

Report of the State Comptroller of Israel | March 2022

Ministry of Transport and Road Safety

Competitiveness in the Automotive Sector



Competitiveness in the Automotive Sector

Background

The cost of vehicle ownership is one of the most significant expenses of households in Israel. In the automotive sector, these factors are involved: a) private entities providing the product and accompanying services; b) government bodies that regulate and supervise the sector in different areas; c) end-users, households (private entities), and companies. The automotive industry affects road users and the environment. The Licensing of Services and Professions in the Vehicle Industry Law, 2016 (The Vehicle Services Licensing Law or the Law) approved in 2016 is designed to regulate by primary legislation the provisions about services in the automotive sector, including imports, to ensure an adequate professional level of service providers, maintain vehicle safety, protect the public peace and safety, provide regularly available service to consumers, confirm the existence of proper conditions at service places, promote Competitiveness in the automotive sector, and consumer protection. Most imports of new vehicles in Israel are performed through direct importers, and a minor part through indirect and small importers, and personal imports (parallel importers).

As of 2020, there were 3.69 million vehicles on Israel's roads, 3.17 million of them are private cars. In each of the years 2016–2020, an average of approximately 356,000 new vehicles were added. After subtracting vehicles removed from the road, the number of vehicles grew by an average of approximately 119,600 each year.



Key figures

341 private vehicles per 1,000 residents

NIS 17.5 billion

96.9%

rate of expenditure on vehicles from expenditure of household

consumption in 2018

12.2%

as of 2020, compared to 104 private vehicles per 1,000 residents as of 1980. The average vehicle age in Israel for private vehicles in 2019 was 6.7 years, compare to 11.5 years in the European Union

the value of vehicle imports in 2020, of them NIS 14 billion for passenger vehicles import market share of the direct importer as of 2020

8.4%

the average rate of profit before tax from the turnover of the 12 direct vehicle importers in 2014–2017, according to the Ministry of Finance calculations

4.9%

the rate of profit before tax from the turnover of four public leasing companies in 2019 compared to about 1.9% in 2015 NIS **0.8–1.6** billion

estimate of the average annual economic significance of high profitability in the automotive sector compared to other sectors examined in the years 2014–2017

60%

the rate of spare parts out of 144 examined, for which the difference between the main importer's price and the lower price from another importer was greater than 50%

Audit actions

From March 2019 to August 2021, the State Comptroller's office intermittently audited the competition in the automotive sector. The audit was performed at the Ministry of Transportation, the Israel competition Authority and the Capital Market Authority, Insurance, and Savings. A completion audit was conducted at the Bank of Israel. In addition, meetings were held with professionals from the private sector, representatives of associations connected with the automotive sector (Israel Garages Association, Insurance Companies Association, Israel Vehicle Importers Association (IVIA), Appraisers Association, Chamber of Commerce), and with private importers.

Regulation and competitiveness in the automotive sector

Key findings



- The economic implications of high profitability in the automotive sector compared to other sectors examined by the difference in profit in monetary terms calculation model, in 2014–2017 in the automotive sector, a reduction in the consumer surplus occurred at an annual amount between approximately NIS 0.8 billion to approximately NIS 1.6 billion.
- Legislation of regulations under the Vehicle Services Licensing Law in June 2016, the Vehicle Services Licensing Law was passed, designed to regulate the automotive sector services in primary legislation. Since then, several regulations have been installed under the Law. During the audit period, about four years since the law was passed, the Ministry of Transportation had not completed the installation of seven regulations required, among other things, to promote competition in the sector under the law, including regulations regarding engagement terms with an importer's service garage and three regulations already installed requiring amendment. Due to the failure to legislate the regulations on time, it was necessary to amend the Law to extend the validity of the supervision orders.

Effectiveness of the Parallel Import Reform

Impact on the market share of parallel imports – about four years since
the Vehicle Services Licensing Law go into effect, parallel importers (including
indirect imports, small imports, and personal imports) are not considered a



significant competitor to the direct importers. The latter, in 2020, held a market share of approximately 96.9% of private vehicle imports. Indirect imports import a few brands (from 2013 to February 2020 - 8,089 vehicles were imported by indirect imports and about 96% [7,747] of five different brands). The small imports focused on luxury cars, mainly three brands.

