Over the past ten years, the Israeli telecommunications sector has benefited from a thorough recasting of government policy.

The country succeeded in transforming a government-dominated market into one that is competitive, customer-focused and technology-driven by pursuing a policy of liberalization, privatization and re-regulation.

Policy in this sector, as set by the Ministry of Communications, is implemented by pro-active regulatory changes and supportive legislation. Benefits to the Israeli consumer are seen in the availability of more varied and sophisticated services at reasonable prices. Our policy guidelines also call for the safeguarding of universal service and for measures ensuring network integrity. They include safety and security requirements and assure a competitive environment for telecommunications services providers.

This forward-looking environment continues to encourage growth, innovation, efficiency and investment in the Israeli telecommunications industry as well as the development of new technologies.

The Ministry of Communications will continue to promote liberalization and competition.

Government involvement in the telecommunications market will focus on regulatory activities that ensure competition and preserve universal accessibility while permitting the market to be shaped by competition. The major beneficiary will be the consumer.
Great change has characterized the Israeli telecommunications sector during the past decade, and especially in the last few years. This change is due, in part, to a regulatory evolution that is enhancing competition and leading to improvement in the variety and quality of telecommunications services.

In 1984, the regulatory and operational jurisdictions in Israeli telecommunications were separated, when all government-operated facilities were transferred to Bezeq. Promoting competition, structural changes in 1994 permitted Bezeq to continue offering tightly regulated monopoly services, but in order to participate in other market sectors, Bezeq was required to form subsidiary companies.

Bezeq today retains a general operating license, although legislative changes cancelled its exclusive fixed-service telephone rights in June 1999. Minimum call charges and per-second billing replaced the traditional meter pulses in May 2000.

Three cellular operators and three facility-based international long distance service providers currently also compete for traffic, and about 160 special licenses to cover value-added services are also issued. A tender for additional 2G and 3G cellular frequencies and for a fourth cellular operator are scheduled to be issued by January 2001.

New access and transmission technologies and the interest of existing and potential carriers to provide enhanced broadband services have led the Ministry of Communications to initiate legislative amendments and develop complementary regulations. In September 2000, the Ministry announced regulations setting out procedures and conditions for opening the fixed services market to an unlimited number of operators. A proposed change to the Telecommunications Law (‘Amendment 24’) will be brought before the Knesset by the Ministry of Communications. This amendment will transform today’s cable television franchise companies to carriers providing advanced multi-channel services that include telephony, data communications and fast Internet access. It will also enable competition for subscribers in the television broadcast market.

In July 2000, a licensed DBS provider began serving the public. Its digital television broadcasts include a basic package of about 20 channels, as well as supplementary packages and pay-per-view channels. Meeting local content obligations was one of the conditions of receiving the license.
Israel has 2.8 million direct exchange lines (47 percent penetration), using a 100 percent digital network that provides advanced value-added services to all customers.

In October 2000, the Ministry of Communications published tenders for domestic fixed telephony services, including three fixed wireless access (FWA) licenses that will operate in the 3.5 and 26 GHz frequencies. Fixed wireless broadband services will be provided using technologies such as LMDS (Local Multipoint Distribution Services) and WLL (Wireless Local Loop).

In mid-2000, there were 3.5 million cellular telephone subscribers in Israel, translating to 58 percent penetration, a growth of one million subscribers over 1999 and compared to only 125,000 subscribers in January of 1995. The introduction of competition in 1995 brought about an extremely high subscriber growth rate, one of the highest in the world. This rapid growth was achieved by providing nationwide coverage, low tariffs, the introduction of Calling Party Pays (CPP) method, network quality and effective marketing.

There are three cellular operators in Israel. Two are privately held (The third, Pele-Phone is held equally by Bezeq and a private company), and all provide countrywide coverage and modern network services. Pele-Phone uses NAMPS and CDMA technology. The second operator, Cellcom, uses TDMA technology, while Partner, the third operator, uses GSM technology.

The Israeli cellular market continues to experience accelerated growth. Text and data services are now available in SMS, WAP and IP formats, and GPRS and EDGE technologies are on the threshold.

Following publication of tenders, licenses for additional 2G and 3G cellular frequency bands will expand network capacities and enable use of broadband cellular applications.
Annual Growth in Cellular Telephone Subscribers in Israel
International Telecommunications Services

International long distance services were traditionally a monopoly of Bezeq International (a subsidiary of Bezeq, the national telecom). In July 1997, two privately-owned facility-based carriers, Golden Lines and Barak, were also licensed. Outgoing traffic quickly tripled and the new carriers rapidly gained substantial market share as the incumbent operator lost its exclusive position. Fair and transparent interconnection arrangements, equal access rules and bold cuts in retail prices have enhanced competition in international services.

The three operators deliver services over a modern digital network, including several switching facilities incorporating advanced intelligent network infrastructure. Other enhancements include optical submarine cables, digital satellite links, modern operator facilities and advanced data communications facilities.

Decrease in Consumer Prices*

* Average prices (for subscribers) of the 3 international long distance service providers.
The Internet in Israel currently has more than one million users, 30,000 domains, 800,000 dial-up and 5,000 direct-connect customers. Thirty percent of households and 60 percent of businesses use the Internet. They are served by four major and about 30 smaller Internet service providers. Fifty percent annual growth is forecast over the next several years.

