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ANNUAL REPORT ON COMPETITION POLICY DEVELOPMENTS IN ISRAEL

-- 2010 --

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ANNUAL REPORT ON COMPETITION POLICY DEVELOPMENTS IN ISRAEL¹

Executive Summary

1. This report summarises recent developments and changes in Israel's competition law and policy and overviews some of the main enforcement activities of the Restrictive Trade Practices Act, 5748-1988 (hereinafter – "Antitrust Law") for the period of January 2010 through May 2011.

The Israeli Antitrust Authority (hereinafter – IAA) is an independent government enforcement agency established in 1994 under an amendment to the Antitrust Law. Its mandate includes preventing market power through merger control and anti-cartel enforcement, restraining abuse of dominant position by firms and enhancing competition in the various markets. An Antitrust Tribunal, sitting within the District Court of Jerusalem, has exclusive jurisdiction over non-criminal governmental antitrust proceedings. The District Court of Jerusalem has exclusive jurisdiction over criminal antitrust matters. Both criminal and civil antitrust rulings are subject to appeal before the Supreme Court.

2. In the period covered by this report, the IAA acted to protect and promote competition in various sectors of the economy through proactive enforcement of the Antitrust Law, promotion of legislative amendments as well as advocacy efforts. The notable developments include:

- The Knesset approved a legislative amendment which allows the IAA to enforce the provisions of the Antitrust Law in the maritime transport sector.
- The Knesset Economic Committee unanimously approved a legislative amendment to the Antitrust Law that grants the IAA tools to effectively address oligopolies.
- Israel's 5 largest banks appealed against an IAA decision stating they were engaged in restrictive arrangements concerning exchange of information regarding fees.
- IAA indicted Israel's largest food retailer in an alleged attempt to reach a restrictive arrangement and an alleged violation of merger conditions.
- IAA published a law memorandum draft concerning the addition of a financial sanction mechanism to the Antitrust Law.
- IAA opened investigations regarding an alleged cartel in the bread market and an alleged cartel among gardening and pruning contractors.
- Horizontal Merger Guidelines, Failing Firm Defence Guidelines and Draft Merger Remedies Guidelines have been published by the IAA.

¹ Disclaimer: The information included in the Annual Report on Competition Policy Developments in Israel is published for informational purposes only. It does not constitute legal advice and does not derogate in any way from any official documents.

1. Changes to competition laws and policies

1.1 Summary of new legal provisions of competition law

1.1.1 Oligopolies Bill passes Knesset Economic Committee

3. On February 23, 2011, the Knesset Economic Committee unanimously approved a legislative amendment submitted by the government that provides new tools for effective dealing with oligopolies. The proposed amendment, which now has passed its first of three readings in Parliament, was approved by the Ministerial Committee for Legislation, chaired by Minister of Justice Prof. Yaakov Neeman.

4. The amendment is based on a legislative bill issued by the IAA on 19 June 2008, designed to amend the Antitrust Law with respect to dealing with oligopolies. The bill clarifies the need to respond to the competition problems resulting from the existence of oligopolies in the Israeli economy. An Experts Committee for Re-examination of the Law has concluded that there was a clear need to make a substantial change regarding the handling of oligopolies in the Law's framework.

5. The amendment provides the IAA with tools for dealing with oligopolies. These are established through two main amendments which remove the deficiencies in the current statutory language. The first being an amendment of the definition of oligopolies – the current definition refers to collective dominance, and is based on the degree of competition which exists between the members of the group. It provides that collective dominance will be found when there is no competition at all between the members of the group, or where the competition between them is slight. This definition is problematic, as the level of competition cannot be directly measured in an empirical quantitative manner. This deficiency has rendered relevant provisions ineffective. It has therefore been proposed to define an oligopoly, based on the existence of conditions for slight competition between the members of the group, and not on the actual quantity of competition between them.

6. The second tool is formed through the distinction between a monopoly and an oligopoly and the manner in which the Law regulates them – currently the Law imposes the same obligations on a monopoly as it does on a collectively dominant group of firms, in the context of the chapter dealing with monopolies. The Committee's conclusion was that these provisions are appropriate for the regulation of a single company, which is presumed to be the party controlling the market, but not for the regulation of the members of an oligopoly.

7. The motivation to amend the law is based on the recognition that the types of behaviors that are forbidden for a monopoly are different from the problematic behaviors of an oligopoly, since they are based on different economic phenomena. The proposed language will make it possible to give instructions to all or some of the members of an oligopoly in order to, inter alia, prevent damage to competition and to consumers, or to increase competition between the members of the oligopoly.

8. The second and third readings are expected to take place in the course of the next session of the Knesset in 2011.

1.1.2 Law Memorandum Draft Concerning Financial Sanctions

9. On 19 September 2010, the IAA published a law memorandum draft concerning the addition of a financial sanction mechanism to the Antitrust Law.

10. Enforcement through the use of financial sanctions has, during the past decade, become more common in Israeli legislation, and especially in statutes dealing with economic issues. The proposed law adds an additional enforcement tool to the Antitrust Law, one which allows the IAA to impose financial

sanctions, and is similar to what is found in other economic laws dealing with enforcement. This enforcement tool is adjusted for the specific characteristics of enforcement in the area of antitrust.

11. The objective of the proposed law is the creation of an administrative enforcement tool, which will enable a more effective, fast and efficient response to specific types of violations of the law, for which the current legal framework does not provide an adequate response. It does so by forming a mechanism for the imposition of a financial sanction of a maximum amount that is not fixed in advance, but which is instead dependent on the sales volume of the party that has committed the violation.

