



Report of the State Comptroller of Israel |
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Ministry of Economy and Industry

The Government's Handling of the Increase in Online Commerce – Follow- up Audit



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Background

The digital economy has recently aroused great interest in consumer, competition, and privacy aspects. It is on the agenda of many authorities worldwide, among other things, due to the increase in the influence of internet giants, social networks, and digital platforms. From 2017 to 2020, the average annual revenue rate per user of online commerce increased by about 1% per year, and in 2021 it was about USD 1,000. In 2025, it is expected to be about USD 1,174. The online commerce average annual revenue per user in Israel is expected to increase from about USD 1,101 in 2017 to about USD 2,311 in 2025. The use rate of online purchases, about 28% in 2017, rose to about 45% in 2020. In 2022, the exemption from VAT on personal importing was repealed in the European Union countries and Australia. The USA's exemption from VAT and customs duties stands at USD 800. In Israel, a shipment containing goods with a total value of up to USD 75 is entirely exempt from import taxes, and for higher amounts, taxation is gradual.

The digital economy has important implications given the significant changes in the worlds of commerce and consumption, in digital services, search engines, social networks, cloud services, and more, and given the collection of information on consumption habits and consumer preferences. These pose considerable national and global challenges, requiring a reexamination of the existing regulation and the development and integration of advanced tools for analysis and enforcement.

In 2018, the State Comptroller's Office published a report on The Government's Handling of the Increase in Online Commerce (the Previous Audit)¹. The report noted deficiencies in the government's handling of this issue, including the following: the authorities have not yet regulated changes concerning personal importing, the legality of importing, the Personal Importing Order has not been amended to facilitate this type of import; the Privacy Protection Authority in the Ministry of Justice did not have a technological solution for automatic retrieval of data on the sections of the law for which violations were determined in the enforcement files and on the scope of the use it makes of its authority to impose a financial fine on the violators, and the Ministry of Education did not teach financial education and smart consumerism programs in primary and secondary schools.

This report follows up on the rectification of the deficiencies noted in the previous audit.

¹ The State Comptroller, Annual Report 69A (2018), "The Government's Handling of the Increase in Online Commerce", p. 209.



Key Figures

**USD 5
billion**

online commerce
revenues in Israel in
2020

**USD 12
billion**

online commerce
revenues forecast in
Israel in 2025

53%

the percentage of
businesses in Israel
that recorded a
moderate increase
(up to 25%) in the
scope of online
trading activity
following the Covid-
19 pandemic

59%

the percentage of
consumers who
suffered injustices² in
online transactions in
the food sector
among the buyers in
the sector (according
to the State
Comptroller's Office
survey)

35%

the average
percentage of
consumers who
suffered injustices
among buyers in all
sectors (according to
the State
Comptroller's Office
survey)

107

the number of
administrative
enforcement
procedures carried
out by the Privacy
Protection Authority
in 2020 against
violators of the
provisions of the law


50%

the percentage of
16–18 year-old
persons who shop
online more than
once

36%

the percentage of
small and medium-
sized businesses
whose online
commerce exceeded
50% of their total
turnover in 2021

Audit Actions

-  From August 2021 to December 2021, the State Comptroller's Office conducted a follow-up audit examining the actions taken by various government ministries to rectify the deficiencies noted in the previous audit and the extent that they were rectified. The follow-up audit was carried out mainly in the Legality of Import Commissioner's Unit, in the Small and Medium Business Agency (the Small Business Agency), and in the Senior Division for Professional Training and Human Capital Development in the Ministry of

² The Injustices: Prolonged waiting time; Receiving a defective product; Charging in excess of the cost of the product or service; Failure to receive the product or service; Refusal of an attempt to return a product; Difficulty disconnecting from service; Refusal to accept payment by credit card.






Economy and Industry (the Ministry of Economy). Supplementary examinations were conducted at the Ministry of Justice, at the Commission of Equal Rights for Persons with Disabilities and the Privacy Protection Authority at the Ministry of Justice (the Privacy Protection Authority), at the Pedagogical Secretariat in the Ministry of Education (the Ministry of Education), at the Israel Consumer Council, at the Authority for Economic Development of the Minority Sectors in the Ministry of Social Equality, at the Planning Administration in the Ministry of the Interior, the Competition Authority, the Foreign Trade Administration in the Ministry of Economy, the Ministry of Transportation and Road Safety (the Ministry of Transportation), the Ministry of Health, the Ministry of Communications, the Ministry of National Infrastructure, Energy and Water (the Ministry of Energy), the Ministry of Agriculture and Rural Development (the Ministry of Agriculture), at the Israel Export Institute (the Export Institute), and in the municipalities of Beer Sheva, Rishon Lezion, Kfar Saba and Ashdod. The follow-up audit was expanded to examine standard form contracts and the accessibility of online trading to the ultra-Orthodox sector. Moreover, the State Comptroller's Office conducted an online public participation survey on "Consumer Issues".