• Impact on prices of new vehicles – the parallel imports reform did not lead to a decline in prices of new cars. Since the Vehicle Services Licensing Law went into effect (October 2016) until a month before the beginning of the first lockdown of the Covid-19 pandemic (March 2020), the CBS Consumer Price Index for New Cars increased by approximately 1.6%, with an actual increase of a moderate rate of about 0.3% in this period.

Barriers to vehicle imports

- Model code for personally imported vehicle although transportation regulations were installed in September 2012 so that vehicle value will be determined according to the model code written in the vehicle license, and although the Ministry of Transportation decided in February 2013 on a procedure for determining the model code for M1 and N1 type vehicles, it was found that in practice, consumers importing vehicles by personal import are required to perform a valuation of the vehicle for insurance purposes at extra cost.
- Certificate of origin there may be cases in which vehicles imported to Israel
 by parallel importers and manufactured in countries that Israel has commerce
 agreements with are not entitled to tax exemption due to difficulties in
 compliance with the conditions for it, among other things, the need to present
 a preference document (certificate of origin or declaration invoice) and proof of
 the merchandise complying with t he origin rule outlined in the commerce
 agreement. In such cases, the cost of the parallel import vehicle is higher.
- Registration of new vehicles imported by personal import as used vehicles new vehicles imported by personal imports is registered in the vehicle license as used vehicles. Therefore, determining the depreciation of personally imported vehicles according to the Levy Yitzhak price list nullifies part of the consumer surplus inherent in purchasing a vehicle by personal import due to the reduced price for its sale in the used car market or payment from the insurance company in an insurance event (theft or total loss).
- The Israel competition Authority's examination of the competitiveness level

 in its examination to approve mergers in the automotive sector, the Israel competition
 Authority relied on various opinions of importers and professionals, a list of alternative
 models to a particular auto brand, the names of the importers who import them, and
 the number of importers active in the market. In its merger examination, the Authority



does not use – as commonly accepted in supervisory authorities in other countries – advanced models and calculations to analyze the competitiveness level in the automotive sector. Furthermore, the Authority had prepared a draft analysis of competitiveness in the import of vehicles in 2012 to present its position on various topics connected with competition in the sector; however, at the time this audit was conducted, it had not finished consolidating the examination findings into a final report, nor published a report on the matter.

- Level of competitiveness in the automotive sector, Profitability analysis the examination findings may indicate problems with the competitiveness level in the automotive sector, corresponding to the conclusion of the Chief Economist Department from 2017, according to which the profitability rate in the automotive sector is unusual for a commerce sector. The average profitability in 2014–2017 (profit rate before tax from the turnover) of the 12 direct vehicle importers (approximately 6.3% without deduction of purchase tax) and the profitability of the four major vehicle importers at the outset of the decade (about 8.1% without deduction of purchase tax)¹ was consistently and significantly higher than the profitability of the significant public leasing companies (approximately 2.3% and about 2% in the three and four major public leasing companies, respectively). Furthermore, profitability gaps were found in favor of the vehicle importers in companies in the average profitability of companies in the wholesale commerce sector and companies in the retail commerce sector (approximately 3.9% and about 2.2% respectively) classified by CBS, in the same commerce sector (G Order) together with the vehicle importers².
- The competitiveness level in the sector: analysis of passing on changes in importers' gross costs to consumers from import of private vehicles
 - Degree of passing on changes in gross costs to consumers the findings
 of the State Comptroller's model for analysis of the degree of passing on
 changes in gross costs to consumers, combined with the CBS data on the
 Consumer Price Index for New Cars, have shown that in 2014–2019, gross
 costs of private vehicle imports of the 13 direct importers of vehicles, according
 to Paasche and Laspeyres principles, have declined by approximately NIS 538

In the years 2014–2017 the average profitability of the 12 direct vehicle importers and four major vehicle importers at the outset of the decade, after deduction of purchase tax, was approximately 8.4% and approximately 10.7% respectively.

