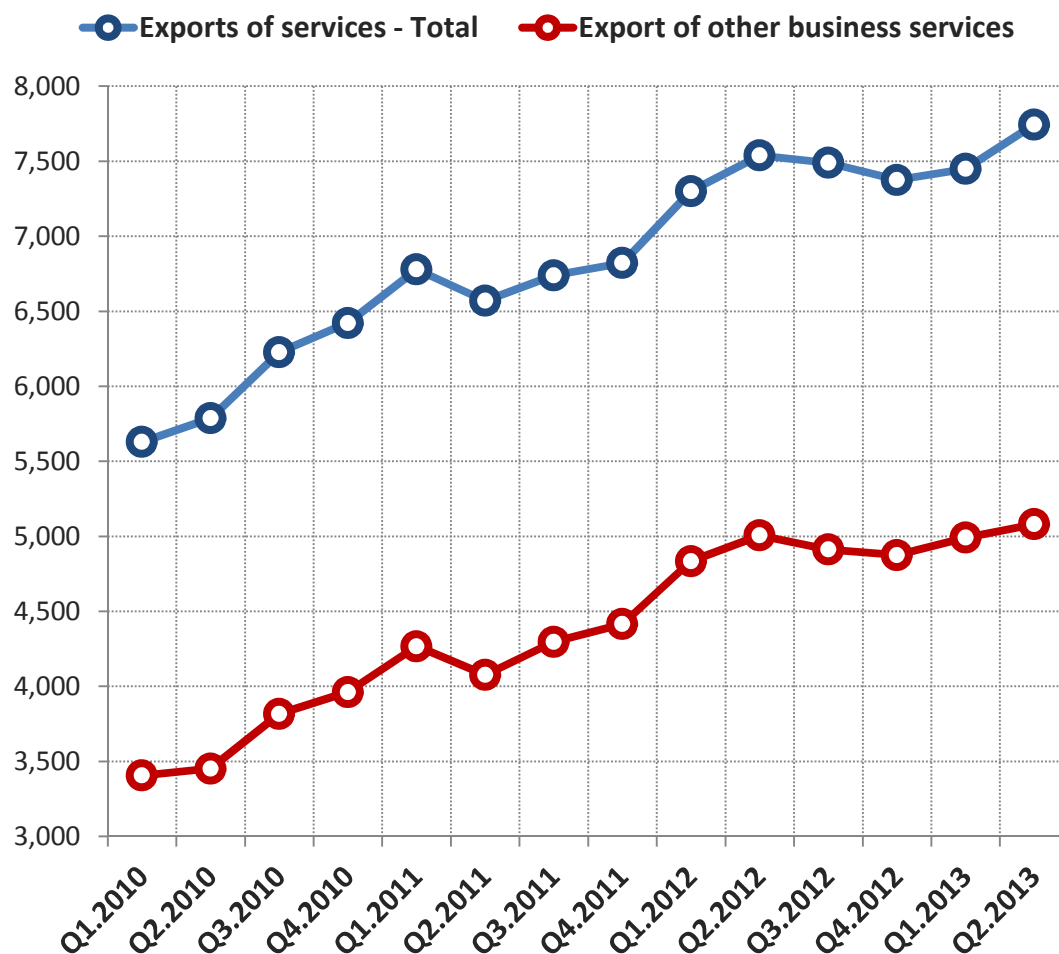
services exports and 10% of total services exports, is expected to grow 24% to a total of \$1.5 billion.

Additional segments in exports of business services (first half of 2013 YoY):

Exports of services to industry is expected to decline 14% to a total of \$780 million, exports of wholesale commerce is expected to decline 5% to a total of \$360 million, exports of banking and financial services is expected to decline 14% to a total of \$300 million and exports of communication services is expected to increase 11% to a total of \$135 million.

Exports of services and exports of business services, (excluding start-up companies)

Export volume – seasonality-adjusted data, M\$



Analysis: Israel Export Institute

Written by the Economic Department – August 2013

Export by trading regions

Analysis of data of exports of goods excluding diamonds, by trading blocs

(All exports data below relate to exports of goods excluding diamonds in dollar terms)

The growth in exports in the first half of 2013 primarily stemmed from exports to the US and the EU, as well as exports to East European and Latin American countries.

The European Union

After a 7% decline in exports of goods to the EU in 2012, with a sweeping decline in exports to most of the Euro countries, in the first half of 2013 there seems to be some recovery in exports to the EU, **which recorded a handsome growth compared to the same period of 2012 and returned to their level in the first half of 2011, a record year in exports to EU countries.**

In the first six months of 2013 exports to EU countries rose by 5% in dollar terms YoY, to a total of \$7.7 billion – 32% of total goods exports. In the first quarter of 2013 exports to the EU rose 6% from the first quarter of 2012, and in the second quarter they rose 3.5% compared to the second quarter of 2012. **The growth in exports to the EU was mostly due to a significant increase in exports to the UK, Spain and Malta, owing to an accelerated growth in exports of pharmaceuticals and chemicals to these countries, while exports to the Netherlands fell sharply.**

Rest of Europe (East Europe + EFTA)

Exports to other European countries, which are not members of the EU, includes exports to East Europe and EFTA (Iceland, Norway and Switzerland). **Total exports to these countries in 1H2013 was \$2.1 billion (7% of total exports), up 19% in dollar terms YoY. The entire increase is attributable to the sharp growth in exports to Turkey, one of Israel's most important export markets (see below).**

United States

In the first half of 2013 exports to the US grew compared to the same period of 2012, primarily affected by the sharp increase in exports of pharmaceuticals and electronic components. **Total exports to the US rose in the months January-June by 8.5% YoY and totaled \$5.4 billion, 23% of total Israeli exports.**

Most of the growth in exports was recorded in the first quarter of 2013, 15% from the first quarter of 2012, while exports in the second quarter was 2.5% higher YoY.

