



State Comptroller of Israel | Aspects of Dealing with the Cost
of Living | January 2024

Ministry of Economy

Price Control in the Food Industry



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Background

The level of prices in Israel (in purchasing power) is 27% high compared to the average in the countries of the Organization for Economic Cooperation and Development (OECD); the price gap in the food industry is even higher, 37% (compared to OECD countries) and 51% compared to European Union countries¹.

From surveys conducted by the Chief Economist Division at the Ministry of Finance in 2015–2022², it was found that there is abnormal profit among food and pharmaceuticals importers in Israel, especially among the ten largest importers. In 2021, the State Comptroller's Office found that market concentration in certain product groups in the food industry is high³. All these combined indicate that the prices of many food products in Israel, including essential food products, are high compared to other countries in the world and that the price gap is due, at least in part, to abnormal profit margins due to insufficient competition (for example, among the largest importers of food and toiletries in Israel), and not only due to unique conditions of the Israeli economy such as its size and geographical location.

The desired policy for contending with the lack of competition – one of the results of which could be abnormal profit and excess profits – is to promote structural solutions that increase competition in the long term. However, the options are limited in specific markets where structural changes cannot be promoted or in the time required for them to mature. One option is to activate price control tools.

Price controls on products and services in Israel prevent exaggerated raising of prices and excess profit. These are possible in non-competitive product markets. In Israel, controls are imposed under the Supervision of Prices of Commodities and Services Law 1996 in the following areas: energy, transportation, health, education, and food. As of 2023, the Ministries of Finance, Economy, and Agriculture jointly supervise the prices of 46 food products at different levels of supervision.

Orders of the relevant ministers impose price controls, and the levels of supervision and maximum prices (according to the level of supervision) are determined after consultation between the ministers and the pricing committee. The latter consists of representatives from the Ministry of Finance and representatives from the relevant ministry. The price committees

- 1 Explanatory Notes to the Economic Plan Bill (Legislative Amendments for Implementing the Economic Policy for Budget Years 2021 and 2022), 2021, Bill No. 1443.
- 2 Chief Economist Division in the Ministry of Finance, profitability of food and pharmaceuticals importers and the cost of living (February 2022).
- 3 State Comptroller, Report 71c (2021), "Handling of monopoly and market concentration in the food industry", p. 23.



in the food industry are the joint committees of the Ministries of Finance and Economy and the Ministries of Finance and Agriculture.

Key Figures

**51%,
37%**
**price level
gap**

of food products in Israel (in purchasing power) compared to EU countries and an average of OECD countries respectively

46
**food
products
in Israel**

subject to price control at different levels. Of which 20 products are supervised by the Ministry of Economy and Industry (of which 13 serve as an input for the food industry, among others) and 26 products are supervised by the Ministry of Agriculture

82%
**gap price in
whole meal
bread**

in Israel (NIS 9.3) per 500 grams as opposed to its average price in the four countries (NIS 5.1) (USA, UK, New Zealand, and Spain). The price of whole meal (whole wheat) bread in Israel, in purchasing power parity, is the same as in the United States and is about 66% more expensive than in the other three countries (UK, New Zealand, and Spain), as of January 2021

8–9 years

the time in which the pricing committees in the food industry did not update base prices (determining the price level and input basket) for the bread and milk products under supervision (16 products, which constitute about 52% of the food products under "close" supervision)



253%

the average price gap between the prices of whole wheat flour bread (2.17 NIS per 100 grams) and the prices of supervised regular flour bread (0.84 NIS per 100 grams)

60% increase in the price of imported butter

since the removal of the "close" supervision (price-setting) at the end of 2021 until the end of 2022 (on average, an increase of about NIS 21.5 per kg)⁴. This is compared to a moderate increase in the price of local butter, which rose only by about 5.7%

8% only

the business rate examined by the Enforcement, Trade, and Measures Administration at the Ministry of Economy about the exaggerated raising of prices in the food industry in 2021 (1,200 out of 15,000)


only 2.5 NIS million ransom fines were imposed

imposed by the Ransom Committee in 333 cases of violation of the maximum prices of food products subject to "close" supervision instead of criminal proceedings in 2018–2021; about NIS 7,600 per average price control case in these years, about 0.8%–2.5% of a small food retailer's monthly revenue

⁴ According to a survey published by the Ministry of Agriculture in February 2023, a change in the average price (and not a change in prices compared to a fixed basket of products); thus, changes in the average consumer price include both price changes and changes in the products' quantities and composition.