12. In addition to setting the sanction and the violations for which it can be imposed, the proposed law also establishes a defined procedure for imposing sanctions which includes a hearing process and a judicial review system both with respect to the imposition of the financial sanction itself, and with respect to the size of the sanction. Judicial oversight is granted through the submission of an appeal to the Antitrust Tribunal.

13. Antitrust enforcement in Israel has two basic elements: the criminal track and the civil-administrative track, which are both regulated through the Antitrust Law. The adoption of a mechanism in the Law for the imposition of a financial sanction provides a solution for difficulties that result from the lack of appropriate enforcement tools that are needed to deal with certain types of violations which do not qualify for criminal enforcement, and it is intended to constitute a supplementary tool for the existing civil-administrative enforcement mechanisms.

14. The need for adoption of a financial sanction mechanism within the Antitrust Law was acknowledged not only by the IAA but also by the OECD in the course of Israel's accession review and by other government bodies, including the State Comptroller, who expressed support for the legislation that the IAA is promoting.

1.1.3 Amendment on Maritime Transport Regulation

15. At the end of 2010 a legislative amendment which allows the IAA to enforce the provisions of the Antitrust Law in the maritime transport sector was enacted. The amendment was prepared in cooperation with the Ministry of Justice, Ministry of Finance and Ministry of Transportation. It annuls the exemption from competition enforcement, previously held by the shipping sector.

16. Thus far, Paragraph 3(7) to the Antitrust Law stipulated that all forms of international sea transportation were immune from antitrust scrutiny. The statutory exemption implied that maritime liner shipping companies could engage in various types of agreements, regardless of their consequences on competition and without the need for any authorization from the IAA. Following the reform and as part of its new powers, the IAA will have the mandate to enforce the provisions of the Antitrust Law on agreements between companies that concern maritime transportation to and from Israel and evaluate their effect on competition.

17. The IAA is in the process of drafting a block exemption for agreements between liner shipping companies. The block exemption concerns liner shipping for consortia and conferences and aims to set a standard clarifying what agreements do not impede competition, and hence can proceed without filing for approval with the IAA. In the process of articulating the draft block exemption, the IAA relies, inter alia, on the experience of the European Commission in this field.

18. Given the characteristics of the Israeli market and its dependence on transports for international trade, there is great importance for opening agreements between liner shipping companies to antitrust scrutiny. Enhancement of competition in this sector is needed to reduce prices, facilitate international trade and contribute to economic growth. The legislative amendment in the maritime sector follows the 2008 amendment regarding competition in the air transport sector.

1.1.4 Affiliated Companies Block Exemption

19. On March 17th 2011, a new Block Exemption concerning restrictive arrangements between affiliated companies was published. The main goal of this Block Exemption is to relieve subsidiaries of a parent company from the duty to file for specific exemptions with respect to agreements among themselves. The Block Exemption Concerning Affiliated Companies complements a statutory exemption for restrictive arrangements between a parent company and its subsidiaries. In addition, revisions have been made to the existing set of Block Exemptions, essentially aiming to expand their reach to additional practices that do not raise substantial competitive concerns.

1.2 Summary of New Guidelines

1.2.1 Horizontal Merger Guidelines

20. On 23 January 2011, the IAA published its Horizontal Merger Guidelines, after gathering and processing public comments. The Guidelines are based on the principles used by the IAA as reflected in its decisions and court rulings. They describe the methodology and the main types of evidence on which the IAA would typically rely to predict whether a horizontal merger may substantially harm competition. The Guidelines outline how the IAA evaluates the likely competitive impact of mergers and whether those mergers comply with the law, and more generally they reflect the current state of merger analysis, and add to the overall transparency of the IAA's activity.

1.2.2 Failing Firm Doctrine Guidelines

21. The final version of the Guidelines of the FFD (Failing Firm Doctrine) was published on 25 January 2010 following public consultations and discussions with foreign competition agencies. The FFD supports the approval of a merger that involves a firm which is facing economic distress and which, for that reason, would inevitably exit the relevant market absent the proposed merger. The main principles of the doctrine emphasize that the rationale for approving mergers under FFD is rooted in the lack of causation between the merger and the competitive harm which would follow. The guidelines also deal with the relationship between bankruptcy law and antitrust law which highlight the independence of each set of laws.

1.2.3 Draft Merger Remedies Guidelines

22. On 23 January 2011, the IAA published its Draft Guidelines for Remedies in Mergers for public comments. The process of preparing the draft guidelines included review of past decisions of the IAA, a comparative study of merger remedies in foreign legal systems, consultations with experts as well as other competition agencies. The Draft Guidelines outline the general considerations for using remedies when assessing mergers that create a reasonable concern of substantial harm to competition. When appropriate, the Director General takes the following principles, among others into consideration:

- Remedies should address specific anti competitive concerns;
- Remedies must be enforceable and should allow effective supervision over the merging parties' compliance.
- The design of remedies should seek to minimize monitoring costs.
- Remedies should be tailored to address the competitive concerns in a timely manner.
- Remedies must be feasible in the sense that parties should have the ability to comply.

2. Enforcement of competition laws and policies

2.1 Action against anticompetitive practices

23. The Antitrust Law provides for varied remedies in cases of infringements or violations of the Law, some of which qualify as a criminal offence as well as a civil tort as explained hereunder.