Key Findings




Findings Noted in the Current Audit


-  **The Rate of Those Reading the Use Terms and the Civil Injustices Among Online Commerce Consumers** – according to the State Comptroller's survey from December 2021, 92% of the participants make online purchases and 56% of them do not read the terms of use on the shopping site. The percentage of consumers who purchase clothing and footwear online is 58%, and 45% of them encountered injustices. In the food industry, the percentage of consumers making purchases online is 42%, and 59% of them encountered injustices.
-  **Ultra-Orthodox Sector Online Commerce** – it was raised that as of 2020, only about a quarter of the adult ultra-Orthodox population makes online purchases, compared to over half of the rest of the population; Furthermore, barriers were found in digital literacy skills in this population.
-  **Examination of Standard Form Contracts of the Online Commerce Sites by the Ministry of Justice** – it was raised that the Ministry of Justice operates by sending the Attorney General requests for opinions and submits objections to compromises in relevant class action suits. However, it does not proactively examine standard form contract-bylaws of the online commerce sites.



 **Scope of Enforcement Procedures by the Privacy Protection Authority** – it was raised that in 2020, on the one hand, there was a 22% increase in the initiation of administrative enforcement procedure cases by the Privacy Protection Authority, from 88 cases in 2019 to 107 cases in 2020, and on the other hand, there was a 40% decrease in the completion of enforcement procedures, from 58 cases in 2019 to 35 in 2020. Furthermore, there has been an increase in initiating criminal enforcement proceedings and their completion. However, the fines levied were about NIS 135 thousand regarding approximately USD 5 billion of online trade in Israel in 2020. The Protection of Privacy Law has outdated definitions of key terms and does not address significant issues in online commerce. However, it was found that the Ministry of Justice dealt with the issue in June 2021. It promoted the Protection of Privacy Law (Amendment No. 14), and in November 2021, the Ministerial Committee for Legislation approved the bill. In January 2022, it was submitted to the Knesset and approved in a first reading. It was further found that the Ministry of Justice published a position paper on the right to information mobility.

Rectifying the Deficiencies Noted in the Previous Audit

 **Financial Education Programs in the Ministry of Education** – the previous audit found that all the financial education programs do not address smart online consumerism. The current audit found that the **deficiency has been rectified to a limited extent**. The Shopping Habits Report (June 2019), of teenagers between the ages of 16 and 18 found that there is noticeable parental involvement in paying for online shopping, yet about a third of the youth in these ages who usually shop online, pay for the purchase themselves. The survey also indicated that financial independence is more prevalent among boys and increases with age. A link was found between the frequency of purchases and increased reporting of independent payments. According to the audit findings, 191 thousand students participated in the "Safe Surfing Week" held by the Ministry of Education in February 2022. In the "Money Week" held in March 2022, only 4,000 students participated out of about 758 thousand middle and high school students during the 2019–2020 school year. It was further raised that by the audit completion date, the Ministry of Education had formulated content for an online commerce program that was to be integrated within the framework of the Ministry's multi-age program; but has not yet approved the contents and their implementation. It was also found that privacy protection and online fraud are not addressed in the Ministry of Education's future plan for online commerce education.

 **Senior Citizens** – according to the previous audit, informational workshops on "smart consumerism" do not emphasize smart consumerism online. The current audit found that **the deficiency has not been rectified**. From 1,128,000 senior citizens as of 2020, the total number of senior citizens who participated in the "Digital Israel Program" in 2018–2021 was approximately 8,400 in the smart consumerism sessions and approximately 5,000 in the maintaining the privacy and online safety sessions. However,



the Ministry of Social Equality and the Israel Consumer Council have not mapped the needs and barriers for the senior citizens and have not formulated a plan for online consumerism among the senior population.