Audit Actions

 From August 2022 to February 2023, the State Comptroller's Office examined the work of the Joint Pricing Committee of the Ministry of Finance and the Ministry of Economy and Industry, and of the Ministry of Finance and the Ministry of Agriculture and Rural Development; the work of the price inspectors in the Ministries of Economy and Agriculture, and the enforcement and supervision of maximum prices set under the Supervision of Prices of Commodities and Services Law 1996 in the Ministry of Economy and the Consumer Protection and Fair Trade Authority. Among other things, the following issues were examined: The price control policy in the food industry, the effectiveness of price controls, the pricing committee's considerations in imposing, removing, or changing the level of supervision, and the effectiveness of enforcement and tracking of control decisions and orders. Completion examinations were conducted at the Competition Authority, the Ministry of Health, and the Central Bureau of Statistics. Meetings were held with the Food Manufacturers Association in the Manufacturers Association, with manufacturers and marketers whose products are subject to price controls, and with an academic expert in law and economics.




Key Findings



-  **Monitoring the Profitability and Costs of the Supervised Products** – the Ministry of Economy inspector did not orderly monitor the supervised activities (the bread bakeries, the starch and glucose manufacturer, and the salt manufacturer, for example) according to the Price Committee's procedures, he neither requested nor received cost and profitability reports, as defined in his work procedures for all the supervised products in 2018–2021. Moreover, as of 2023, the latest report on the profitability and costs of the supervised bread bakeries held by the Ministry of Economy inspector has been updated for 2017.
-  **Examining the Application of Price Controls on Food Products** – as of the audit completion (February 2023), it was found that various markets and segments in the food industry are still quite concentrated (the aggregate market share held by the ten most significant suppliers in the food industry was greater than 50% of the entire food and consumer products industry). In addition, the industry has significant price gaps compared to prices in developed countries and the European Union (37% and 51%, respectively). However, in 2018–2022, the pricing committees in the food industry did




not consider new products for supervision⁵, except for assessing the level of competition in the whole meal bread market. Consequently, they did not recommend imposing "tight" (setting a maximum price) or "soft" (monitoring without setting a maximum price) price controls on new food products. As of the audit completion, there are no products in the food industry that have been placed under "soft" control (according to Chapter 7), whereas 15 products previously subject to "tight" supervision were downgraded to "soft" supervision to examine profitability and monitoring. In addition, the Ministry of Agriculture is expected to conduct an examination in 2023 on the need to continue close supervision of dairy and egg products (12 out of the 26 products under the ministry's supervision).


-  **The Absence of Procedures and Criteria for the Application of Controls Under Section 6(b) of the Supervision Law** – the procedures of the pricing committees in the food industry do not include explicit instructions and criteria for the application of any of the conditions of Section 6(b) of the Supervision Law: An essential product that requires price supervision for the public benefit; product shortage due to extraordinary circumstances; to curb inflation or achieve the government's economic and social policy goals. It was also found that, despite the significance of certain food products as essential for everyone, there is an absence of a defined list of essential products and services across various industries of the economy, particularly in the food industry. This absence is notable in both legislation and decisions made by different government ministries and in the procedures outlined by price committees within the food industry.
-  **Gaps in the Execution of Market Surveys and Monitoring of Competition Levels and Prices of Products Under Supervision, Whether Subject to Supervision or Excluded from it** – it was found that in 2016–2022, the Ministry of Agriculture inspector conducted market surveys, as defined in the procedures of the price committees in the food industry, independently and not as part of the price committee, both on products under the supervision and those exempt from it. On the other hand, he (at that time) did not conduct periodic analyses during these years to identify the prices of products under supervision, analyze them, and monitor them (except for an independent examination of the prices of yeast outside the scope of the committee's work) or such that require supervision (except for a single examination in 2019 in collaboration with the Strategy Division in the Ministry of Economy).
-  **Publication of Reports by Monopolies in the Food Industry** – as of the audit end and over a decade after the publication of the Trachtenberg Committee recommendations and Government Resolution 3984 (from 2011), the Minister of Economy did appoint a team to examine the publication of reports by declared non-public monopoly companies. However, the team did not publish a memorandum of law, and no