24. Severe antitrust violations may be subject to criminal prosecution and may result in fines and prison sentences. Liability is imposed upon the corporation and its executives.

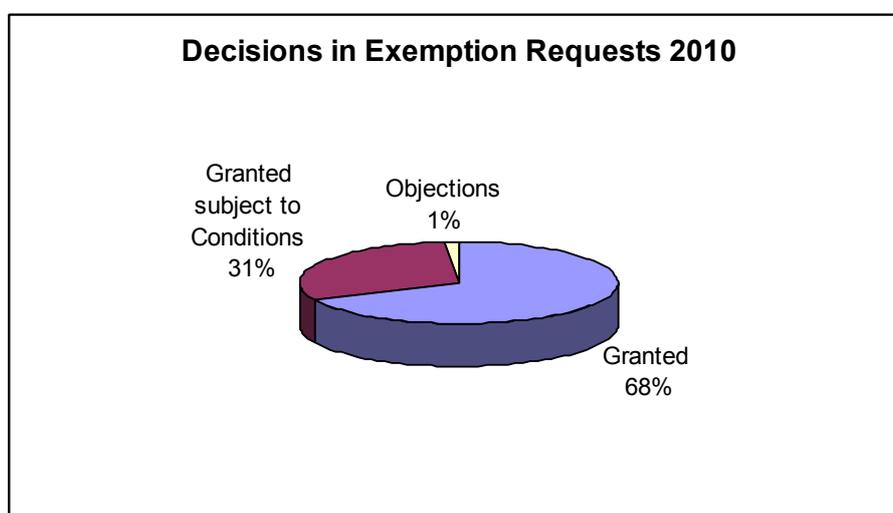
25. The civil and administrative remedies for infringements of the Antitrust Law include consent decrees, injunctions and court orders granted by the Antitrust Tribunal. The Director General has the power to declare an activity as prima facie illegal and the power to issue rules of conduct to monopolies.

The Antitrust Law stipulates that the concentration of more than half of the total supply or acquisition of an asset, or more than half of the total provision or acquisition of a service, in the hands of one person is deemed to be a **Monopoly**.

The law defines a “**restrictive arrangement**” as an arrangement made between two or more persons conducting business that limits at least one party to the arrangement in a manner that may prevent or reduce competition. The law also provides a list of per se prohibitions. Accordingly, an arrangement involving a restraint relating to one of the following issues shall be deemed to be a restrictive arrangement: the price to be demanded, offered or paid; the profit to be obtained; division of all or part of the market according to the location of the business or according to the persons or type of persons with whom business is to be conducted; the quantity, quality or type of assets or services in the business.

26. Engagement in a restrictive arrangement without prior authorisation of the Antitrust Tribunal or any other temporary authorisation is prohibited, unless the arrangement was specifically exempted by the Director General or in case it was covered by a block exemption. During 2010, the Director General handled exemption requests as follows:

Total number of Exemptions	Granted	Granted subject to Conditions	Objections
75	51	23	1



2.1.1 *Summary of main activities*

27. The IAA devotes extensive efforts and resources to enforcement against anticompetitive practices and cartel arrangements in a wide range of industries. The following illustrates some of the main enforcement activities:

- Information exchange case (Banking)

On 26 April 2009, the Director General of the IAA decided that the banks (Bank Hapoalim, Bank Leumi, Israel Discount Bank, Bank Mizrahi and the First International Bank of Israel) had engaged in a restrictive agreement regarding information exchange concerning fees. According to the decision, beginning in the early 1990s until the commencement of the IAA's investigation in November 2004, executives of the banks involved in the field of fees exchanged information with respect to presently collected fees as well as future conducts concerning fees. This information, which included non-public data, was taken into account by the banks while they were in the process of setting their fees policy and allowed them to align their activities with respect to fees, thus hindering the competitive process.

An appeal against the decision was brought by the five banks to the Antitrust Tribunal where the case is being heard. In May 2011 the Tribunal referred the parties to mediation, before the former head of the Antitrust Tribunal, Justice Adiel.

- Credit Card Interchange Fees Case

In 2006 the Antitrust Tribunal received a request for approval of interchange fees from the three Israeli credit card companies, Leumi Card, Isracard and CAL.

The interchange fee is the price the "acquiring" bank pays the "issuing" bank in a case where a vendor receives a card payment from a different operator than the one he has an agreement with. The interchange fee is agreed upon by the banks in order for them to cooperate and ease the use of credit cards. The cost of the service is born by the vendor as it is in its interest to be able to accept card payments from other banks than the one it has an agreement with, as a service to its customers.

The Antitrust Tribunal and the IAA have tried to minimize the interchange fee. In 2012 it will be 0.875% down from 1.5%. In 2011 the Tribunal petitioned the IAA's chief economist to conduct a cost-based study to determine the accurate level of the interchange fee and issue a report with recommendations. The IAA's Chief Economist submitted a (classified) report with recommendation to the Tribunal in May 2011.

- Conditional Exemption for IATA

On 14 November 2010, after consulting with the Exemptions and Mergers Committee, the IAA decided to renew the conditional exemption given for the restrictive arrangement between the International Air Transport Association (IATA) and those airlines that have entered into an arrangement with that body. The arrangement deals with the establishment and use of a central computerized clearing system, which organizes the billing, settlement and payment procedures between IATA authorized travel agents and the airlines that participate in the arrangement, through the use of what is known as the BSP program.