The profitability of a wholesale commerce sector and a retail sales sector are based on CBS data, processed by the State Comptroller's office, according to the CBS publication on the unified classification of economy sectors 2011 (updated version), Technical Publication 80 of June 2015. In this publication there appear wholesale commerce sector, retail sales sector, and wholesale and retail sector of commerce in motor vehicles and motorcycles and the repair thereof within Order G wholesale and retail commerce, repair of motor vehicles and motorcycles. The profitability calculations of the vehicle importers are based on calculations of the Chief Economist Department based on the importers' reports to the Israel Tax Authority



million cumulatively and approximately NIS 672 million respectively 3 . Estimations of their income increased by about NIS 74 million and approximately NIS 148 million, respectively, and estimations of gross profit increased by about NIS 612 million and approximately NIS 820 million, respectively. Estimation of some of the importers from the net decrease in gross costs according to the Paache principle was around 114%, and according to Laspeyres principles, 122%; estimation of some of the consumers was approximate -14% according to the Paasche principles and approximately -22% according to Laspeyres principles.

- Analysis of the changes in vehicle prices and gross cost cumulatively, consumers did not get any part of the decrease in net gross costs in 2014–2019. On the contrary, there was a moderate increase in the CBS Consumer Price Index for New Cars for this period. The Paasche ⁴ and Laspeyres⁵ indexes for gross cost decreased by approximately 5.6% and about 2.8%, respectively, and the CBS Consumer Price Index for New Cars increased at a moderate rate of roughly 0.6% for this period.
- Analysis of the contribution of the variables to changes in the estimation of the importers' gross profit – in 2015–2019, there was a sharp appreciation in the NIS relative to main exchange rates of the currencies used (euro and USD) in vehicle import transactions, which contributed to the NIS 660 million increase in the estimation of importers' gross profit. In most years, vehicle importers purchase identical vehicles at prices lower than the purchase prices of the previous year, which contributed approximately NIS 179 million to the estimation of changes in gross profit. The increase in the purchase tax rate contributed to a decrease in the estimation of gross profit by approximately NIS 320 million. The net contribution of the changes in cost variables (purchase price from the manufacturer in foreign currency, exchange rate, purchase tax, and customs) to the estimation of gross profit was, in the years 2015-2019, according to Paasche principles, approximately NIS 546 million. The additional effect of the change in the VAT rate in the years 2015-2016 in the cumulative sum of approximately NIS 43 million according to the Paasche principles increases the total contribution to the gross profit estimation to about NIS 589 million. This contribution was not passed on to

³ Calculated according to the Paasche and Laspeyres principles, based on the Paasche and Laspeyres indexes. See in the following.

⁴ The Paasche index is the weighted average of the changes in price between the second period (P_2) and the first period (P_1) of the weighted basket of products according to the number of vehicles in the second period (Q_2) .

The Laspeyres index is the weighted average of price changes between the second period (P_2) and the first period (P_1) of the weighted basket of products according to the number of vehicles in the first period (Q_1) .

consumers in the form of an actual reduction of the price list price and a real decrease in the CBS Consumer Price Index for New Cars.



Legislation of the Vehicle Services Licensing Law – the Ministry of Transportation advanced the law, approved by the Knesset in 2016, designed to arrange the provisions about services in the automotive sector and promote competitiveness in it by primary legislation.

