



State Comptroller of Israel | Annual Report 71C | 2021

Systemic Topics

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# **Handling of Monopolies and the high centralization in the food industry**





## Handling of Monopolies and the high centralization in the food industry

### Background

The cost of living in Israel, including food prices, affects every household in Israel. The battle to reduce the cost of living involves numerous factors. One of the most effective ways to reduce the cost of living is, inter alia, by promoting competition, by reducing the influence of centralization over price levels, by reducing regulations and the bureaucratic burden on manufacturers, importers and retailers and by encouraging free trade between countries.

In Israel, food constitutes the third largest component of all household expenses. In 2018, the household expenditure on food, beverages and tobacco totaled NIS 132 billion and accounted for approximately 18.5% of all household expenses. In 2017, the prices in Israel in the category of food and nonalcoholic beverages, in terms of purchasing power, were approximately 37% higher than in OECD countries and approximately 51% higher than in EU countries. The Israeli economy is characterized by excessive multi-sector centralization compared to other markets<sup>1</sup>. Between 2015 and 2020, the market share of the ten largest suppliers in the food and consumer goods sectors was approximately 54% on average, and the supplier holding the largest market share held approximately 12% of the entire food market in 2020.

<sup>1</sup> Sectoral centralization occurs when only a few companies operating in a particular sector control a substantial share of the market and is one of the causes of sparse competition.



## Key figures

**approximately  
NIS 132  
billion**

The expenditure of private consumption of food and nonalcoholic beverages in 2018, accounting for 18.5% of the total household expenditure in 2018.

**37%,  
51%**

Price differences, in terms of purchasing power, between Israel and OECD countries and EU countries, respectively, in the category "food and nonalcoholic beverages" in 2017.

**approximately  
6%**

Rise in the food price index in the category "food and nonalcoholic beverages" between 2012 and 2020 in Israel, compared to approximately 11% in EU countries.

**10**

Suppliers in the food sector were declared as having monopolies in 15 food segments, as of 2020.

**approximately  
NIS 509  
million**

Customs revenues from the import of 10 highest revenue generating food items (mainly agricultural products) in 2019. Imports of these food items are valued at approximately NIS 1.4 billion.

**115%**

The effective average customs rate on the 10 food items (mainly agricultural products) with the highest customs rate in 2018.

**194**

Number of large stores<sup>2</sup> in 2019 with a "calculated ratio"<sup>3</sup> exceeding 30% out of the 810 large stores of major retailers (which is an indicator of high geographic centralization).

**115-125  
days**

Duration of the perishable food import process since the Public Health Law<sup>4</sup> came into effect in 2016.

- 2 A store is defined as premises for retail sales of food and consumer goods, including online stores, provided that they regularly sell fresh fruits and vegetables, dairy products and cleaning products, and more than 50% of their sales turnover is from food sales. A large store is defined as a store having at least 250 m<sup>2</sup> of selling space (excluding online stores).
- 3 The calculated ratio is a large retailer's market share in a competition group, which is obtained from the ratio between the large retailer's sales turnover in its largest stores in the competition group of the selected store and the sales turnover of all large stores attributed to that competition group.
- 4 Public Health Protection Law (Food) of 2015.



## Audit actions



From August 2019 to December 2020, the Office of the State Comptroller examined the actions taken by government ministries and other bodies to contend with market centralization in the food sector and eliminate import barriers. The audit was performed in the Competition Authority, the Consumer Protection and Fair Trade Authority, the Ministry of Economy and Industry, the Ministry of Agriculture and Rural Development (including the plant protection services) the Chief Economist's Department of the Ministry of Finance, the Budget Department of the Ministry of Finance, the Ministry of Health (including the National Food Service), the Israel Tax Authority and the Plant Council. Supplementary audits were performed at the Central Bureau of Statistics and at the Israel Consumer Council, and supplementary meetings were held with manufacturers, importers, retailers and suppliers in the food sector<sup>5</sup> and consumer goods sector, with former heads of the Competition Authority, with academic researchers and application developers.