The IAA's investigation of the matter related to the concern that the airlines will use the BSP program to exercise joint power vis-à-vis the travel agents. In light of this concern, the Director General stipulated a number of conditions for the grant of the exemption, including restrictions on IATA's ability to disconnect particular travel agents from the system.

The IAA's review indicated that subject to the conditions, the arrangement does not cause any substantial harm to competition, and under these circumstances, a three-year exemption was granted.

- IAA Approves Cooperation in the Effort to Act against Pirate Websites

On April 11th 2011, the IAA granted an exemption from the need to obtain approval for a restrictive arrangement between a group of entities that produce and distribute audio-visual content. The exemption deals with the joint establishment of a company which will engage in the enforcement of the intellectual property rights in the audio-visual content of the parties to the arrangement - pursuant to the Copyright Law, 2007 and the Performers' and Broadcasters' Rights Law, 1984 - against Internet websites that engage in large-scale infringement of these rights. The exemption has been granted for three years, and was issued subject to a number of conditions. The applicant entities include the cable and satellite companies, the Channel 2 and Channel 10 franchisees, as well as others. According to the approved outline, the company, when it is established, will engage in locating and monitoring pirate websites; exposing the operators of pirate websites through legal measures; collecting evidence and filing lawsuits against pirate websites, etc. According to the outline, any Israeli corporation that has been engaged for at least two years in the production or distribution of content may join the company as a shareholder. The arrangement gave rise to several concerns with respect to spill-over effects and the possibility that new producers and broadcasters would be prevented from joining the company. Accordingly, the exemption was granted subject to a series of conditions, the objective of which was to restrict the contacts between the member companies to the necessary minimum, and to prevent the imposition of unreasonable restrictions with regard to allowing new producers and distributors to join the company.

2.1.1.1 *Cartel investigations and Criminal Cases*

- Bread Cartel Investigation

In May 2010 the IAA Investigations Department conducted searches and arrested a number of executives for questioning in the course of a criminal investigation in the bread industry which is estimated at over NIS 2 billion annually (approx. USD 0.5 billion). The IAA suspects that Israel's three largest producers of bread colluded in an alleged cartel which included price fixing, bid rigging and market division.

- Gardening and Pruning Contractors Cartel Investigation

In December 2010, the IAA Investigations Department, in cooperation with the Police's National Unit on Fraud Investigations, initiated an investigation of various gardening and pruning contractors. The investigation focused on suspicions of restrictive arrangement offences that had been committed under aggravated circumstances – in particular with respect to price coordination, coordinated efforts in bidding on tenders and market division. Other than the suspicions regarding the offenses to the Antitrust Law, some of the suspects were also questioned with respect to offences involving fraud, bribery and money laundering. During the course of the investigation, 9 key suspects were detained for a number of days, 43 suspects were questioned,

searches were conducted in the suspects' offices, a significant number of documents and computer materials were taken, and a sum of approximately NIS 12 million was seized.

- Construction Cartel Case

In 2010 the IAA pressed criminal charges against the Association for Constructors and Builders in Israel (ACB). The ACB was charged with issuing an illicit course of action to its members, and a number of contractors were charged with restrictive arrangements.

The charge against the ACB was based on an advertisement it had placed in an industry magazine. The advertisement urged its members not to participate in tenders that did not compensate for a rise in iron prices. This conflicts with the prohibition for commercial associations to provide its members with a course of action regarding price, location or other matters that restrict competition. The second charge was against a number of contractors that had colluded to pull out of a government tender, for construction of public shelters in the Southern part of Israel. The tender was in two stages; the government would choose 14 contractors willing to commit to a set maximum price for the work, the second part was for these 14 contractors to give individual offers to win the tender.

After the completion of the first stage of the tender a number of the contractors met with representatives of the ACB, at its offices, and decided not to hand in their individual offers. This collusion to restrict from competing is the grounds for the charge against them. In addition, one of the contractors attending the meeting breached the agreement and proceeded by giving the government an offer for the tender. His offer was based on the information he had received in the meeting and as he was the only one submitting an offer it was a very high one. The case is currently being heard in court.

- Sound system Cartel Case

In March 2011, the Jerusalem District Court sentenced the three defendants in the sound system cartel to two months in prison, four months of community service and six months of community service, respectively, in addition to fines. In the context of this cartel, the parties agreed to divide several large sound system jobs amongst themselves. The cartel's existence was discovered after the IAA had taped meetings between the defendants. The defendants also admitted that they had entered into prohibited agreements pursuant to which Betty Bam, one of the cartel members, did not compete for the sound system and lighting work during the Pope's mass (in Israel) in the year 2000. The defendants further admitted that Betty Bam had agreed with Kilim Electronics not to compete for the provision of sound system and lighting services for the opening of the Bahai Gardens in Haifa in 2001, and that the companies had coordinated among themselves the prices to be offered for the execution of these jobs.

- LPG Cartel Case

On 7 March 2010, the Jerusalem District Court sentenced former Chairman of Dorgaz to pay 800,000 NIS in fines and to a conditioned imprisonment of 12 months. In addition, the Court decided to disqualify him from serving as a board member in any public company for two years due to his grave misconduct as Chairman of Dorgaz.

The defendant was convicted in January 2010 after an indictment was filed in 2004, against the four large LPG companies – Pazgaz, Amisragaz, Supergaz, and Dorgaz – and against corporate officers in those companies. According to the indictment, the parties to the cartel violated the

Antitrust Law and damaged competition in that they divided the market among themselves, according to customers in the residential sector and the industrial-commercial sector. The offenses took place between 1994 and 1996. These companies held more than 90% of the gas market.