5 This refers to the products first examined in the time frame between January 2018 and December 2022, rather than the products the committee continued to discuss following the examinations that began in 2016, such as the marketing margin on fruits and vegetables and the prices of baby food compounds, which ended in 2019 with a recommendation not to impose any supervision.



obligation to publish financial reports was imposed, neither on monopolistic companies throughout the economy nor on large food suppliers, as defined in the Food Law, which are not public.




-  **Conducting Tests to Update the Price Levels and Determine the Inputs for the Supervised Products (baseline checks)** – the pricing committees in the food industry failed to perform baseline checks (price levels and basket of inputs) according to the time specified in the supervision procedures and methodology. It was found that the tests regarding the supervised dairy and bread products had not been updated for 8–9 years, respectively, compared to two to five years as defined in the supervision methodology and work procedures of the committees in the food industry (supervised dairy and bread products constitute about 52% of products under "tight" supervision – 16 out of 31 products). In addition, as of the audit end, about five years have passed since a baseline check was conducted for the prices of the supervised dairy products (which was neither approved nor made public) and about six since the financial activity on which it is based; hence, it is highly doubtful whether this test still accurately reflects the costs of the dairies that produce the supervised products.

-  **Time Intervals for Regular Updates to the Prices of the Supervised Products (linking)** – it was found that a regular update of the prices of dairy products and edible eggs in 2021–2022 was carried out for extended periods (between 153 and 280 working days) from the date of contact made by the supervised or from the date of the first discussion in the Pricing Committee – Agriculture, until permission to increase by order from the Ministers of Finance and Agriculture. The Prices Committee – Agriculture submitted its recommendations within the legally allotted time frame or with a slight deviation (4 working days). The delay occurred in the phase between submitting the committee's recommendation to the ministers and signing the update orders by the ministers. The time from the committee's recommendation to the approval of the increase by order from the Ministers of Finance and Agriculture is 2.4–5.2-fold longer than the time allotted to the price committee to formulate its recommendation to the ministers (45 working days). It was also found that a regular update without the need for ministerial order signing is performed within the time specified by the law and in a short time (30 working days on average) to a considerable extent (the time is shortened by 86%) compared to a regular update that requires the ministers to sign an order (232 working days on average).


-  **The Application of Controls on the Price of Whole Meal Bread** – despite the Ministry of Health emphasizing in 2014 the need to consume whole meal bread (rather than regular bread) to reduce morbidity and improve health, the Prices Committee – Economy recommended in 2021 not to impose any control on the prices of whole meal bread. This decision was made without consulting with the Competition Authority and without an external consultant regarding the level of competition and concentration in the whole meal bread market. As of the audit end, there is no supervision of the price of



whole meal bread, and it is, on average, 2.58-fold the price of controlled regular bread (NIS 0.84 compared to NIS 2.17 per 100 grams, without VAT).