Key recommendations

- It is recommended that the Ministry of Transportation complete the installation and amendment of the regulations under the Vehicle Services Licensing Law.
- It is recommended that the Ministry of Transportation and the Israel competition Authority examine additional ways to advance the reform for the parallel import of vehicles and advance competition in the sector.
- It is recommended that the Ministry of Transportation and Capital Markets Authority examine whether the existing regulation for determining a model code for vehicles imported by personal import constitutes a comprehensive solution to determining vehicle value that does not impose additional costs on the importers, nor discourage competition in the sector.
- It is recommended that the Ministry of Transportation and Israel Tax Authority examine ways to enable parallel importers who do not hold a source certificate to be exempted from customs if the imported vehicle was manufactured in countries with which the government has signed commerce agreements. It is also recommended to examine ways of receiving the information online. It is further recommended that the Ministry of Transportation examine the necessity of registration of new vehicles imported by personal import as used cars, and complete the supervision and regulation of vehicle price lists, to remove barriers in the sector in general and personal import in particular.
- It is recommended that the Israel competition Authority consider examining, the competition in the sector from time to time. In addition, it is recommended that the Authority consider conducting additional audits as practiced in other countries, such as expanding the use of advanced economic analyses, including statistical analyses and econometric models, examining the impact of horizontal mergers of importers in the automotive sector too, and examining the level of competitiveness in the sector.



Competitiveness in the commonly accepted categories of vehicles and publishing of the level of competitiveness in the sector

Key findings



- Level of competitiveness in the sector in the commonly accepted vehicle categories - concentration analysis - market share of the major importers the automotive sector is characterized by high concentration in each vehicle category: in 2019, four large importers in each category⁶ held approximately 100% of the market share of small commercial vehicles and sports cars, about 84% of the market share of family cars, about 83% of the market share of seven-passenger vehicles, approximately 70% of the market share of executive cars, about 69% of the market share of small cars, about 65% of the market share of luxury cars, and about 62% of the market share of recreational vehicles. In all categories of private vehicles, in 2014-2019, the market share of the four major vehicle importers (in each category) was greater than 60% and has grown from 2014 to 2019. The market share of the largest importer in each category was significant in all categories. In categories of small commercial vehicles and sports cars, the market share of the largest importer was greater than 50%, a ratio that, according to the Economic Competition Law 1988, warrants the definition of "monopoly owner" as detailed in the law, subject to relevant market definition.
- Level of competitiveness in the sector in the commonly accepted vehicle categories – concentration analysis – HHI⁷ index – despite the reform in parallel import of vehicles promoted by the Ministry of Transportation, concentration in some of the vehicle categories increased during 2019 (mainly in family cars, seven-passenger cars, and small cars) despite the increase in the number of importers. This was due to an increase in variance between the significant importers, which compromised the level of competitiveness in these categories; thus, in most vehicle categories, in most of the years 2014-2019, HHI index levels were moderate or high, according to US Federal Trade Commission guidelines. In all vehicle categories, HHI index levels were moderate or high in all the years according to European Union guidelines. In some categories, HHI

⁶ Four major importers in each category, not necessarily the same importers.

Use of the Herfindahl–Hirschman Index (HHI) is a commonly accepted index for analysis of market concentration: It enables analyzing the internal concentration among all importers in the market and provides an indicator of the level of competition in it. The HHI is the sum of the squares of each market share of each importer in the sector. Index values are in the range of 1 (representing a monopoly) and 1/n where n is the number of importers.

index levels were high for some the years according to the Israel Competition Authority guidelines.

- Level of competitiveness in the sector in the commonly accepted vehicle categories analysis of change in gross costs and price list price differences were found in the changes in price list prices and gross costs in the widely accepted categories of vehicles in 2014–2019. Luxury and family cars have seen a cumulative decline in 2014–2019 of approximately 2.1% and 0.6% in gross costs, respectively; however, this decline was not followed by a decrease in price list prices, which have risen by approximately 7.4% and 5.6%, respectively. The gross costs of executive cars, small commercial vehicles, and sports cars have increased cumulatively in 2014–2019 by approximately 5.9%, about 7.1%, and about 23.3%, respectively; however, price list prices before VAT have risen by a higher rate about 9% in the executive car category, approximately 15.5% in small cars, and about 29.2% in sports cars. In the seven-passenger, recreational, and small car categories, gross costs have increased at a higher rate than the increase in price list prices. These differences can reflect the level of Competition differences in the various categories.
- Data analysis on the level of Competition in the sector and its publishing in February 2019, the Ministry of Transportation requested the Israel Competition Authority to examine the level of Competition in the sector. Nevertheless, at the audit end, it was found that the Israel Competition Authority had not requested any data from the vehicle importers; hence, the Israel Competition Authority and the Ministry of Transportation did not conduct a comprehensive, in-depth examination and analysis of the level of competitiveness in the automotive sector, nor publish their findings and conclusions.