- Shufersal Case (Retail)

In February 2010, the IAA indicted the largest Israeli food retailer Shufersal and several of its executives with an alleged attempt to reach a restrictive arrangement and an alleged violation of merger conditions. The indictment followed an extensive investigation by the IAA's investigation department which began six months earlier. The case against Shufersal is currently being heard by the Jerusalem District Court.

The background of this case involved the Shufersal-Clubmarket merger in 2005, where Shufersal acquired the failed Clubmarket chain of supermarkets. The merger was approved with conditions by the Director General of the IAA, who mentioned in his decision that the merger included two out of the three largest supermarket chains in Israel. Concerns over harming competition arose in the context of the potential effect on suppliers and on consumers. The approval of the merger was linked to the financial downfall of Clubmarket and was based on the failing firm doctrine. Conditions were imposed to address the competitive concerns and to assist market competition to recover from the collapse of Clubmarket and the structural changes which followed its acquisition by Shufersal.

The investigation found that in response to a discount promotion campaign of a competing supermarket chain (Blue Square), Shufersal contacted a number of suppliers whose products were discounted and ordered them to take action to end those discounts by Blue Square. Allegedly, Shufersal decided to stop purchasing from suppliers who would not comply with its instructions. According to the indictment, in taking these actions, Shufersal and its senior managers violated the Shufersal - Clubmarket merger conditions, and in addition were attempting a restrictive arrangement in order to reduce competition between Shufersal and its rivals.

2.1.1.2 *Monopolies*

- Israel Postal Company

On October 17, 2010, the IAA notified the Israel Postal Company that it was considering declaring it to be a monopoly with regard to access to the addressees of mail distribution centers. The IAA also notified that it was considering ordering the Israel Postal Company to open the distribution centers to its competitors.

Currently, a substantial segment of the public does not receive mail items in home mailboxes. Instead, they are required to collect the mail that is sent to them at mail distribution centers located near their homes. These centers contain dozens, hundreds or sometimes even thousands of mailboxes of various addressees. Most of the distribution centers are in small localities or in peripheral areas.

The IAA's investigation indicated that the Israel Postal Company appears to have exclusive control regarding access to these centers for the purpose of distributing mail. This exclusive access has special competitive significance in the context of bulk mailing services, which were opened to competition several years ago. Bulk mailing services are generally offered to clients

who wish to send large amounts of mail items to addressees at a specific point in time (such as public institutions and large companies).

This exclusive control of the distribution centers means that no one other than the Israel Postal Company can offer mail services, including bulk mail services, to addressees whose mailboxes are located in distribution centers. Thus, the Israel Postal Company appears to be a monopoly regarding the access to the addressees of the distribution centers, and the IAA is considering declaring it to be such.

The IAA asserts that the Israel Postal Company's exclusive control of access to the distribution centers would appear to involve damage to competition and to the public, and in particular damage to competition in the field of bulk mailing. The fact that the Israel Postal Company can block its competitors from the distribution centers means that these competitors are unable to offer their customers services involving the delivery of letters to addressees whose mailboxes are located in the distribution centers.

Accordingly, and in light of the damage to competition and to the public, the IAA is considering ordering the Israel Postal Company to allow its competitors access to the distribution centers to enable competition.

- Plasterboard Monopoly - Orbond

On 30 December 2010, the IAA declared Orbond a monopoly in the plasterboard market, on the basis that it possesses substantially more than a 50% market share. Orbond, a private company that produces and supplies plasterboard, is owned by the Knauf Corporation. In addition to being the largest producer of plaster walls, Orbond is currently the only company that extracts the mineral gypsum, the main component of plaster, in Israel. In 2010 Tambur, a large domestic paint producer, entered the market.

The IAA has identified plaster walls, which are used for construction of private residences, offices, public buildings and industry, as the relevant product market. Plasterboards, which have no functional substitutes, have three uses: to divide open spaces, to cover stone walls and to serve as ceilings.

The IAA decided to declare Orbond as a monopoly in light of its market share, and the entrance of a new competitor. Orbond has appealed the IAA's decision and is waiting for the Tribunal's conclusion.

- Termination of Declared Newspaper Monopoly (Yediot Acharonot)

On 3 January 2010 the IAA announced that the daily newspaper Yediot Acharonot no longer is a monopoly. The newspaper, that was declared a monopoly in the market for daily printed Hebrew language newspapers in April 1995, has lost a significant part of its market share upon Israel Today's entrance into the market. Israel Today was first published in 2007 and in 2010 its exposure rate surpassed that of Yediot Acharonot, that had been the largest newspaper until that point. Subsequently, the IAA renounced the declaration of Yediot Acharonot as a monopoly.