-  **The Supervision of Regular Bread Prices (controlled bread)** – the Prices Committee – Economy did not assess the level of competition in the controlled bread market for over 20 years from the enactment of the Supervision Law in 1996 until 2019. It was also found that as part of the regular update check of supervised bread prices in 2022, the Price Committee found it necessary to reduce the price of white bread by about 0.7%. However, reducing the price of a product under supervision, according to Chapter 6, is not within its authority, and it is entitled to recommend to the ministers that the product be supervised, according to Chapter 5, for a short time. The committee did not recommend tightening the level of supervision to reduce the price, among other things, since there is an ongoing trend of decline in the consumption of supervised white bread among the general population (the scope of production of sliced and packaged white bread out of the production of all supervised breads decreased from 0.8% in 2015 to 0.4% in 2017).
-  **The Effect of Removing Butter Prices from "Tight" Supervision** – according to the Ministry of Agriculture survey, the average price of imported butter has risen by about 60% since being removed from "tight" supervision in November 2021 until December 2022. The State Comptroller's Office found that in the United Kingdom, the average consumer price of butter in a 250-gram pack increased by about 29% from June 2019 to the end of 2022 (about 31% in 2022 alone). In the United States, the average consumer price of butter in a pack weighing about 450 grams increased by about 23% from June 2019 to the end of 2022 (about 38% in 2022 alone). At the same time, it should be noted that from June 2022 to February 2023, there has been a continuous decline in the wholesale price of butter in Western Europe (including the UK), with the price decreasing by about 16%.
-  **Audits and Enforcement of Controlled Prices** – there was a decline in the number of enforcement cases opened in 2021 (127) compared to those opened in 2018–2019 (1,574). The number of price violation cases decreased from an average of 118 per year in 2018–2019 to 32 cases in 2021 (a decrease of about 73%). In 2018–2021, only 27% of the audit cases in which violations of the control prices were found and then transferred from the Administration of Enforcement, Trade, and Measurement in the Ministry of Economy to the Claims Department in the Ministry of Economy matured into punitive measures (609 cases, of which 68 cases ended with a warning, 208 filed indictments, and 333 price violation cases). About 90% of the investigation files that did not lead to punitive measures, which the administration transferred to the Claims Department in 2018–2019, were reviewed by the Claims Department and closed due to lack of guilt. The internal audit conducted by the Ministry of Economy on the administration's work in 2021 found that in 2019, about 78% of the investigation files were transferred to the Claims Department, and significant investigation completions were required. These data may indicate a lack of effectiveness in enforcement.





 **Deterrence Through Penalties for Exaggerated Raising of Prices** – the median and common ransom fine in the sample (NIS 3,900) and the average ransom for 2018–2021 (NIS 7,600) are low, both compared the maximum fine allowed by the Criminal Procedure Law (13%–26%, respectively) and to the proceeds of those dealing in the industry (0.4%–2.5%). The low ransom compared the ultimate fine set in the penal laws and criminal procedure (NIS 226,000 and 29,200, respectively) and to the proceeds of small businesses in the food industry (NIS 304,000–954,000) may not deter those involved in the industry from breaking the law and causing harm to consumers.






Announcement of a Monopoly and Enforcement of the "Excessive Price Grounds" in the Competition Law – in 2023, the Israeli Competition Authority declared a monopoly in the food industry (a variety of tea products in the retail sector) and enforced the excessive price grounds by imposing a financial sanction of NIS 8 million under the Competition Law, for the first time since 1996 and since the statement of opinion in this matter from 2014, on a company operating outside the food industry. This enforcement may contribute to curbing the power and profitability of monopolists in all industries, including the food industry.

Key Recommendations

-  It is recommended that the Ministry of Finance, the Ministry of Agriculture, and the Ministry of Economy collaborate with the Competition Authority, utilizing all their tools to address the cost of living through structural solutions such as expanding imports and, if necessary, consider the incorporation of price supervision as an interim solution until these structural solutions are expressed in increased competition (the number of players in the food sector).
-  It is recommended that the Ministry of Finance, the Ministry of Justice, and the Competition Authority, together with the Ministry of Economy (tasked in the government's decision from 2011 with examining the need to publish financial reports of non-public monopolistic companies), consider publishing the financial reports of significant food suppliers with substantial financial activity in the food industry, and accordingly promote regulation.
-  To determine the level of supervision of food products, it is recommended that the pricing committees in the food industry consult with the competition authority, especially in assessing the level of competition in food product markets that are important in general and to public health in particular, such as whole meal bread.
-  It is also recommended that the Pricing Committee – Agriculture collaborate with the Competition Authority to examine if there is abnormal profit in butter imports and the