Key recommendations

- It is recommended that the Israel Competition Authority examine the various vehicle categories about the degree to which they constitute different markets, i.e., their being "relevant markets."
- It is recommended that the Israel Competition Authority conduct, from time to time, an in-depth, up-to-date examination of the Competition in the vehicle import sector, mainly the competitiveness in the relevant markets determined or commonly accepted vehicle categories, using advanced economic tools.
- It is recommended that the Israel Competition Authority and the Ministry of Transportation require the vehicle importers to submit reports to enable performing, from time to time, analysis of the level of competitiveness in the sector and publish highlights of the analyses in periodic reports while maintaining the commercial confidentiality of the vehicle importer.



It is recommended that the Ministry of Transportation continue to establish its authority to receive data, among other things, to examine the level of competitiveness in the automotive industry.

3. Competitiveness in the car leasing market, used car market, and car financing

Key findings



- Level of competitiveness and profitability in the leasing market in recent years, the share of leasing companies in the purchase of new cars has increased (from approximately 23.3% in 2016 to about 26.6% in 2019). The share of vehicles sold in the private market has diminished (from 53.4% in 2016 to approximately 49.0% in 2019), with a considerable increase in profitability indexes of the four major public leasing companies. Their profit rate before tax from the turnover increased from approximately 1.9% in 2015 to about 4.9% in 2019, an increase of roughly 158%. The sectoral profit rate of the leasing sector in these companies has increased from around 8.2% in 2015 to approximately 9.8% in 2019. The increase in profitability of the leasing companies may indicate an increase in their market power and a decrease in the level of competitive ness in this market.
- Level of competitiveness in the leasing sector maintaining price levels on the part of importers in most of the years 2014–2019, price list prices of most vehicles sold either to leasing companies or private consumers have remained unchanged; in some, they have risen. These findings reinforce the claim raised in the report submitted by the committee for increasing competitiveness in the auto sector, and an internal report of the Israel Competition Authority from 2012 that the leasing companies are capable of having an impact on vehicle price list prices, and preventing a decrease in them even during a period of decline in gross costs. Those harmed by this market failure are consumers, i.e., those purchasing vehicles in the private market and those purchasing vehicles from the leasing companies.
- Level of competitiveness in the leasing sector registration of the number of owners "0 km" cars sold by the leasing companies the Ministry of Transportation has not implemented the recommendation of the committee for increasing competitiveness nor that of the inter-ministerial team nor canceled the registration of the additional owner of "0 km" cars sold by the leasing companies. Registration of another owner distills the automotive sector price levels for both new and used vehicles.
- Competitiveness in the used vehicle market vehicle history the Ministry of Transportation has not established a central database for the history of vehicles (such as CARFAX in the USA). The degree of damage rendered to a vehicle is essential information, with implications for its safety and commercial value. A vehicle that has sustained considerable damage requires measures to ensure it has been repaired



professionally, according to the manufacturer's instructions. Receipt of complete information on the damage is essential to enable consumers to make the correct decision when purchasing a vehicle.

- Competitiveness in vehicle financing changes in interest rates recent years have seen an increase in funding non-bank with car liens, a decline in bank financing, and financing by credit card companies with car liens. It has been found that credit with car liens of the three non-bank public credit companies has increased from approximately NIS 1.1 billion in 2017 to approximately NIS 2.4 billion in 2019. These trends are supposed to encourage competitiveness and reduce prices, i.e., reduce interest rates on this credit. From the examination findings, it arose that the interest rate on credit in car liens in three non-bank public credit companies checked is considerably higher than the short-term credit in the banking corporations (by approximately 2.1 percentage points in 2019), increasing from an average of roughly 7.4% in the years 2017 and 2018 in the three credit companies checked, to around 7.8% in 2019. At least part of the increase is due to the rise in the credit companies' credit risk.
- Competitiveness in car financing encourage performing a market survey on credit the Supervisor of the Capital Market has exempted the credit given at sales points for the sale or rental of a specific product, including credit offered in vehicle sales, from the definition of "credit offer at the sales point," in a circular to financial services providers instructions for management of consumer credit designed to ensure proper, responsible financing performed by financial services providers in transactions with consumer credit customers. The ability to complete the purchase of a vehicle through receipt of available credit on the same day and at the same place at which the vehicle purchase transaction is done improves the service to customers but reduces the chances of the customer performing a market survey concerning terms of finance in general, and interest rates and total interest payments on the credit in particular.