2.2 Mergers and acquisitions

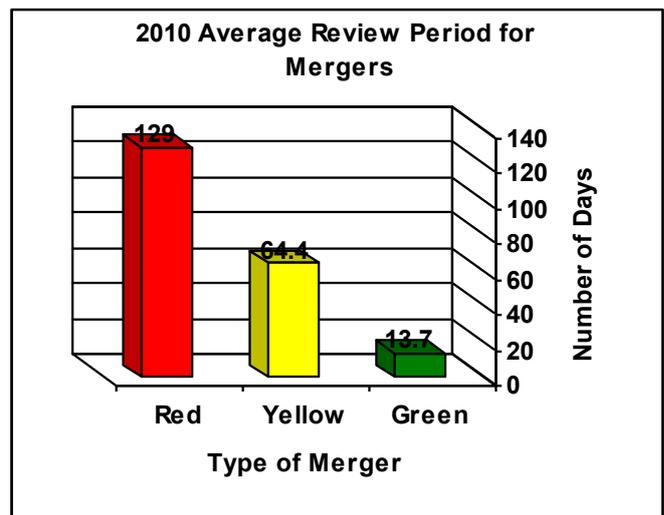
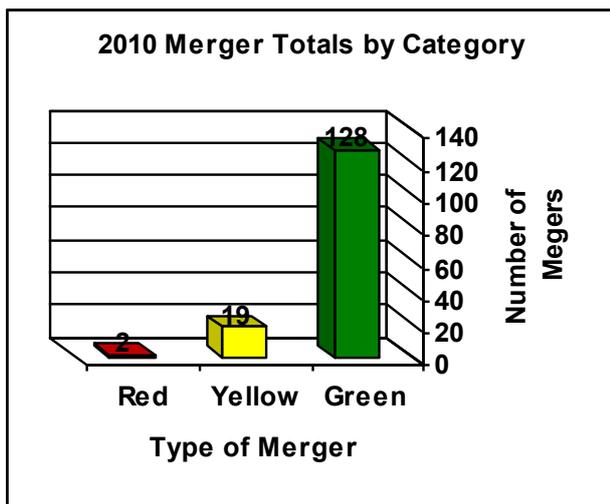
2.2.1 Statistics on number, size and type of mergers notified and/or controlled under competition laws

28. Merger control constitutes an important part of the IAA’s mission to prevent the formation of market power that is detrimental to competition.

Mergers that cross certain **thresholds** must obtain the approval of the Director General before execution of the transaction. Merging parties must submit a merger notification in the event that one of the following conditions exists:

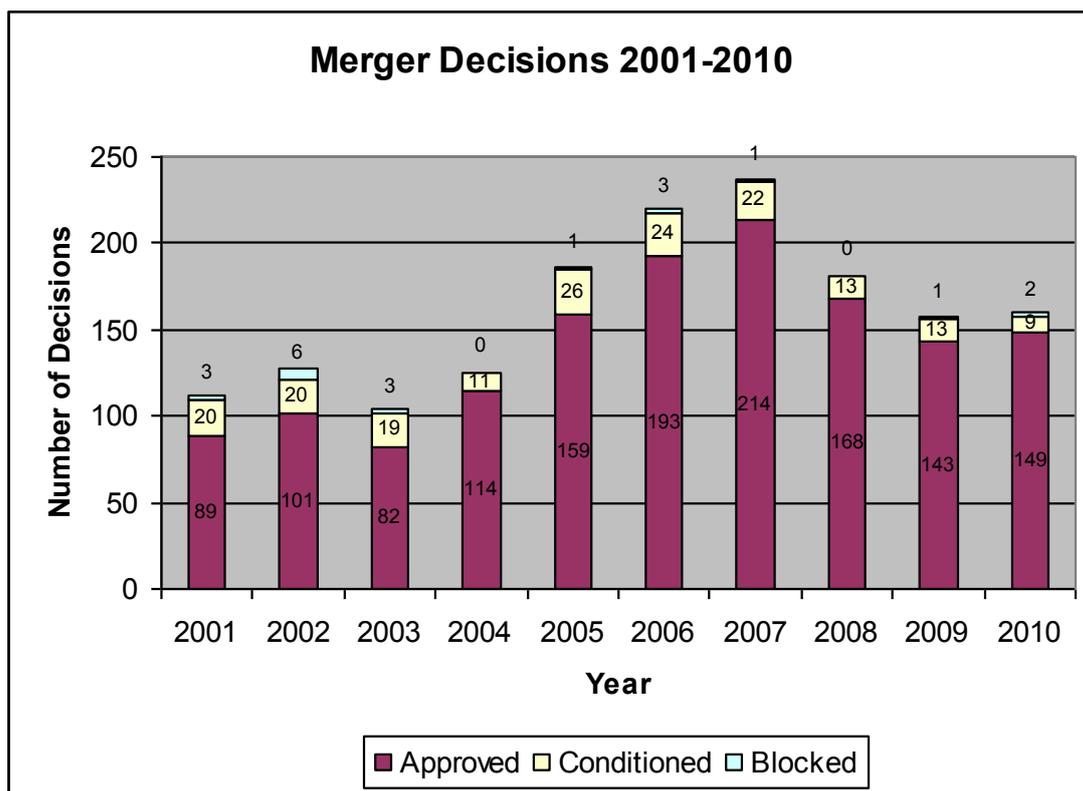
1. As a result of the merger, the share of the merging companies in the relevant market is in excess of fifty percent;
2. The joint sales volume of the merging companies according to their balance sheets for the year preceding the merger is in excess of 150 million NIS and the sales volume of at least two of the merging companies is in excess of 10 million NIS.
3. One of the companies is a monopoly.