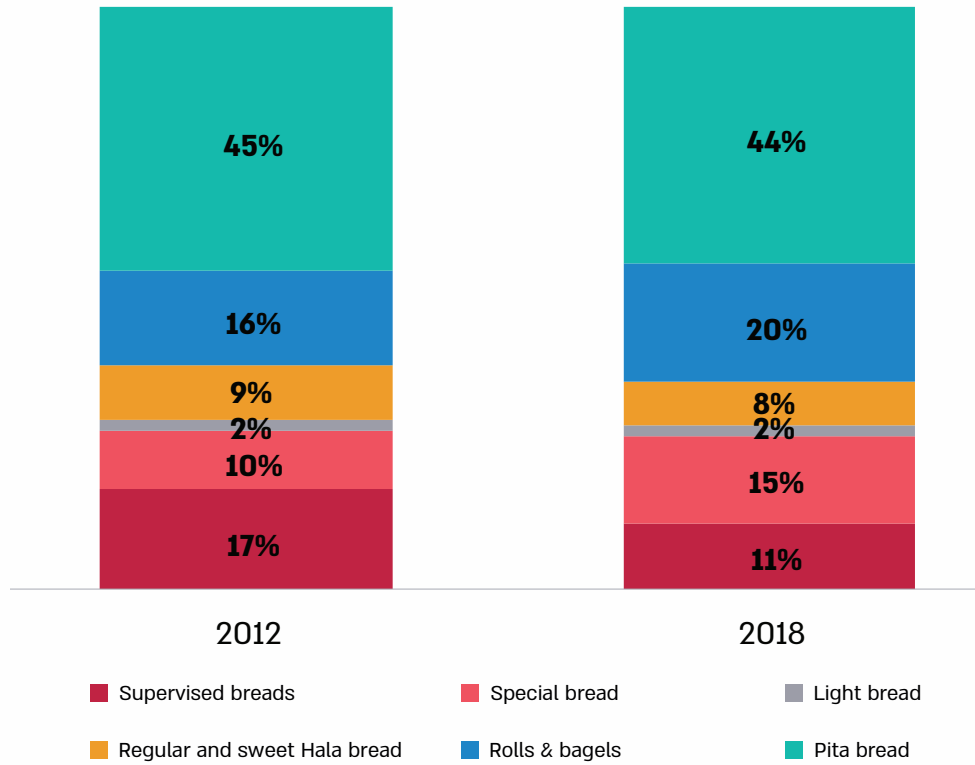


source of that profit, if it exists, in the marketing/import segment (sale to retailers) or the retail segment (sale to final consumers), and accordingly tighten supervision.

-  The Ministry of Economy inspector should regularly monitor the activities of the supervised entities in the various products and demand financial reports on costs and profitability, according to the procedures of the pricing committees in the food industry, as is done by the inspector in the Ministry of Agriculture.
-  It is recommended that the pricing committees in the food industry periodically consider including new food products under "soft" price control (according to Chapter 7) for certain products that may require supervision due to the grounds specified in the Supervision Law. This should be based on considerations such as the absence of competition, overall market concentration, and the lack of competition in essential products.
-  It is recommended that the Ministry of Economy consider to increase the effectiveness of supervision and deterrence, including the initiation of legislative amendments to the Supervision Law and adding administrative enforcement tools under Government Decision 1898 of 2014, as previously done in the Competition Law and Consumer Protection Law. It is also recommended that the ransom committee examine the effectiveness of the ransom amounts imposed by it.