Competition in the used vehicle market – vehicle price list – the vehicle market operates according to private vehicle price lists that are not supervised by government authorities. It has been found that in October 2020, the Ministry of Transportation began forming a free collaborative vehicle price list.

Key recommendations



It is recommended that the Israel Competition Authority and the Ministry of Transportation, from time to time, track the level of competitiveness in the leasing sector through commonly accepted economic indexes and promote Competition in the leasing sector.



It is recommended that the Ministry of Transportation, in cooperation with the Israel Competition Authority, consider the registration of the previous owner about "0 km" and its impact on Competition in the vehicle market.



It is recommended that the Ministry of Transportation establish an external database in which all vehicle data will be concentrated to reduce the inequality of information between sellers and buyers of vehicles. The database will make the vehicle's details accessible and user-friendly and enable the consumer to decide whether to purchase it. The database should reduce the possibility of deception, provide buyers with comprehensive information when buying the vehicle, and reduce repairs and services performed on the vehicle at unauthorized garages.



It is recommended that the Capital Market Authority, Insurance, and Savings consider ways of precluding the possibility of exploiting the total loss clause (damage between 50% to 60% vehicle value) in insurance policies, i.e., that vehicles involved in severe accidents and sometimes improperly repaired return to the roads, with the potential of compromising the safety of road users and sometimes consumers in the used car market who risk purchasing a vehicle that was not adequately repaired.



It is recommended that in the coming years, the Capital Market Authority examine the degree of influence its activity has on creating conditions for increased Competition in vehicle financing, among other things, by reviewing the changes in the concentration of vehicle financing, the interest in this credit, and the risks and financial margins involved. It is further recommended that the Capital Market Authority consider additional measures designed to increase Competition in vehicle financing, among other things, enforcing transparency towards customers about loan terms and interest rates, developing a webbased tool for encouraging customers to perform a market survey, and further measures to encourage customers to compare interest rates and total interest payment on credit, before completing transactions for receipt of a vehicle loan.



It is recommended that the Ministry of Transportation regularly check the reliability of the collaborative vehicle price list it established and consider ways of improving the free collective vehicle price list methodology.



4. Competitiveness and regulation of the vehicle parts, garages and appraisers' sector

Key findings



- Competitiveness in the vehicle parts sector price differentials between main imports and other imports – the differences in prices of main import parts imported by vehicle importers and the lowest prices charged by vehicle parts importers that are not vehicle importers are considerable. Out of 144 parts checked by the audit in 2016-2020, in 60%, there was a price differential more significant than 50%, 43% greater than 100%, and 18% greater than 200%. In 7%, the price differential was more significant than 300%, and in one part (1% of the parts), the differential was more significant than 400%. Despite these differences, Israel's ratio of original vehicle parts in 2017 was estimated at approximately 61%. This market share of original vehicle parts is considerably greater than that of the European countries (for example, Germany – 48%, France – 29%, Britain – 27%). When comparing the prices of vehicle parts from the main importer and prices of vehicle parts at the highest prices from other importers, in approximately 54% (about half) of the vehicle parts, the difference was up to 25%. In other words, there are significant differences in the prices of the most expensive auto parts from other imports and the cheapest vehicle parts from other imports. It also arose that large companies enjoy significant discounts, reaching up to approximately 90%.
- Competitiveness in the vehicle parts market price differentials between main imports and personal imports spare parts replaced in regular maintenance, with significant price differentials between parts from main importers and parts from personal importers. Out of 28 vehicle parts checked in four leading vehicle brands, in approximately 71% of the parts, the personally imported part, including shipping and taxes, is cheaper than the part from the main import. In 25% of the parts, the price differential was twofold or more.