Asia

In the first half of 2013 exports to Asia grew by a moderate 1%, and 1.5% **excluding exports of electronic components** compared to the same period of 2012. Total exports to Asia during the period came at \$4.8 billion, 20% of total Israeli exports.

The significant decline in exports to china was the main factor behind the near-zero growth in exports to Asia in the first half of 2013. The declines in exports to South Korea, Japan and Thailand also contributed to the negative trend. On the other hand, there was a sharp increase in exports to Malaysia and Singapore, which offset the declines in exports to main target markets in Asia. It should be noted that exports to Malaysia and Singapore are materially affected by exports of electronic components (99% of exports to Malaysia consist of electronic components)¹⁶, therefore, the allocation of exports of components is not indicative of a general, meaningful trend, but rather reflects business decisions by Intel.

Latin America

Exports to Latin American countries in the first half of 2013 totaled \$1.45 billion (6% of total exports), up 17% from the same period of 2012. Exports to Latin America were impacted by the sharp 170% growth in exports to **Costa Rica** – of electronic components¹⁷. Excluding exports of components, total Israeli exports to Latin American countries came at \$1.15 billion – a moderate 3% increase YoY.

Africa

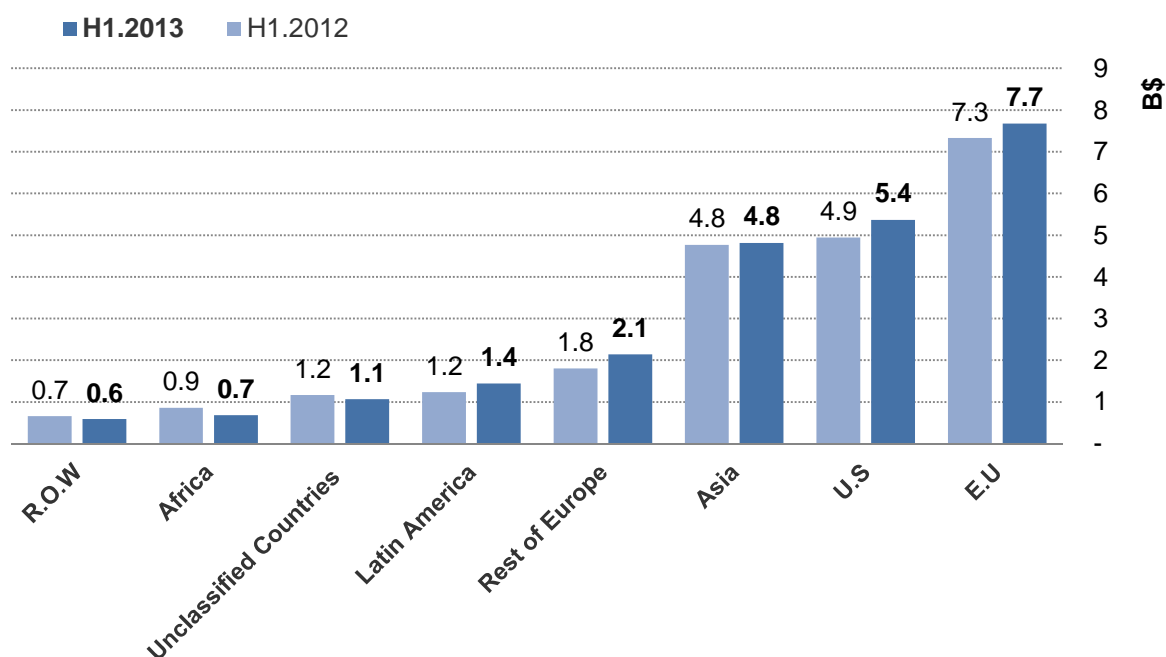
Exports to Africa in the first half of 2013 fell by a sharp 21% to \$680 million (3% of total exports). The decrease in exports to Africa primarily resulted from a drastic contraction in exports to Egypt (down 60% YoY) and to Nigeria (down 55% YoY). On the other hand, exports to **Senegal** rose sharply, slightly offsetting the decline in overall exports to the continent. **Chemicals and oil distillates were the most dominant exports to African markets – accordingly, significant fluctuations were recorded in exports to these countries.**

¹⁶ Global Intel has assembly and testing facilities in China and Vietnam and Malaysia. A large portion of the production of components in Israel is transferred to these countries and significantly affects overall exports to the continent. Exports to Malaysia consist almost entirely of electronic components and affected by Intel's business decisions regarding the allocation of Israeli production to assembly plants owned by global Intel and located worldwide.

¹⁷ As aforesaid, exports to certain countries is materially affected by the exports of electronic components manufactured by Intel, which holds assembly and testing facilities in China, Vietnam, Malaysia and Costa Rica.

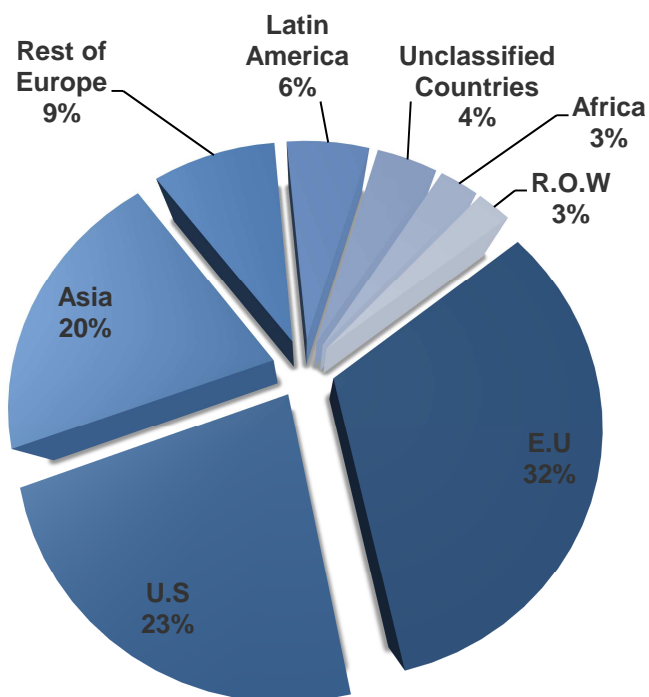
Exports in the first half of 2013 by trading regions

