

Voluntary Report – Voluntary - Public Distribution

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Report Name: Updates to the Israeli Law for Enhancement of Competition in the Food Sector

Country: Israel

Post: Tel Aviv

Report Category: Agricultural Situation, FAIRS Subject Report, Agriculture in the Economy, Policy and Program Announcements

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Report Highlights:

Recent amendments to the Israeli Law for Enhancement of Competition in the Food Sector (2014) highlight the efforts of the Israeli government to lower the cost of living. The latest steps taken by the Competition Authority to enforce penalties for those in violation of the law emphasize the importance of this issue to the government. The new amendment and the recent enforcement by the Competition Authority could generate new opportunities for exporters and strengthen their position in the Israeli food market.

A. Legislative Background and History

The Israeli Law for Enhancement of Competition in the Food Sector 2014 (“The Law”), was enacted by the Knesset in 2014 and implemented on January 15, 2015, as a response to public protests over Israel’s high cost of living. Aimed at increasing competition and reducing food prices, the legislation set strict regulations on large suppliers and retailers, prohibiting practices deemed anti-competitive. For example, it restricted large suppliers from influencing product pricing, shelf placement, and contractual terms with retailers, and required supermarkets to publish prices online for transparency.

The original law imposed significant penalties for violations, with fines reaching up to 25 million Israeli shekels (NIS) (roughly \$6.8 million) for non-compliant companies. As a result, large suppliers and retailers faced tighter constraints on their influence over product pricing and distribution, creating a more accessible marketplace for smaller suppliers. For more detail, see relevant GAIN report “The Israeli Law for Enhancement of Competition in the Food Sector”.¹

B. Recent Developments and Amendments in 2023

In line with the current administration’s agenda to lower the cost of living, enforcement has been strengthened under this law in recent years. Investigations into violations within the food sector have led to several amendments under the 2023 Arrangements Law, which aim to further enhance competitiveness:²

1. **Increased Financial Penalties:** The financial penalty for violations has been raised from 25 million NIS to 40 million NIS (nearly \$11 million), signaling the government's intent to enforce compliance strictly.
2. **Prohibition on Conditional Discounts:** Effective January 1, 2024, companies can no longer offer discounts on one product contingent upon the purchase of another. This temporary order will last for two years and aims to prevent unfair pricing practices that disadvantage smaller competitors.
3. **Restrictions on Mergers:** A temporary ban (from June 1, 2023, to December 31, 2024) restricts mergers between food suppliers exceeding 333 million NIS (roughly \$91 million) in sales or a declared monopoly (on a specific product) with smaller suppliers of over 30 million NIS (a little over \$8 million) in sales. Exceptions may apply, but the general restriction aims to prevent monopolistic consolidations that could impact competition.
4. **Incentives for Smaller Suppliers:** Large retailers can now open stores in certain demand areas (30-50% market share) without regulatory approval if they predominantly (55% or more) source products from smaller suppliers. This measure, effective for three years starting June 1, 2023, encourages diversification in supplier partnerships, promoting smaller players.

¹https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=The+Israeli+Law+for+Enhancement+of+Competition+in+the+Food+Sector_Tel+Aviv_Israel_6-9-2015.pdf

² https://www.gov.il/BlobFolder/news/annualreport-2023/he/pressreleases2024_%D7%93%D7%95%D7%97%D7%A9%D7%A0%D7%AA%D7%99%202023.pdf (Hebrew Only)

C. Subsidiary Legislation: Exclusive Distribution and Parallel Import

Recent amendments also ease the regulations surrounding exclusive distribution and parallel imports, aimed at reducing barriers for non-dominant suppliers to enter the market. By promoting parallel imports, the government intends to provide more competitive pricing options for consumers, particularly benefiting smaller importers who can now introduce niche or alternative products more freely.

D. Market Dynamics in 2023-2024: Investigations and Enforcement

The Israeli Competition Authority intensified its scrutiny of market practices in 2023, targeting six retailers and seven suppliers suspected of manipulating prices and engaging in binding arrangements. In the “Competition Authority Report for 2023,” published on July 1, 2024, administrative procedures have concluded for 17 companies, leading to fines totaling 158 million NIS (\$43.2 million), with 88 million NIS (\$24 million) specifically levied on food sector violations. Michal Cohen, the Commissioner of the Israeli Competition Authority, commented on the authority’s rigorous enforcement, highlighting the dual focus on preventing anti-competitive mergers and penalizing non-compliance. This sustained enforcement and the legislative amendments underscore Israel’s efforts to lowering living costs through fair competition.³

E. Impact on Exporters

The increased competition in the Israeli food sector presents both opportunities and challenges for exporters.

The law provides several benefits for exporters:

- **Market Accessibility:** With smaller importers better positioned to compete, exporters can access diverse distribution channels, particularly benefiting small and niche brands that previously struggled against large suppliers. Previously, it was common for big importers to prefer importing from the “big known brands,” making it difficult for the smaller importers to bring in “niche” brands. With the enforcement of the law, smaller brands have a better chance to be imported by smaller importers.
- **Competitive Pricing:** Restrictions on price-setting by large players (large suppliers and retailers) mean importers are more open to transparent and fair pricing, enhancing the market competitiveness for certain products
- **Partnership Diversity:** Exporters may now work with both large and small distributors, each offering unique advantages. Small-to-mid sized importers provide flexibility and openness to new products, while larger importers still have robust distribution networks, albeit under more regulatory scrutiny.

³ https://www.gov.il/BlobFolder/news/annualreport-2023/he/pressreleases2024_%D7%93%D7%95%D7%97%20%D7%A9%D7%A0%D7%AA%D7%99%202023.pdf (Hebrew Only)

- **Diverse Distribution Channels:** Exporters can partner with a mix of large and small distributors, helping increase product visibility in different retail channels across Israel.

Pros and Cons of Working with Different Sized Importers

Category	Small-Mid Importers	Large-Very Large Importers
Pros	Greater flexibility in partnership terms and openness to new products due to reduced monopolistic pressure.	Broad distribution network across Israel, with established retail partnerships, reaching a wide audience.
	Potential of competitive pricing, as the law restricts large players' influence on price margins.	Strong financial backing and stable purchasing power, allowing larger orders despite regulatory constraints.
Cons	Despite government acknowledgment of the importance of extending coverage, they will still be under supervisions for any future expansion.	Required compliance with more regulatory limits on shelf space, pricing, and product arrangements, and in country mergers which may affect flexibility or ability to promote products.
Law-Specific Effects	More freedom for competitive pricing and flexible terms, as large players cannot control them through monopolistic pricing or product placement.	Restricted shelf space and price practices mean large importers can't control smaller importers, impacting their leverage.
Overall Market Potential	High potential to reach niche markets and build brand loyalty in specific segments.	Broad reach with reduced ability to dominate the market as the law limits exclusive agreements.

In conclusion this law opens the Israeli market for exporters by creating a balance and competitive environment that reduced monopolistic practices. Exporters should consider all aspects that align with their goals and portfolio when collaborating with an Israeli Importer/distributor.

Attachments:

No Attachments.