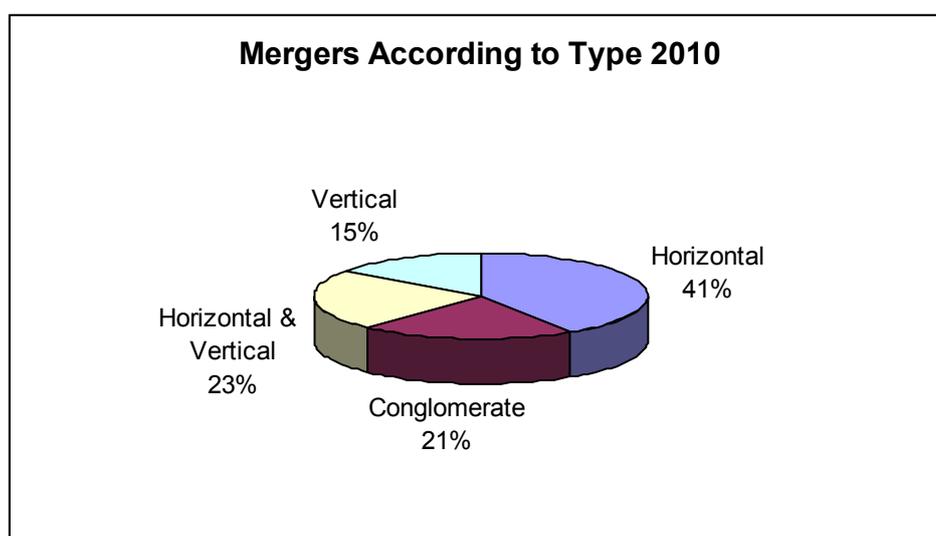
29. The Director General has the power to block a merger if the merger raises a reasonable concern of substantial harm to competition or the public. He can clear the transaction or approve it under conditions. The Director General’s decision is subject to an appeal to the Antitrust Tribunal. The Antitrust Law sets a review period of thirty days, during which the Director General is required to reach a decision. The period can be extended by the Antitrust Tribunal or when the consent of the merging parties is granted. If the IAA does not decide within the prescribed time period, the merger is deemed to be compatible with the law. The moment the IAA receives a merger notification, it is classified by the Chief Economist corresponding to the degree of preliminary concern regarding the competitive issues that are raised ("green," "yellow" and "red," respectively).



30. The following table describes the type of decisions in merger filings since 2001:

	Decisions	Approved	Conditioned	Blocked
2001	112	79%	18%	3%
2002	127	80%	16%	4%
2003	104	79%	18%	3%
2004	125	91%	9%	0%
2005	194	85%	14%	1%
2006	219	88%	10.50%	1.50%
2007	237	90.30%	9.30%	0.40%
2008	181	93%	7%	0%
2009	157	91%	8.30%	0.60%
2010	160	93%	6%	1%





2.2.2 Summary of significant cases

31. The following is a summary of several significant merger cases that were reviewed by the IAA or brought before Court during the period covered by this report:

- Lageen and Caniel Merger

On December 12th, 2010, the IAA decided to object to a merger between Lageen and Caniel, the two leading producers of tin cans for the local food industry. The IAA denied the merger as it would result in a monopoly with a 90% market share.

In March 2011, the parties appealed the decision before the antitrust tribunal claiming imports in the market pushed them to lower their prices, a claim the IAA dismissed due to the instable nature of the imports. The case is being heard by the Antitrust Tribunal.

- Kav Manche Merger

On February 25, 2011, the IAA decided to block a horizontal merger between the software companies Kav Manche and Ionline. The two companies are the only developers and sellers of real time data software for professional use, specifically used by traders in the Tel Aviv stock exchange. The decision was based on the fact that the two companies have, for several years, been the only players in the market for real time data software, and the low probability of new entry into the market in the near future. A merger between the companies would have resulted in a 100% market share and a further reinforcement of the entry barriers.

3. Key Advocacy Activities

32. On top of its mandate to enforce the provisions of the Antitrust Law, the IAA serves as an expert advisory body to the Government and Knesset in matters which concern competition. Subsequently, one of the key capacities of the IAA involves offering its professional know-how and expertise to various Government bodies and disseminating competition principles among them. The IAA's advocacy efforts are also directed towards the business and legal communities as well as the public. In recent years, the IAA has been deeply involved, through advocacy work, in numerous initiatives to open markets to competition and dissolve barriers to entry.

33. The IAA works together with government Ministries and other agencies to enhance market competition and cope with competition problems in various sectors of the economy. It also engages in discussions at the Parliament's Finance Committee and Economic Affairs Committee where its representatives present the competitive aspects relevant to various regulatory, legal and economic issues. The following summarizes the main activities during the period covered by the report:

3.1 Licenses for Natural Gas Drilling

34. Following the discovery of offshore natural gas reserves, the IAA has at an early stage taken an interest in the Ministry of National Infrastructure's process of issuing drilling licenses.

35. The IAA's involvement is designed to highlight the importance of integrating competition considerations by the regulator, i.e. the Ministry of National Infrastructures, so that the new domestic market for natural gas would not suffer from lack of competition in the future. Two working papers raising these concerns have been issued by the IAA and presented to the Ministry of National Infrastructures in 2010. The IAA found that the market for natural gas explorations was highly concentrated and therefore it recommended that new licenses would be granted to other companies rather than to the incumbent companies that have already obtained such rights.

3.2 Seawater Desalination

36. Upon a request from the Knesset the IAA has examined the state of competition in the seawater desalination sector. The examination was based on two concerns regarding how the players in the market affected the allocation of government tenders for desalination plants. First, concern was raised that IDE, one of the significant players in the seawater desalination sector is a subsidiary of Delek, a major energy group with holdings in natural gas. Specifically, the concern was that such affiliation might lead to price discrimination and foreclosure, as it would be in the interest of Delek to provide IDE with a lower price for energy than it provides IDE's rivals. The second concern relates to the fear of future monopoly pricing, in the event that IDE would grow more dominant.