## Key findings



### High centralization of food suppliers in particular categories in the food sector

– The ten largest food suppliers holding together a market share assessed at approximately 54% on average of the entire food and consumer goods sector. Four of them (some have been declared monopolists in several food categories) have a significant market presence (each with a market share exceeding 10%) in several food categories (such as meat, milk and fish). For some of these categories, the Competition Authority examined the impact of this centralization on the level of competition and on the cost of living. The Competition Authority has not declared a monopolist in the food market for more than 20 years.



**Geographic centralization** – In 2019, there were 810 large stores, 194 of which were large stores whose calculated ratio<sup>6</sup> exceeded 30% and 53 of which whose calculated ratio exceeded 50%. The Competition Authority did not examine the impact of the Promotion of Competition in the Food Sector Law on the geographic centralization or on the consumer prices in these areas. Up until the expiration of the Temporary Order, regarding designation of a retailer as a geographic monopoly, in March 2020, the Competition Authority had not used the tools provided by the legislation relating to any

<sup>5</sup> In this report, the terms "food sector" and "food market" are used interchangeably.

<sup>6</sup> The calculated ratio is a large retailer's market share in a competition group, which is obtained from the ratio between the large retailer's sales turnover in its largest stores in the competition group of the selected store, including that store, and the sales turnover of all large stores attributed to that competition group.



large retailer that has at least three stores in the same area of demand and a calculated ratio exceeding 50%.



**Monitoring the data of files being transmitted as part of the obligation to act with transparency regarding prices** – The Consumer Protection Authority performs one to two examinations on average per annum of every large retailer. This volume of examinations does not enable efficient control over the reliability of the information that retailers are publishing.



**Impact of the Promotion of Competition in the Food Sector Law on competition and on prices** – As of the audit completion date, six years after the Promotion of Competition in the Food Sector Law of 2014 (“the Food Law”) came into effect, the Competition Authority and the Consumer Protection Authority had not examined the overall impact of the Food Law on competition in the food sector and consumer goods segment or on the prices of goods. They had not considered additional ways to advance the Food Law’s objectives. In 2020, during the audit of the State Comptroller’s Office, the Competition Authority published two studies examining the impact of the Food Law on a limited number of topics out of all topics that the law addresses.



**Impact of the lowering of customs duties on consumer prices** – The savings from reducing customs duties and the opening of quotas for duty-exempt imports between 2016–2020 were generally not passed on to consumers in the form of lower retail prices. This in comparison to the period prior to the lowering of the customs duties and the opening of the quotas. For example: the opening of a quota for a duty exemption on raisins in May 2018 led to a price reduction of only 2.2%.



**Allocation of import quotas to major importers or to importers that failed to meet the quota** – A significant percentage of the major importers that were awarded quotas are also major local manufacturers or retailers. Furthermore, approximately 40% of the importers that had not utilized the minimum quota during a given year were allocated import quotas during the following year by the Quotas Committee of the Ministry of Economy and Industry.



**Examination of the impact of the opening of import quotas on the market** – The Ministry of Economics and Industry examined the impact of the opening of import quotas on the market from 2016 to 2020 for seven products out of 183 products during these years.



**Prolonged process for approving vegetal imports** – The timeframe that it takes the Ministry of Agriculture and Rural Development to handle a vegetal import application, including the timeframe to complete the risk assessment, is approximately two years on average and, in a significant share of the cases – up to approximately four years. The prolonged delay in completing the risk assessment actually raises a barrier preventing



imports of new fruits and of familiar fruits from new countries. Importing from a limited number of countries could result in sparse competition, which could cause fruit prices to rise. For example: the price of pineapple in Israel is six times higher on average than its price in other countries.