Very high price differentials were found regarding body parts replaced after accidents. Out of 28 vehicle parts checked in four leading vehicle brands, in approximately 93% of the parts, the personally imported part, including shipping and taxes, is cheaper than the part from the main import. In 61% of the vehicle parts, the price differential was twofold or more, in 36% threefold or more, in 21% fourfold or more, in 14% sixfold or more, and in 4% of the vehicle parts, the price differential was sevenfold or more.

Competitiveness in the vehicle parts market – gross price – four years after legislation of the Vehicle Services Licensing Law, the Ministry of Transportation has still

not completed broadening the public's access to information on vehicle part prices in a way that could contribute to reducing the distortions involved in the use of gross prices, and enable transparency regarding the average prices of vehicle parts sold to all sectors in the market (garages, insurance companies, consumers, and institutional bodies such as corporations and leasing companies).

- Competitiveness in the garage sector terms for engagement of a commercial importer with a service garage, limits on ownership of commercial importer in service garage four years after legislation of the Vehicle Services Licensing Law, the Ministry of Transportation has yet to complete an agreed version for installation of regulations under section 58(a) of the Law. This section sets forth provisions on terms for engagement of a commercial importer with a service garage designed to reduce the market failure in the garage sector. Furthermore, at the time of the audit, the Ministry of Transportation had not finished forming an agreed version of regulations under section 53 of the Law regarding limiting ownership of a commercial importer in a service garage, designed to reduce market failure in the garage sector.
- Competitiveness in the garage sector withholding of professional information section 80 of the Vehicle Services Licensing Law regulated the transfer of professional information between vehicle importers and garages. It was found that the average annual number of requests for professional details in the years 2019—2020 was small (27 requests). It has also been found that the Ministry's activity did not include any requirement to report in advance to importers; therefore, it cannot be ruled out that some requests remained unrecorded; hence, it could be that the information gathered by the Ministry of Transportation as part of its activity to supervise the transfer of professional details is only partial. In addition, some of the information was provided for free; some of the services were billed for thousand of NIS, up to an annual sum of 13,300 Euro.
- Competitiveness in the garage sector garage regulations the Vehicle Services Licensing Law was intended, among other things, to replace the supervision orders under which the provisions on this matter were regulated. It was found that forming of the regulations by the Ministry of Transportation went on four years from Law's legislation and the publishing of the draft regulations in 2016 and that at the time of the audit, the Ministry of Transportation had submitted the garage regulations for approval by the Economic Affairs Committee of the Knesset.
- Competitiveness in the garage sector failure to publish the Garage Reform the Ministry of Transportation did not publish the sections of the reform that could potentially help consumers realize their rights, among other things, receipt of quotation for more than one type of vehicle parts, entitlement to a warranty for vehicles imported by parallel import, unconditional validity of warranty for a new vehicle in repairs at importer's service garage, and the existence of an expert garage.



- Appraisal sector appraisers' regulations section 9 of the Vehicle Services Licensing Law, June 2016, arranges the matter of vehicle appraisal and requires the installation of numerous regulations (appraisers' regulations) to implement the arrangements outlined in the Law. At the time of the audit, it was found that four years after the Law was legislated, the Ministry of Transportation had still not completed the installation of the appraisers' regulations.
- The activity of unauthorized garages the activity of unauthorized garages could compromise the vehicles' maintenance level, could cause loss of state revenue from taxation of this activity, compromise fair Competition in the sector, and reduce demand for maintenance services in the general garages. It arose that as of 2017, the number of unauthorized garages is estimated to be at least 1,000 and that in 2013–2017, between 220 and 389 unauthorized garages were closed each year.