Year over year, original data in \$ billion



Breakdown of exports by trading exports, in percent

Weight of regions in Israel's goods exports, 2012



Analysis: Israel Export Institute

Written by the Economic Department – August 2013

Development and changes in Israel's leading export destinations

Ranking of export markets and details by sectors, *(exports of goods excluding diamonds)*

During the first half of 2013, there was an increase in exports to 7 of Israel's main export destinations, compared with the same period of 2012. Even compared with the first half of 2011, which was a record year for Israeli exports, exports to 6 of Israel's target markets increased¹⁸.

Significant changes that occurred in 2013 in key exporting industries (pharmaceuticals, electronic components and chemicals) had a clear impact on the ranking of Israel's export markets in the first six months of the year.

For example, the sharp increase in exports of chemicals was reflected in an unusual growth in exports to Turkey, which rose to the 3rd place among key export markets, and in exports to Spain, which climbed to the 7th place.

The contraction in exports of components to China pushed it down to the 4th place among export targets, while a sharp increase in these exports to Malaysia, moved the country up to the 11th place.

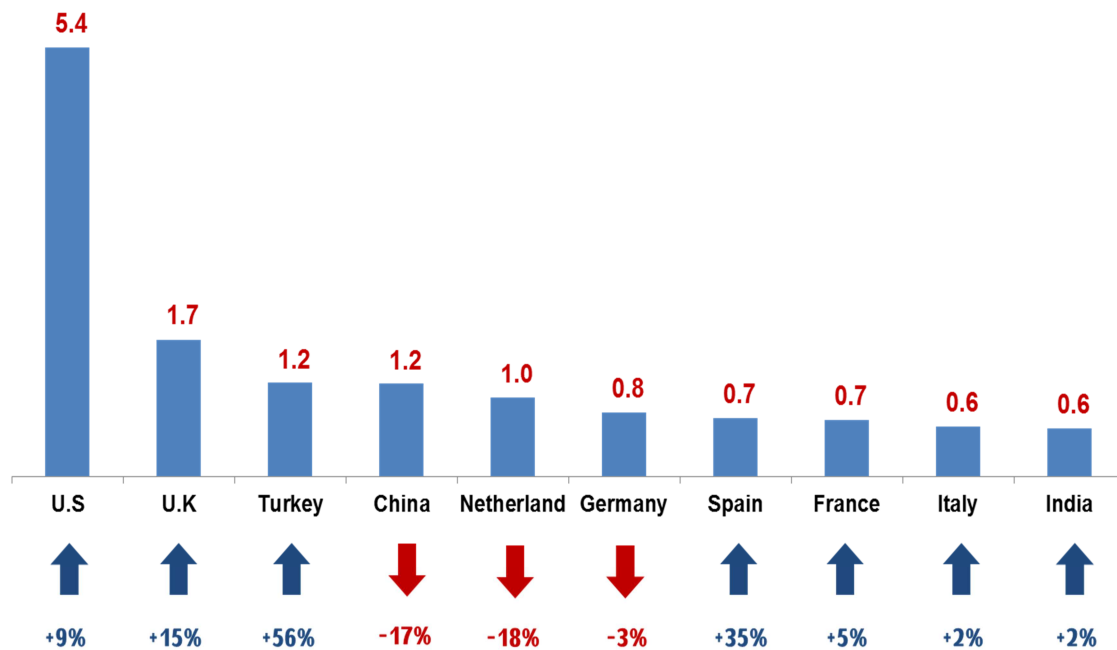
The continued accelerated growth in exports of pharmaceuticals to the US and the UK was a significant fact in the growth of exports to these destinations, which landed in the top two places, while the decline in pharmaceutical shipments to the Netherlands and Russia, was the main reason for the contraction in exports to these markets.

¹⁸ The calculation of the 10 major export markets excludes exports to the Palestinian Authority, which is traditionally Israel's biggest export market after the US.

Israel's 10 major export destinations, January-June 2013

Exports of goods excluding diamonds, in M\$,

Change in % year-over-year, excluding exports to the PA



Analysis: Israel Export Institute

Change in the ranking of 10 export markets, January-June 2013

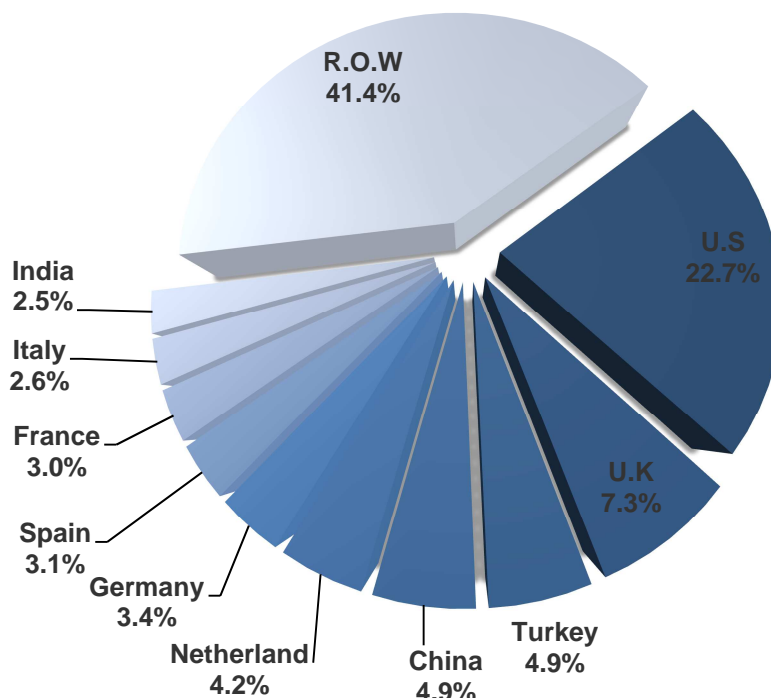
Based on exports of goods excl. diamonds, in M\$, excl. exports to the PA