Small Businesses in the Arab Sector – according to the previous audit, no private or government body has data on the number of small businesses from the Arab sector conducting online sales. The Authority for Economic Development of the Minority Sectors in the Ministry of Social Equality has no such information either, and it does not carry out studies identifying the sector's online commerce difficulties and needs. By the follow-up audit, **the deficiency was rectified to a limited extent**. According to the Israel Internet Association survey in 2020, the percentage of people who did not shop online among the Arab population is 57% 11 times higher than the percentage among the Jewish population. However, the Small Business Agency and the Authority for Economic Development of the Minority Sectors did not collect information on the number of small businesses from the Arab sector selling online. The Authority does not have an online commerce plan for this sector, and the Agency operates through the MAOF branches³. Still, in the absence of information on the number of small businesses in the sector, it can not measure whether its operations are effective.



Collection of Data on the Local Authorities Activities in Online Commerce – the previous audit recommended that the local authorities consider changing retail purchasing patterns and their effect on the present and planned shopping centers in terms of physical space needed. Consequently the municipalities should examine the need to formulate guidelines for planning shopping areas in master plans. These plans should include types, location, and distribution. The follow-up audit found that **the deficiency was rectified to a limited extent**. The audited local authorities (Ashdod, Kfar Saba, Beer Sheva) did not collect organized data on the activity of online commerce in the city and, therefore, could not determine the effects of the increase in this type of commerce on the number, size or the location of planned commercial centers and the expansion of existing commercial centers.



Personal Importing Order – according to the previous audit, the Ministries of Economy and Finance had not yet established a computerized system for personal importing, the relevant authorities have not completed regulatory changes relating to personal importing and the legality of importing, and Personal Importing Order, 2018 (the Personal Import Order) was not amended to issue a certificate of compliance with the import legality requirements within two working days. The follow-up audit found that **the deficiency was fully rectified**: the Personal Import Order was amended to issue a certificate of compliance with the import legality requirements within two working days,

3 Maof is a group of business information centers funded by the Department of Economy and Industry.



and a computerized system for personal importing of the Tax Authority and the Ministry of Economy was also activated.

The Legality of Importing – according to the previous audit, some of the relevant authorities have not yet adapted the importing of the products under their purview to the rules of personal importing and reduction of products for which certificates of compliance with the import legality requirements must be provided. Furthermore, some changes require adapting the relevant legislation and procedures. The follow-up audit found that **the deficiency has been fully rectified**. The relevant authorities, including the Ministries of Health, Agriculture, and Transportation, have adapted the import of the products under their purview to the rules of personal importing.

Amendment of the Protection of Privacy Law – according to the previous audit, the Protection of Privacy Law includes outdated definitions of key terms and does not address significant issues in online commerce. This audit found that **the deficiency has been rectified to a large extent**: the Ministry of Justice did not amend the law, however, it published a position paper on the right to information mobility and is working to regulate the matter.






Accessibility of Online Trading Sites for Persons with Disabilities – according to the previous audit, the Commission of Equal Rights for Persons with Disabilities did not collect information indicating the extent the amendment of the regulation contributes to the accessibility of the sites for persons with disabilities and on the rate of persons with disabilities using the internet, including online trading sites. The follow-up audit found that **the deficiency has been rectified to a large extent**. Every year, the Commission generates a statistical report on persons with disabilities in Israel. It increased enforcement and examined 486 sites; and essential and central sites were made accessible to the public. However, this did not increase the rate of persons with disabilities using them. The Commission's data indicates that the rate of persons with disabilities who used the Internet to purchase products and services remained similar in recent years and decreased slightly (37% in 2017 compared to 35% in 2019).

Key Recommendations



The Ministry of Economy and Finance, should lead the fight against the cost of living, in consultation with the Competition Authority, should consider increasing the tax exemption on personal importing as an additional tool to reduce the cost of living and even consider increasing the tax exemption for products and areas with a market failure or abuse and charge of an excessive price by monopolies or exclusive importers with significant market power.



-  The Ministry of Justice should proactively review standard form contract-bylaws online trading websites and update the Protection of Privacy Law to respond to technological and commercial developments, the growth of online trading, and the protection of consumer privacy consequences.
-  The Privacy Protection Authority should examine the congruency between the scope of enforcement carried out by it with the scope of online trade. It is recommended to formulate a proactive enforcement plan and encourage the public to contact the Authority in any case information provided by them has been used for other than the purpose for which it was provided.
-  The Ministry of Social Equality and the Israel Consumer Council should map the needs and barriers of the senior citizens and formulate a dedicated program for them on consumerism online.
-  It is recommended that the Ministry of Economy and the Authority for Economic and Social Development of the Ultra-Orthodox Sector form online commerce content accessible to the ultra-Orthodox public, considering their needs. An increase in internet use in this sector can increase productivity and revenue in the economy.
-  It is recommended that the Small Business Agency and the Authority for Economic Development of the Minority Sectors cooperate in obtaining data on the participation of the Arab sector in online commerce and prepare targeted programs for this population to close the gaps in online purchases between them and the general public. It is further recommended that the Small Business Agency implement the relevant parts of Government Resolution 550: to continue the Agency's activities in Arab society; To develop unique consulting tracks for the Arab sector, grants, and success-based incentives that will promote the capabilities of small and medium-sized businesses in Arab society.