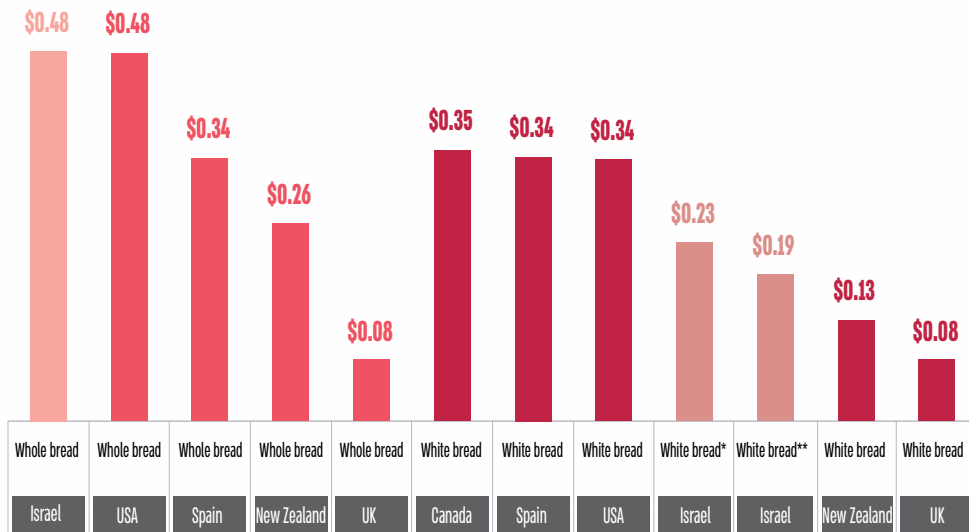
The Relative Expenditure on Bread of Households in the Bottom (lowest) Income Quintile, 2012 and 2018



According to the Pricing Committee – Economy decision on the matter of baseline checks for the supervised bread prices, processed by the State Comptroller's Office.



Prices of Whole Meal Breads and Supervised Breads in Israel and in Several Countries in the World, Without Indirect Taxes, Adjusted to 100 Gram and in Purchasing Power Parity, January 2021



According to pricing committee data and international data as specified in Appendix B, processed by the State Comptroller's Office.

* Packaged and sliced

** All supervised breads.



Summary

Food is a vital necessity and has a decisive impact on an individual's well-being and health, as well as government expenditure on welfare and health services. The average Israeli household's expenditure on food, including fruits and vegetables (2,818 NIS out of the total expenditure on consumption – 15,990 NIS), is the third largest expenditure in the goods basket of an average household (about 18%). Some food products under supervision are necessities consumed by populations entitled to promotion in society, and it should be ensured that the retailers do not exaggeratedly raise their prices.

The main purpose of the Supervision of Prices Law, in general, and in the food industry, in particular, is to prevent the exaggerated raising of prices and harm to consumer welfare, primarily due to the lack of competition, while maintaining fair returns for the supervised entities, especially industrialists and farmers in Israel's food industry. After setting the maximum price of the products, the Enforcement, Trade, and Measures Administration at the Ministry of Economy enforces their existence in the markets (price to consumer).

Examination of the pricing committees' work and price inspectors in the food industry indicated two main trends: The reduction of the "tight" supervision (according to chapters 5–6) on food products that have been supervised for years. And the failure to consider the imposition of price controls on new products through "soft" supervision for monitoring and control purposes (chapter 7). These trends have occurred despite high market concentration in the food industry in Israel and abnormal profit in specific segments of the food industry, particularly among the top ten importers in the food and pharmaceuticals industry. Also noted are significant price gaps in Israel compared to the world in food products (37% compared to OECD countries and 51% compared to European Union countries), including food products such as whole meal bread.

An examination of the enforcement of maximum prices among the retailers found that in 2018–2021, most of the enforcement cases (61%–93%) transferred by the administration to the claims department were closed due to lack of fault. It was also found that the average ransom imposed in 2018–2021 (7,600 NIS) is low compared to the ultimate fine set in the penal code and criminal laws and compared to proceeds of small businesses in the food industry, and that it may not sufficiently deter industry participants from breaking the law and harming consumers.

The Israeli economy is still centralized and uncompetitive in many product markets, especially in the food industry. It is recommended that the pricing committees and inspectors in the food industry increase monitoring of various markets (in their ongoing work in the preliminary phase to impose "soft" or "tight" supervision), considering changes in consumer preferences in recent years. In product markets with a lack of competition and an abnormal profit, the focus should be on essential products with positive benefits for consumers and society, such as health benefits and nutritional security (e.g., whole meal bread).