Country	Exports H1.2013 (\$B)	% change	2013 ranking	2012 ranking	Change in ranking
US	5.4	9%	1	1	(-)
UK	1.7	15%	2	2	(-)
Turkey	1.2	56%	3	6	+3
China	1.2	-17%	4	3	-1
Netherlands	1.0	-18%	5	4	-1
Germany	0.8	-3%	6	5	-1
Spain	0.7	35%	7	12	+5
France	0.7	5%	8	7	-1
Italy	0.6	2%	9	8	-1
India	0.6	2%	10	9	+1

Analysis: Israel Export Institute

The weight of export markets in total exports, January-June 2013

In % of total goods exports excluding diamonds, excluding exports to the PA



Analysis: Israel Export Institute

The United States

Exports of goods to the US, Israel's leading and most important export destination, rose 9% YoY in the first half of 2013 totaling \$5.4 billion. The increase in exports of pharmaceuticals was the main factor affecting export data during the period. However, even without pharmaceuticals, exports to the US rose by 4%.

It should be noted that the recovery in pharmaceutical exports to the US followed a steep decline in these exports to the US in 2012 (down 17% from \$4.1 billion to \$3.4 billion), while the bulk of the decrease recorded in the first half of 2012. While 1H2013 data are better attesting to some improvement in the industry's exports, compared with the same periods of 2011 and 2010, the data points to significant contraction.

It should be noted that most of the exports and production in this industry is carried out by Teva, which directs most of the goods manufactured in Israel to destinations in North America (mainly the US) and Europe. Concurrent with the decline in exports of pharmaceuticals to the US (compared to 2011 and 2010) there was a dramatic increase in exports of pharmaceuticals to the UK. The significant changes in export levels stem, among others, from Teva's business considerations and do not necessarily attest to changes in demand in these markets.

Exports of other sectors to the US point to a mixed trend. Among the major export industries, there was an increase in exports of **chemicals and oil distillates** (up 4% to \$540 million), exports of **machinery and equipment** which includes exports of machinery in the fields of printing, robotics, irrigation and food (up 3% to \$380 million) and exports of **instruments for testing, measuring and navigating** which include exports of testing and processing systems and equipment for the semiconductors industry (up 27% to \$270 million), exports of **electronic components** (up 102% to \$250 million) and exports of **electrical engines and equipment**, which include exports of systems and equipment in the field of alternative energy, electronics and electricity (up 6% to \$185 million).

On the other hand, there was a decrease in exports of **medical-scientific equipment** (down 3% to \$270 million), exports of **metals** (down 5% to \$255 million), exports of **telecommunication** equipment (down 19% to \$230 million), exports of **rubber and plastics** (down 5% to \$210 million) and exports of **textile products and apparel** (down 7% to \$155 million).

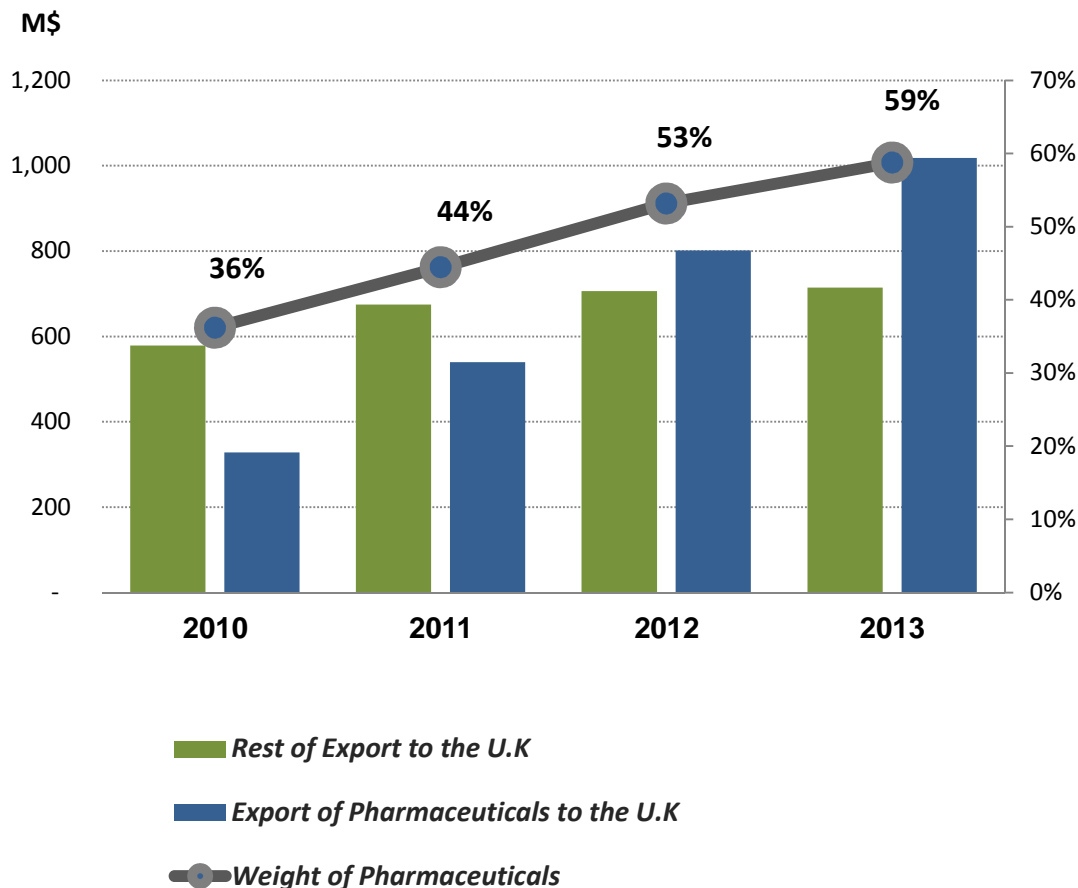
U.K.