37. Nevertheless, the results of the examination showed that there is no need for the IAA to intervene in the procedure of the tenders for the desalination plants, based on the following reasoning. While IDE had the potential advantage of lower energy prices, it was found that a number of the other desalination companies also had vertical ties with firms in significant sectors such as construction as well as water desalination technology. This would have given them cost advantages similar to those of IDE. Regarding the concerns about monopoly pricing, it was concluded that due to the strict conditions of the tender regarding the period of supply, price, quality and quantity, the market would not be vulnerable to monopoly pricing.

3.3 Mobile Phone Interconnection Fees

38. In June 2010, the IAA submitted its recommendations to the Ministry of Telecommunications with respect to interconnection fees (call terminations fees) in the mobile telephony sector. The mobile call termination fee is what the caller's network is charged by recipient's network.

39. The IAA asserted that the call termination segment was not competitive since each operator is the exclusive provider of this service to other companies' clients. Therefore, the price of the fee should correlate with the costs of providing the service. In addition to their effect on prices and consumers, high fees also constitute barriers to entry in the mobile and fixed telephony markets.

40. Subsequently, and after consultations with other stakeholders and experts, the Ministry of Telecommunications decided to drastically lower the termination fees, by 80%, for calls and SMS

messages to mobile phones. The reasoning behind the decision was that the original fee was substantially higher than the costs incurred by the network.

3.4 Channel 2 News

41. Within the framework of discussions regarding future reforms in the commercial broadcasting system, the IAA expressed its support for enhanced competition among broadcast channels. In October 2010, the IAA presented to the Minister of Telecommunications its opinion that any future reform should consider the negative effect on competition that results from joint ownership of Channel 2 News by the two franchisees Keshet and Reshet. The IAA stated that given the market's characteristics, such joint ownership is likely to impede the development of any significant competition.

3.5 Public Procurement

42. In the area of public procurement, the IAA works with the Government's General Accountant, who oversees the government procurement process, to promote competition in public procurement. Following this cooperation, the General Accountant agreed in 2011 to instruct government procurement officers to request from all suppliers who take part in public tenders to submit (together with the tender documents) an affidavit in which they declare that there was no collusion, coordination or illicit information exchange between the bidders.

43. In addition, the IAA has organized workshops with public officials that deal with public procurement. The workshops are designed to inform those who are involved in the public procurement process about the potential risks involved with bid rigging and the legal implications.

3.6 Campaign to promote the leniency program

44. The campaign (<http://hasinut.aa.gov.il/index.html>) was launched by the IAA in June 2010 and focused on national press and internet sites. The main message of the campaign is that participation in a cartel is a criminal offence and the leniency program offers cartel participants a chance to come clean and avoid the risk of imprisonment.



3.7 IAA's conferences

45. The IAA held its annual conference in January 2011 with the participation of Minister of Industry Trade and Labor, MK Shalom Simchon and Head of the Antitrust Tribunal, Judge Nava Ben-Or.

46. The conference included multiple breakout sessions in which representatives from the IAA, the business sector and academia, discussed various issues and developments in antitrust policy and enforcement. IAA annual conferences are attended by lawyers, economists, academics, CEOs, prominent

businessmen and government officials. The IAA introduced in its recent conference a final version of horizontal merger guidelines and a draft version of merger remedies guidelines.

47. On December 20th 2010, the IAA hosted a workshop dedicated to criminal antitrust enforcement attended by numerous experts from the private sector and academia. The workshop entailed discussions regarding criminal enforcement, financial sanctions and priorities in selecting different enforcement tools to address different types of violations.

48. In addition to the Annual Conference, IAA Director General and senior management are invited regularly to lecture at different academic conferences as well as other forums, such as the Israel Bar Association, Manufacturers Association of Israel and The Israel Export Institute. For example, in August 2010 speakers from the IAA contributed to a professional seminar on antitrust designed for young lawyers with no prior expertise in the field.

3.8 IAA's publications

49. The IAA issues a yearly public report in Hebrew summarizing its activity in the past year, in which the IAA's management elaborates on its activity in the previous year. Most of the IAA's decisions are published on the IAA's website alongside the Antitrust Tribunal and Court decisions. The Director General also administers several statutory public registries which includes decisions regarding restrictive arrangements, mergers and monopolies.

50. The IAA published two key policy guidelines, namely, a final version of horizontal merger guidelines and a draft version of merger remedies guidelines as well as a new Block Exemption concerning restrictive arrangements between affiliated companies (see supra Section 1)

51. In addition, the IAA offers a detailed online database in both Hebrew (<http://archive.antitrust.gov.il/>) and English (<http://eng-archive.antitrust.gov.il/>). The database includes archives ranging from decisions of the Director General, court decisions, legislation and press releases. This database serves as a comprehensive central reference point for all employees as well as the Israeli and the world community regarding information on IAA activities.

3.9 International cooperation

52. During the reviewed period, the IAA continued to contribute to the various ICN working groups on specific themes such as mergers, unilateral conduct and cartels.

53. The IAA's professional staff has given lectures and held presentations at numerous workshops and conferences throughout the year including expert lectures at the OECD RCC.

4. Resources of the IAA

54. The IAA budget for 2011 is 24.21 million NIS and it employs 83 staff as illustrated in the table below:

Economic Department	13 economists
Legal Department	29 lawyers (including 7 legal interns)
Criminal Investigations Department	21 investigators
Administrative Staff	14 (including IT and HR)
The Director General's Office	6
All staff combined	83 employees