

Ronit Kan, Director General of the Israel Antitrust Authority (IAA) clarified what makes Israel a Small Island Economy.

Kan referred to the size of the market in terms of population, limited demand and capacity to accommodate many players under certain circumstances. Special attention was given also to the "island factor" which stems from a combination of elements, including geographic distance between Israel and its main trading partners; limited degree of trade with close neighbors; language barriers; cultural and historic differences and substantial reliance on foreign trade;

Kan described the implications for competition policy and specifically the fact that in Israel imports are very important but not always feasible. It was also noted that lack of immediate potential competition from neighboring markets often leads to less competitive constraints on incumbents.

With respect to oligopolies, Kan provided a real case example from IAA recent experience in the liquefied petroleum gas (LPG) market whereby market dynamics have led to the formation of a concentrated market with 4 firms dominating over 90% of the LPG retail market for domestic use (heating/cooking). In addition to the oligopolistic structure, evidence for collusion was found on several instances. Criminal enforcement was taken by the IAA and prison sentences were reached in several cartel cases. Nevertheless, the aggressive enforcement did not solve the inherent structural problems which were featured by the oligopolistic market and a pro-competitive reform had to be passed to reduce entry barriers for new competitors, lower switching costs for consumers and create incentives for competition.

Kan asserted that other small economies may face comparable oligopolistic markets with similar characteristics.

Kan discussed the Israeli experience in addressing the issue of oligopolies and described a recent proposal for legislative reform based on the conclusions of an Experts Committee for Re-examination of the Law. The Committee concluded that there was a clear need to make a substantial change regarding the handling of the oligopolies in the Law's framework. Subsequently a bill was drafted in 2008 to better address the issue of oligopolies in Israel. It avails additional tools in the framework of the Law in order to respond to the competition problems in the Israeli economy. The proposed mechanism will allow the authority to issue binding recommendations in order to reduce entry barriers and lower switching costs in oligopolistic markets.

Kan concluded that the IAA, like many other antitrust regimes, faces with a constant challenge as to how to best enforce the antitrust laws in connection with harm to competition caused by the exercise of market power in oligopolistic markets. In Israel, this problem seems to be aggravated by the unique characteristics of the economy, which give rise to the creation of oligopolies. Kan suggested that the responsibility and accountability of competition agencies call for concrete action and productive solutions dealing with market power phenomena in oligopolistic markets. Based on the experience in Israel, this issue appears to be of too great importance to be overlooked. Therefore the challenge for competition agencies, whether in a small or large economy, would imply tailoring their policy with respect to oligopolies according to country specific features.