The trend of growth in exports to the UK over the last few years continued in the first six months of 2013. Compared to the first half of 2012 exports to the UK rose 15%, however, the entire improvement in exports is attributable to the growth in pharmaceutical exports – the most dominant sector in Israeli exports. Exports to the British Isle, Israel's no. 1 export market in Europe and second among global exports, in the first six months of 2013 totaled \$1.7 billion.

Like the situation in the US, exports to Britain are highly affected by the dominance of the pharmaceutical market, which primarily stems from Teva's operations in the UK, a major target market for the company. In fact, the sharp increase in pharmaceutical exports to the country is the factor that established Britain's position as Israel's second exports market globally and its biggest exports destination among European countries. **In the months January-June 2013 exports to the UK grew 27% in dollar terms to \$1 billion, accounting for 60% of total exports to the country.**

Excluding the impact of pharmaceutical exports, exports to the British Isle remained unchanged from the same period of 2012.

Trends of exports to the UK (January-June 2010-2013)



Analysis: Israel Export Institute

During January-June, 2013 exports of other sectors to the UK point to a mixed trend. Exports of **chemicals and oil distillates** rose 3% to \$160 million, **agricultural** exports rose 12% to \$95 million, exports of **aircrafts** rose 21% to \$55 million, exports of **machinery and equipment** rose 17% to \$35 million and exports of **control, optical and photographic equipment** rose sharply by 45% to \$30 million.

On the other hand, there was a decrease in exports of **rubber and plastics** (down 9% to \$70 million), exports of **metals** (down 17% to \$40 million). Exports of **telecommunication** equipment and exports of **textile products** remained unchanged compared to the same period of 2012.

Turkey

Israeli exports to Turkey in January-June 2013 rose by a sharp 56% to a total of \$1.2 billion. The leap in exports, which was mostly attributable to the drastic increase in exports of chemical products and oil distillates, pushed Turkey to the 3rd place among Israel's export markets, high above China, the Netherlands and Germany.

Exports to Turkey are dominated by **chemicals and oil distillates** and significantly affected by changes in this sector. During the first half of 2013, exports to turkey nearly doubled compared to the first half of 2012, from \$465 million to \$915 million – a considerable 95% growth in exports. Accordingly, the weight of the chemicals and oil distillates sector in total exports to Turkey rose to 78%¹⁹.

Exports of metals, which primarily consist of scrap iron, contracted significantly over the last few years and is currently 5% of total exports to Turkey compared to 11% in the same period of recent years. Exports of this sector in the first half of 2013 totaled \$55 million, down 36% from the first half of 2012.

Excluding chemicals and metals, the entire increase in exports to Turkey is eliminated, while the exclusion of chemicals only results in a 10% decrease in exports. Moreover, an analysis of exports to Turkey in the last few years points to stagnation and even deceleration in the growth of Israeli exports to the country: a comparison of export data from 1H2013 to corresponding periods in 2010-2012 draws a picture of stagnation in exports relative to 2011 and 2012 and a 6% decline in comparison to 2010.

Accordingly, compared with the first half of 2012, exports to Turkey point to a mixed trend: exports of **machinery and equipment** rose 18% (to \$40 million) and exports of **mineral, mining and quarrying products** rose 5% (to \$23 million), while exports of **engines and electric equipment** dropped 35% (totaling \$20 million), exports of **wood products and print** fell 17% (totaling \$20 million), **agricultural exports** declined 3% (to \$13 million) and exports of **textiles** declined 20% (to \$12 million). Exports of **pharmaceuticals** in the first half of 2013 totaled \$16 million, unchanged from last year.

It should be noted that like the Netherlands, Turkey is used as a gateway for some of the exported goods.

¹⁹ The increase in refining margins has some impact on the dollar increase in exports of chemicals and oil distillates. In the first quarter there was an increase in refining margins due to shortage of supply following the shutting down of several refining plants. In the second quarter, however, refining margins decreased in line with the increase in Ural crude oil prices.

China

In January-June 2013 Israeli exports to China fell 17% YoY to \$1.16 billion. China maintains its place as Israel's biggest export destination in Asia, which accounts for 24% of exports of goods to the continent.

In the said period exports to China were significantly affected by the sharp declines in key exporting industries: **electronic components, chemicals and minerals**. In contrast to the trend of the last few years, the cumulative exports of these sectors fell 26% to a total of \$775 million – 67% of total exports to China. Cumulative exports of other sectors in the first half of 2013 grew by 9% YoY, to \$390 million – one third of total exports to China.

In the last few years, Israel's key export sector to China is **electronic components**, which is largely dominated by Intel. Exports of electronic components in the first half of 2013 fell 30% YoY to \$450 million – 39% of total exports to china. Bear in mind that global Intel has assembly and testing facilities in central locations in Asia (mainly China Vietnam and Malaysia) to where the chips manufactured in Israeli plants are shipped. Changes in exports of chips to these countries consist are affected by Intel's business decisions regarding the distribution of exports among target markets - these changes do not necessarily attest to fluctuations in local demand²⁰.

Exports of **minerals, which primarily includes potash**, is the second biggest export industry and accounts for 17% of total exports to China. This industry is almost entirely affected by the business activities of Israel Chemicals and subject to great volatility from one quarter to the next. Minerals are usually supplied following new agreements and transactions, agreements for the renewal of supply based on previous deals and/or exercise of options to purchase minerals based on previous deals.