**Prolonged and expensive process for importing perishable foods** – The National Food Service in the Ministry of Health supervises imports of perishable foods through a process that is cumbersome and prolonged. Prior to the “cornflakes reform,” the supervisory process took 45 to 55 days but, following the reform, it lengthened to 115 to 125 days. The “cornflakes reform” also resulted in an increase in the costs of the regulatory burden by approximately NIS 55,000 per annum for a medium-sized importer. The process of importing perishable foods also lengthened from 60 to 90 days.



**Increasing of consumer awareness** – The Ministry of Economy and Industry took action to increase consumer awareness. It performed periodic examinations of brands commanding a large market share and examined price differences between Israel and other countries. The results were publicized in 2017–2018.

**Increasing competition in the fish farming sector – test case** – The direct support of the fish farming sector at the volume of NIS 80 million, which began in 2016 and is expected to continue until 2023, spurred increased competition in the markets and the consumer price level dropped by approximately 20% (by approximately NIS 7 per kilogram, including VAT) by 2018. As an outcome, the cost of living was also lowered.

## Key recommendations



The Competition Authority should use the tools that the legislature provided to it as needed for the purposes of eliminating the barriers to heightening the competition in the food sector and lowering the cost of living in Israel. It should designate monopolies and oligopolies and issue instructions to restrain their power in appropriate instances. The Competition Authority should also examine the overall impact of the Food Law and issue recommendations to amend it. The Competition Authority should verify that its recommendations to the various regulatory authorities and its recommendations in research studies that it performed are being implemented and that they suffice to contribute to the level of competition. It should also analyze the additional barriers that it found during its research studies and propose ways to eliminate them.



The Competition Authority should periodically examine the actions being taken to prevent geographic centralization of retailers and the impact of the provisions of law in this regard on geographic competition and on prices. In areas where there is geographic centralization, the Competition Authority should continue considering additional



measures to disperse the centralization in order to increase competition and lower the cost of living.



The Consumer Protection Authority should verify the veracity of the data being published in the price files, inter alia, by defining computerized control tests that retailers must perform before publishing their files. It should also consider initiating meetings between retailers and application developers with the goal of reducing the volume of errors in the price files and improving their presentation. Furthermore, the Consumer Protection Authority should define clear rules for handling complaints from consumers and application developers and consider building an efficient complaint handling mechanism.



The Competition Authority should continue taking action to promote parallel imports, should consider alternatives and formulate suitable means for operating directly with importers for the purpose of avoiding harm to the competition and should issue instructions directly to importers. The Competition Authority should map sectors with high entry barriers to new brands or to parallel importing and sectors characterized by high consumer loyalty to a particular brand. The Authority should also consider ways to lower the barriers to parallel imports while focusing on sectors in which the local product price is significantly higher than the price ratio in other countries.



The Ministry of Economy and Industry and the Ministry of Finance should periodically examine whether the actions taken to lower the cost of living are achieving their objectives, and should consider ways to ensure that the lowering of customs duties is passed on to consumers by way of lower retail prices.



When distributing import quotas including noncompetitive proceedings, the Ministry of Economy and Industry should consider reducing the cost of living, increasing the competition in the economy, encouraging entry by new importers and increasing the number of importers with a small market share. The Ministry of Economy and Industry should also make sure that importers utilize the minimum quota at the very least and should distribute import quotas in the subsequent year only to those importers that utilized the minimum quota, as the ministry itself defined in the director-general's order.



The Ministry of Agriculture and Rural Development should consider, in collaboration with the Ministry of Finance, the Ministry of Economy and Industry and other relevant ministries, additional ways to shorten the overall timeframe for handling vegetal import applications in order to create certainty among applicants regarding the completion of their application process. These ministries should consider ways to lower the prices of imported products when the price differential between Israel and foreign countries is particularly high.