The Extent of Rectification of the Key Deficiencies Noted in the Previous Report

The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit Report	The Extent of Rectification of the Deficiency Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
Exemption from tax on personal imports	Ministry of Finance and Ministry of Economy	The Ministry of Finance and the Ministry of Economy should examine whether the steps they are taking are sufficient to reduce the harm to the retail sector.				
Customs calculator for personal importing, amendment of the Personal Importing Order	Ministry of Finance and Ministry of Economy	The Ministries of Economy and Finance have not yet established the computerized system for personal importing, the relevant authorities have not yet completed the amendments to the regulations of personal importing and the legality of the importing, and the Personal Importing Order has not been amended to issue a certificate of compliance with the import legality requirements within two working days.				
Protection of consumer privacy on online trading sites	Ministry of Justice	The existing legislation in the Protection of Privacy Law includes outdated definitions of key terms and does not address important issues in online commerce.				



The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit Report	The Extent of Rectification of the Deficiency Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
Enforcement actions of the Privacy Protection Authority	Privacy Protection Authority	The Privacy Protection Authority did not provide the State Comptroller's Office with information on the extent of violations of the Protection of Privacy Law that were presented to it regarding the collection of online information and on the extent of its use of its authority to impose financial fines on the violators.				
Individual recommendations regarding the barriers in the relevant authorities	The authorized authorities	Some of the authorized authorities have not yet adapted the import of the products under their purview to the rules of personal importing, nor have they reduced the number of products for which certificates of compliance with the import legality requirements must be provided, and some of the changes require adjustments to the relevant legislation and procedures.				
The amendment to the Accessibility Regulations	Commission of Equal Rights for Persons with Disabilities	The Commission did not collect information on the extent the amendment to the regulations contributes to the accessibility of websites for persons with disabilities, and information on the rate of persons with disabilities who use the internet, including online trading sites, out of all persons with disabilities.				



The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit Report	The Extent of Rectification of the Deficiency Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
Education and information on online consumerism	Ministry of Education	The Ministry of Education should promote the integration of education for smart consumerism on the internet, on all its characteristics, in other existing programs.				
Education and information for senior citizens	Ministry of Social Equality and the Israel Consumer Council	The Ministry of Social Equality and the Consumer Council should cooperate and pool resources to map the needs and barriers of senior citizens and formulate a dedicated program on internet consumerism. It is recommended that the Council emphasize the subject of online commerce in its workshops and provide assistance on the subject.				
Cooperation between the Small Business Agency and the Export Institute	Small Business Agency and the Export Institute	The Small Business Agency and the Export Institute should examine together whether to cooperate or at least share knowledge on online commerce courses.				
	The Export Institute	The Export Institute should examine over time not only the satisfaction of the participants in its courses but also the effectiveness of the courses to help the participants integrate into online commerce.				



Summary

Recently, the online retail market in Israel has grown at an annual rate of about 33%, and it is estimated that in 2025 it will reach USD 12 billion. Online commerce – personal importing from abroad and purchases from local suppliers – allows consumers access to new markets and an almost unlimited variety of goods at different prices. In the Israeli economy, characterized by excessive supra-sectoral concentration compared to other markets, personal importing is a channel for increasing competition and reducing the cost of living. At the same time, the increase in online commerce poses national and global challenges that require constant examination of the regulation to bring about the prosperity of the entire economy.

The follow-up audit found that some of the deficiencies noted in the previous audit were rectified. The government ministries and the relevant bodies should completely rectify the deficiencies and implement the recommendations noted in the previous audit. Given the price increases in the economy and the increase in the cost of living in Israel, it is recommended that the Ministry of Economy and the Ministry of Finance, who are leading the fight against the cost of living, in consultation with the Competition Authority, consider expanding the tax exemptions on personal importing as an additional tool in the fight while balancing the need to protect certain parts of the retail sector. It is also recommended to consider increasing the tax exemption for products and areas with market failure or abuse and excessive price collection by monopolies or exclusive importers with significant market power.