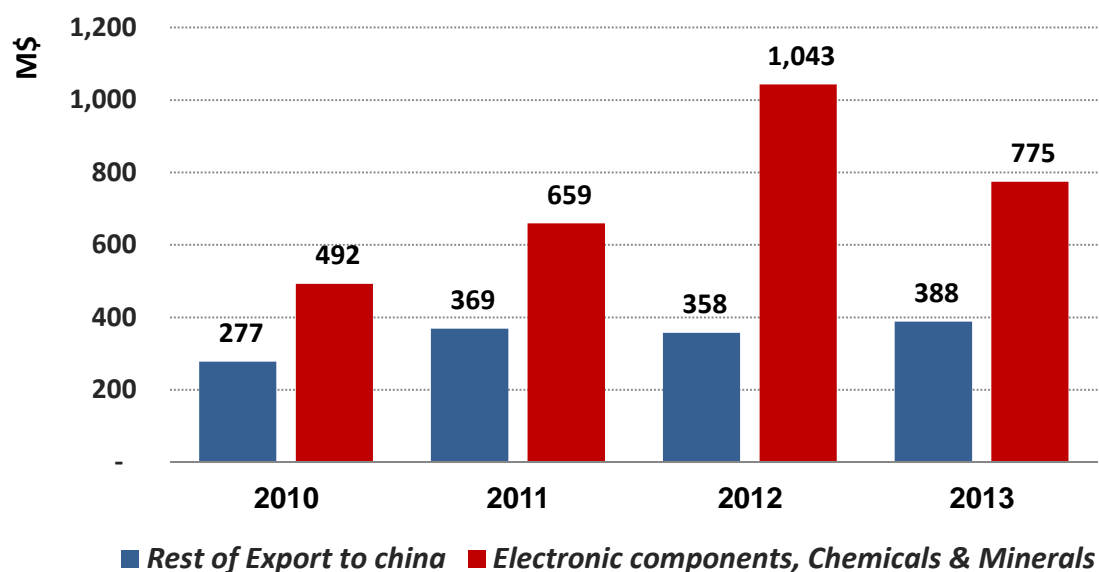
In the first half of 2013 exports of minerals to China totaled \$200 million, down 19% YoY. **There have been dramatic changes in the global potash market, following the break-up of the Russian potash cartel after the exit of the world's biggest fertilizer producer, Uralkali. Analysts predict that this move will lead to fierce competition between fertilizer producers with an ensuing collapse in potash prices. China and India, the biggest potash importers in the world stand to benefit the most from this development, since local importers will now demand far lower prices. Accordingly, we expect mineral exports to drop in the second half of 2013, amid the fierce competition between Russian potash producers in the Chinese market.**

²⁰ This is also indicative of the fact that total global exports of electronic components from Israel recorded an additional growth and was one of the main drivers of this growth.

Chemicals are the third biggest exports to China, accounting for 11% of total exports. In January-June 2013 exports of chemicals fell 17% YoY totaling \$125 million.

As stated above, exports of other industries (excluding the 3 dominant sectors) rose 9% YoY, totaling \$390 million (33% of total exports to China). The general trend in these sectors was positive, with increases in exports of **medical and surgical equipment** (up 23% to \$74 million), exports of **machinery and equipment** (up 11% to \$63 million), exports of **control, measurement and navigation instruments** (up 58% to \$43 million), **exports of food and beverages** (up 73% to \$30 million), **agricultural exports** (rose 82% to \$13 million), exports of **engines and electrical equipment** (up 19% to \$12 million) and exports of **rubber and plastic** which rose 14% YoY to a similar level. On the other hand, exports of **telecommunication equipment** fell 5% to \$54 million, exports of **metals** fell 27% to \$45 million and exports of **computer systems** dropped 44% to \$13 million.

Exports to China: Dominant sectors vs. other sectors, (January-June 2010-2013)



Analysis: Israel Export Institute

The Netherlands

Summary of data for the first six months of 2013 ranks the Netherlands as fourth among export markets. Total exports to the Netherlands in January-June 2013 came to \$990 million, down 18% from the same period in 2012.

The decrease in exports to the Netherlands was primarily driven by a sharp contraction in exports of **pharmaceuticals**, which dropped 60% YoY to from \$304 million in 1H2012 to \$120 million only in 1H2013. The decrease in pharmaceutical exports to the Netherlands runs contrary to the trend of the last few years. Between 2010 and 2012 there was a consistent increase in exports of pharmaceuticals, which overall grew 130%.

Excluding pharmaceuticals, the decrease in exports is only 4% YoY, but still points to a negative trend in exports to the Netherlands. Apart from pharmaceutical exports, the decrease in **agricultural exports** had a negative impact, as it dropped 30% to \$120 million. Other sectors that saw a decrease in exports were **telecommunication equipment** (down 20% to \$34 million), **minerals** (down 18% to \$32 million), **medical-scientific equipment** (down 28% to \$21 million) and **metals** (down 19% to \$18 million).

On the other hand, exports of **chemicals and oil distillates** rose 7% to \$284 million, exports of **machinery and equipment** rose 13% to \$181 million, exports of **food and beverages** grew 5% to \$40 million, exports of **rubber and plastics** rose 20% to a similar level and exports of **engines and electrical equipment** grew 28% to \$20 million.

It should be noted that many Israeli companies have parent companies, subsidiaries or affiliates in the Netherlands and it constitutes a gateway for Israel companies to other counties in and outside Europe.