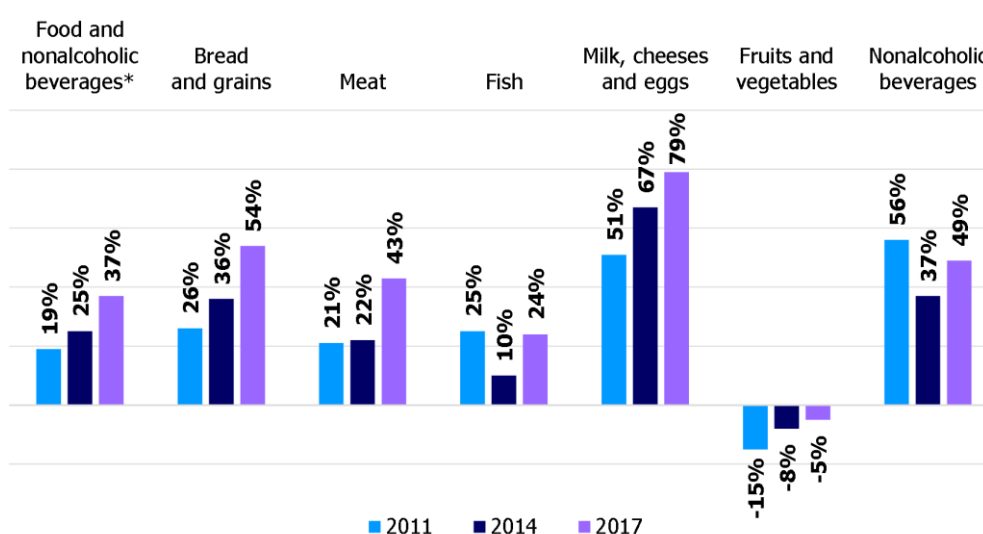


The Ministry of Economy and Industry and the Ministry of Health should continue to periodically examine the regulatory burden being imposed on importers of perishable foods. Easing this burden could lead to a lowering of the cost of living.



It is recommended that the Ministry of Agriculture and Rural Development, in collaboration with the Ministry of Finance, the Ministry of Economics and Industry and other relevant ministries, consider ways to lower the cost of imported pineapple, inter alia, by considering the possibility of issuing approvals for imports from additional countries. It is recommended that the Ministry of Agriculture and Rural Development and the Ministry of Finance should strike a balance between the desire to protect domestic agriculture and the desire to lower the cost of living, and should consider a pilot for the construction of cargo-handling facilities at the seaports in Israel. Such facilities could facilitate opening the local market to imports from new countries and to lower import costs – i.e., by using marine freight forwarding as opposed to airfreight forwarding. This could increase the competition in the imported goods market, both *inter se* and between them and the local market.

### Price differences, in terms of purchasing power, between OECD countries and Israel in various categories, 2011, 2014 and 2017 (in %)



According to OECD data, processed by the Office of the State Comptroller.

\* The category "food and nonalcoholic beverages" reflects the price differences in all categories in the food sector, apart from tobacco and alcoholic beverages.



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## Summary

The battle to reduce the cost of living involves numerous factors. Considering the need to lower the cost of living as it pertains to the food and consumer goods sector, the Israeli government must take action to reduce the impact of monopolies and centralization groups, to promote competition in the economy and to eliminate the barriers preventing goods imports. The government has appointed several government committees to address these issues since 2000, which proposed ways to lower the cost of living and set targets for achieving the objectives. Laws designed to help relevant authorities take efficient action to handle these issues have been enacted. Although the differences in food prices between Israel and EU countries and OECD countries have slightly narrowed in recent years, the price gap index of food prices in Israel, in terms of purchasing power, are still very high compared to EU countries and OECD countries, and barriers are still in place that make it difficult to lower food prices and increase competition in the sector. The authorities tasked with these matters are not acting sufficiently. All relevant bodies should use the tools available to them to take action towards achieving the government's defined objective of lowering the cost of living in Israel.