The Vehicle Services Licensing Law, initiated by the Ministry of Transportation and approved by the Knesset in June 2016, includes new reforms designed to promote Competition in garages, such as receipt of quotations for more than one type of vehicle parts, entitlement to a warranty for vehicles imported by parallel import, unconditional validity of warranty for new vehicles in repairs at importer's service garage, and the existence of an expert garage.

Key recommendations

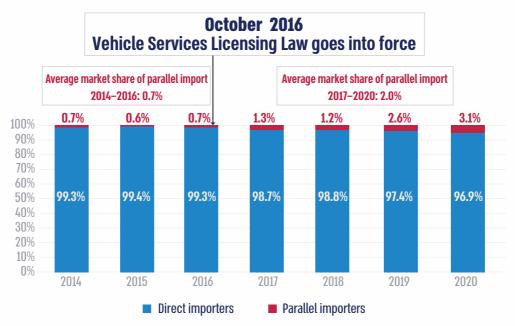
- It is recommended that the Ministry of Transportation and the Israel Competition Authority will continue to increase competitiveness in the vehicle parts market to reduce prices.
- In cooperation with the Israel Competition Authority and the Ministry of Finance, it is recommended that the Ministry of Transportation advance solutions for the market failures of the vehicle parts, complete regulation to improve access to information on vehicle parts, and resolve the distortions involved in the use of gross prices. Thus, vehicle part prices will reflect the real market prices rather than the higher declared price list prices.
- In cooperation with the Israel Competition Authority, it is recommended that the Ministry of Transportation consider implementing section 53 of the Law regarding limiting ownership of commercial importers in service garages and thus promote Competition in the garage sector.
- It is recommended that the Ministry of Transportation examine the reasons for the lack of requests by garages from main vehicle importers for professional information and

consider how to arrange supervision of the transfer of professional information from vehicle importers to garages and arrange payment for this service. It is also recommended to establish a framework for annual reporting by vehicle importers to the Ministry concerning the transfer of professional information to garages and conduct surveys among the garage owners regarding the difficulties they encounter with receipt of the information needed from the importers.

- It is recommended that the Ministry of Transportation publish consumers' rights as part of the reform in the garage sector and inform the public of the changes being made and their rights as consumers of the services provided by garages. It is also recommended that the Ministry of Transportation consider the establishment of provisions by which garages shall display, on their premises, information to the public concerning consumers' rights. In addition, it is recommended that the Ministry of Transportation examine ways to increase demand for employment in the automotive professions given the technological challenges faced by the sector in recent years and consider upgrading the professional training in the sector in line with the recommendations of the 2017 master plan for the automotive sector.
- It is recommended that the Ministry of Transportation complete an agreed version of appraiser's regulations and consult with the parties specified in the Law to submit them to the Knesset Economic Affairs Committee and install them, and complete an agreed version of appraiser licensing regulations and consult with the parties specified in the Law to install them. It is also recommended that the Ministry of Transportation install provisions under section 155(b) of the Law concerning vehicle appraisals conducted outside the garage to establish the rules applied in such cases.
- The Ministry of Transportation should abolish the phenomenon of unauthorized garages. It is recommended that the Ministry of Transportation consider enforcement measures to prevent the reopening of unauthorized garages after they've been closed and form a multi-annual supervision plan for their closure.



The market share of direct and parallel importers (indirect and small importers, and personal imports) in the import of private vehicles, 2014–2020



According to Ministry of Transportation data, processed by the State Comptroller of Israel.

Summary

The cost of vehicle ownership is one of the most significant expenses of households in Israel. The audit raised findings regarding competitiveness level in the import of vehicles and consistently high profitability in the sector compared to other sectors examined in the report. Market failures and deficiencies were also found in subsectors such as the leasing market, the used vehicle market, vehicle financing, and the maintenance sector, including the vehicle parts market, garages, and appraisers. It is recommended that the Ministry of Transportation and the Israel Competition Authority, from time to time, analyze the level of Competition in the sector using commonly accepted advanced methods. They should also improve the level of Competition in the sector by promoting parallel imports, increasing transparency, broadening the information available to consumers, and advancing the legislation of regulations required under the law – all for the benefit of consumers.