Germany

Germany is the 6th biggest target market for Israeli exports in the world and third in Europe²¹. Exports to Germany are highly diverse, without one dominant sector or company that distinctively affect exports to the country – **for this reason, the continued contraction in exports to Germany over the last few years is worrisome, especially given the fact that Germany was less hit by the EU crisis than other member countries.**

In the first half of 2013 Israeli exports to Germany declined 3% to \$805 million, despite the sharp 22% growth in exports of chemicals and oil distillates (a major export sector to Germany) to a total of \$150 million. Excluding chemicals, exports to Germany fell 7%.

²¹ Given the fact that Holland is a passageway for goods to other destinations around the world and that goods exported from Israel to Holland are not intended solely for this market, some consider Germany as the second most important exports market in Europe.

Other export sectors recorded a negative trend overall: exports of **rubber and plastic** fell 10% (totaling \$78 million), exports of **metals** fell 14% (to \$62 million), exports of **electronic components** fell 13% (to \$48 million), exports of **telecommunication equipment** declined 4% (to \$45 million), exports of **instruments for measuring and navigating** which includes exports of testing and processing systems and equipment for the semiconductors industry dropped 12% (to \$45 million), exports of **engines and electrical equipment** fell by a sharp 40% (to \$30 million), exports of **pharmaceuticals** fell 13% (to \$26 million) and exports of **textiles** shrank 26% to \$21 million.

In contrast to the general trend, exports of **machinery and equipment** rose 9% to \$83 million, exports of **medical-scientific equipment** rose 9% to \$58 million and exports of **food and beverages** increased 48% to \$23 million.

Spain

During the first six months of 2013 Israeli exports to Spain rose sharply by 35% from the same period of 2012, totaling \$740 million. Spain is ranked 7th among Israel's export markets.

During the period, exports to Spain were affected by significant volatility in two main sectors: chemicals and pharmaceuticals. While exports of chemicals and oil distillates leaped 136% YoY (to \$456 million), exports of pharmaceuticals fell 98% from \$66 million to less than \$2 million. Excluding the two sectors, exports to Spain declined 3%.

Other major sectors that had a negative affect on exports to Spain during the period were **equipment for control and supervision optical equipment and photographic instruments** (down 16% to \$47 million), exports of **telecommunication equipment** (down 8% to \$18 million) and exports of **metals** (down by a sharp 57% to \$12 million). On the other hand, exports of **machinery and equipment** rose 24% to \$73 million, **agricultural** exports rose 37% to \$40 million and exports of **rubber and plastics** rose 4% to \$24 million.

France

In line with the relative positive sentiment in exports to Europe, exports to france in the first six months of 2013 rose 5% from the same period of 2012 to \$710 million. France is ranked 8th among Israel's export markets.

Similar to the breakdown of Israeli exports to Germany, exports to France are decentralized without one dominant sector. The major export sectors to France in the first half of 2013 were: **metals** (totaled \$150 million, down 3%), **chemicals and oil distillates** (totaled \$105 million, up 9%), **agriculture** (totaled \$102 million, up 40%), **machinery and equipment** (totaled \$61 million, up 9%), **rubber and plastics** (down 9% to \$50 million), **aircrafts** (rose 10% to \$33 million), **telecommunication equipment** (fell 12% to \$33 million), **food and beverages** (rose 15% to \$33 million), **medical-scientific equipment** (fell 13% to \$23 million) and **pharmaceutical exports** which rose 56% YoY to \$20 million.

Italy

During January-June 2013 Israeli exports to Italy rose 2% from the same period of 2012, totaling \$630 million. Italy is ranked 9th among Israel's major export markets.

Exports to Italy were significantly affected by the growth in exports of **chemicals and oil distillates**, which accounts for 52% of total exports to the country. Exports of chemicals and oil distillates rose 16% YoY to \$330 million. **Excluding chemicals Israeli exports to Italy actually fell 9%.**

Other major exports to Italy during the period were **rubber and plastic** (down 3% to \$43 million), **metal products** (down 28% to \$31million), **food and beverages** (down 11% to \$16 million), **telecommunication equipment** (down 45% to \$14 million), **minerals** (down 41% to \$14 million) and **textiles** (down 33% to \$12 million).

On the other hand, exports of **machinery and equipment** rose 2% to \$54 million, exports of **equipment for control and supervision optical equipment and photographic instruments** rose 56% to \$27 million and **agricultural exports** improved by 38% to \$20 million, after several years of steady decline.

India

India is ranked 10th among export target and the second among export destinations in Asia (accounting for 13% of total exports to the continent). **Israel primarily exports minerals, chemicals and security products to India – these products are supplied pursuant to new agreements and transactions, and therefore Israeli exports to the country are highly volatile, changing from one period to the next.**

Israel's main exports to India are minerals (24% of total exports to the country) which the first six months of 2013 rose steeply by 140% from the same period of

2012, totaling \$175 million. The renewed potash shipments to India, after a quiet period led to a marked increase in mineral exports – a sector which is significantly affected by the production and exports of Israel Chemicals. In the first quarter of 2013 ICL Fertilizers signed new contracts with its customers in India to supply 920,000 tons of potash (at a price of \$470 per ton potash, including an option to supply additional 50,000 tons).

Exports of chemicals and oil distillates, the second biggest export to India which accounts for 16% of total exports fell sharply during the first half of 2013 by 36% YoY to \$97 million.

Another sector that notably affects exports to India is defense exports, which is also subject to a great deal of volatility²². These exports include: **industrial equipment for control and supervision optical equipment and photographic instruments** which fell 18% to \$50 million, **exports of instruments for measuring and navigating** dropped 42% to \$12 million and exports of **aircrafts** dropped 35% to \$6 million. On the other hand, exports of **electronic equipment** rose 73% to \$7 million.

A key export sector to India is **machinery and equipment** which consists of agro-technology, water and environmental-related exports. Total exports of this industry during January–June 2013 rose by an impressive 70% compared to the same period of 2012 and totaled \$84 million – 14% of total exports to India.

Another key export is **telecommunication equipment** (accounts for 11% of total exports to India) which fell by 28% in the first half of 2013 to \$67 million. **Metal exports** fell by 25% to \$32 million, **exports of medical-scientific equipment** rose 14% to \$16 million and **exports of electronic components** fell 15% to \$12 million.

²² Sectors included under defense exports are those whose exports primarily stem from defense companies.

Israel's 20 leading export destinations in first half of 2013

Israel's export markets ranking 11th to 20th include **Malaysia**, exports to which soared 124% in the first half of 2013, entirely owing to the growth in key exports to the country, electronic components, responsible of 99% of exports. Malaysia ranks 11 among Israel's key export markets in H1.2013 with exports totaling \$590 million.

Export to **Brazil**, ranked 12 in the first half of the year, decline by 9% due to a sharp decrease in export of minerals. Total export to Brazil during the first half of 2013 totaled at \$535 million.

Israel's export to **Russia**, (ranked 13th) fell by 11% to \$535 million. The decrease in exports to Russia was primarily affected by the sharp drop in exports of pharmaceuticals that fell by a steep 85% YoY, from \$144 million to only \$21 million. Excluding pharmaceutical exports to the country rose 14%, yet it should be noted that exports to Russia have been growing steadily in the last few years mainly (but not only) owing to the continued growth in exports of pharmaceuticals.

Exports to **Vietnam**, one of the most important growth markets for Israeli exports in the last few years, recorded an impressive growth. During the first half of 2013 exports to Vietnam (ranked 15th) continued the positive trend with growth of 17% totaling \$440 million. **In the last three years (2010-2012) exports to Vietnam leaped by an annual average of 86%, while in the last two years (2011-2012) it soared by an annual average of 145%.** Most of the growth during those years stems from a steep and rapid growth in exports of electronic components – but it should be noted that **excluding this sector, exports still point to a double-digit growth for most industries that export to Vietnam.**

Another important exports market for Israel is **Taiwan** (ranked 17th) with a 7% rise in exports to \$390 million. Exports to Taiwan in the first two quarters of 2013 was primarily affected by a sharp leap of 26% in exports of equipment for testing & measuring products for the semiconductors industry²³, totaled at more than \$250 million.

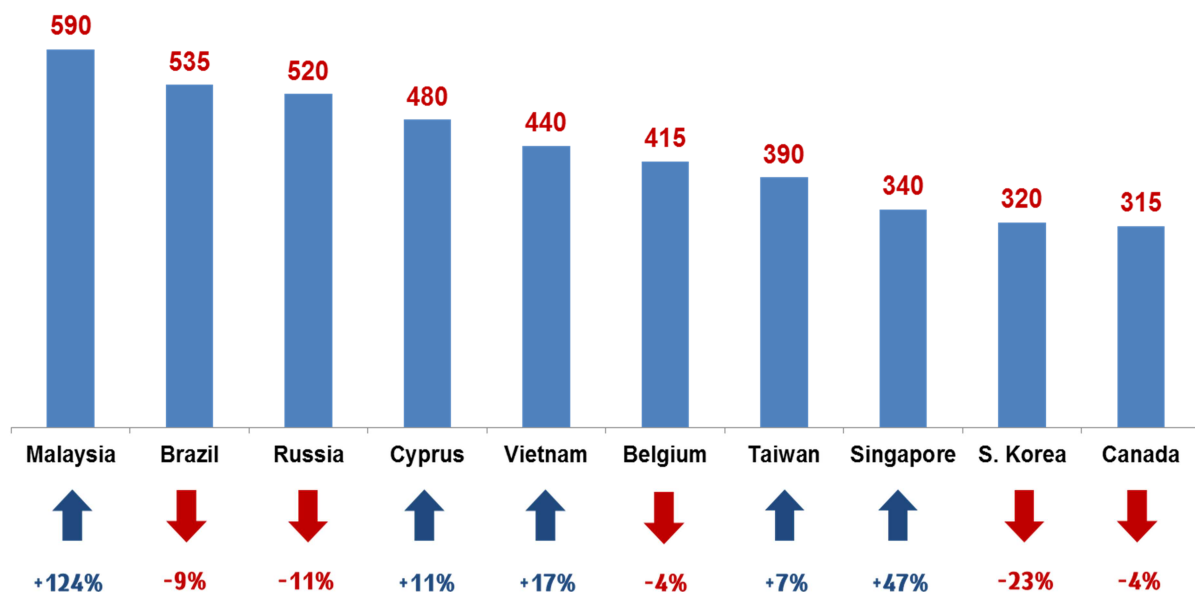
²³ This sector is a derivative of the semiconductors industry and is affected by the volatility of this industry. Many companies categorized as manufacturers of measurement and testing instruments are engaged in the development, manufacture and marketing of testing and processing systems and equipment for the global semiconductors market.

Israeli exports to **Singapore** in January-June 2013 rose by a sharp 47% to a total of \$340 million (ranked 18th), mostly attributable to the drastic increase in exports of electronic components and chemicals products. None the less, excluding those sectors export to Singapore still shows a healthy growth of 9% in all other sectors.

Additional notable targets of Israel's goods exports were: **Belgium** – exports to which fell 4% (totaling \$415 million), as part of the negative trend in exports to EU countries and **South Korea**, with a sharp decline of 23% in exports to \$320 million, mostly due to a 55% decline in exports of equipment for testing & measuring products.

<u>Ranking</u>	<u>Country</u>	<u>Exports (M\$)</u>	<u>H1.2012/2013 %change</u>
11	Malaysia	590	124%
12	Brazil	535	-9%
13	Russia	520	-11%
14	Cyprus	480	11%
15	Vietnam	440	17%
16	Belgium	415	-4%
17	Taiwan	390	7%
18	Singapore	340	47%
19	S. Korea	320	-23%
20	Canada	315	-4%

Analysis: Israel Export Institute






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