Factors encouraging this growth include widespread use of computers in business and at home, advanced local telecommunications infrastructure, relatively low tariffs and a regulatory policy of minimal intervention. Several sophisticated Hebrew-language portals and the online availability of major local media also contribute to Internet use in Israel.

Israel is a leader in developing Internet applications and products, and Israeli companies operating in the field have marked several international successes. This international reputation is also recognized on the home market, and influences local interest and use.
The Israeli multi-channel subscriber television market comprises three cable television operators, each with a geographic monopoly, as well as a single DBS (Direct Broadcasting Satellite) operator that began operations in July 2000 using Israel’s Amos-1 satellite. Cable TV home-pass extends to 95 percent of households and more than 72 percent of all households subscribe (1.15 million cable-connected households).

There are two national television channels in Israel (one public and one commercial). A second commercial channel will be licensed during 2001 by public tender. These channels are carried by the cable and DBS operators, who also provide packaged access to locally-produced movie, sports and other special interest channels as well as dozens of foreign offerings. Five additional special interest TV channel franchises for distribution by cable and satellite will be licensed. The first tender for an all-news channel will be published within a few months. Cable package tiers are expected to be introduced soon as a response to DBS broadcasts.

The cable operators are preparing for digital transmission, and are replacing their coaxial distribution systems with hybrid fiber optic and coaxial lines (HFC). HFC networks improve signal transmission, increase system capacity and bandwidth, and enable telephony and high-speed Internet access. Terrestrial digital television broadcasting is now undergoing trials.

There are 11 public national AM/FM radio stations and 14 commercial local FM radio stations, licensed by public tender.

Digital audio broadcasting (DAB) services were approved by the Ministry and will be licensed by public tender during 2001.

The Amos-1 geostationary satellite, located at 4 degrees West, began operations in 1996. It was built by Israel Aircraft Industries and uses seven Ku-band transponders, primarily for direct-to-home television broadcasting, TV distribution and VSAT services for customers in the Middle East and in Central Europe. Spacecom Ltd. is the exclusive marketer and service provider of Amos-1 services.

A second satellite, the Gurwin-II TechSAT, was launched in July 1998. This experimental satellite was designed, manufactured and is controlled by The Technion-Israel Institute of Technology. The Gurwin-II TechSAT provides communications, remote sensing and research services.

Spacecom Ltd. plans to launch Amos-2 in 2002, and it will be co-located with Amos-1.
Amos-2 will provide services via 11 Ku-band transponders.

West Indian Satellite Ltd., an international consortium headed by Israel Aircraft Industry, plans to launch its EROS satellite in 2002. EROS is a non-geostationary orbit satellite that will provide highly accurate commercial photography and surveillance services.

Israel’s Telecommunications Map

1997

- Pelephone
- Bezeq

1999

- Pelephone
- Cellcom
- Partner/Orange
- Bezeq
- Bezeq International
- Barak
- Golden Lines

2000 & Onwards

- Pelephone
- Cellcom
- Partner/Orange
- PCS Operators
- Bezeq
- Competing Operators
- Wireline & Cables
- Wireless
- Satellites
- Bezeq International
- Barak
- Golden Lines
- Additional Operators
Israel is acknowledged as a technological innovator. Indeed, unlike most countries, a major share of local service providers’ networks was designed and produced by Israeli companies. These technologies include public switching, transmission, access network technology, wireless local loop systems, data networking devices, network management software and billing systems.

Israel’s electronics industries enjoyed revenues of $8.6 billion in 1999, of which $7.1 billion derived from exports. Telecommunications products accounted for 43 percent of electronic industry sales, with many Israeli companies leading their fields. Since 1990, the compounded annual growth rate of telecommunications exports exceeds 25 percent.

Scientists, engineers and technicians comprise 62 percent of the workforce in Israel’s electronic industries, which spend about 20 percent of revenues on research and development. Seven major academies bolster scientific education and research.

Some 2,500 start-up companies are developing a variety of new technologies, most related to information processing and many in the telecommunications field. Excellence areas include Internet applications, broadband, local area networks, digital wireless, opto-electronics, video and image processing, satellite communications, broadband, network management, network security and telemedicine.
The Israeli telecommunications industry is highly attractive to foreign investors. Several leading multinational telecommunication companies have invested in the Israeli market, including Bell South, Sprint, Deutsche Telekom, France Telecom, Telecom Italia, and Hutchison - Hong-Kong. They have joined other multinationals including Motorola, Intel, Alcatel, Ericsson, America Online, Cisco, Lucent, IBM, Compaq, Nortel, 3-Com, ADC and others, all of which have invested in Israeli high-tech companies or operate their own R&D and/or manufacturing facilities in Israel.

More than 100 dedicated high-tech venture capital funds operate in Israel, and in 2000 they were placing funds at a rate approaching two percent of the country’s GDP. Indirect investment in Israeli telecommunications firms is also provided by institutional and private investors purchasing shares of Israeli companies traded on the New York, London and other European exchanges.
Over the past several years, Israel has pursued the development of international and regional telecommunications cooperation.

Israel has signed bilateral telecommunications agreements with twenty-four countries, and agreements with six additional countries are currently in various stages of negotiation.

Israel is committed to an active policy of international and regional integration in order to participate in future cooperative endeavors relating to telecommunications products and services. The Israeli government believes these endeavors will be enhanced as the peace process matures.

Israel fully participated in the WTO (World Trade Organization) telecommunications services negotiations, and has committed itself, as a signatory the GATS multilateral agreement, to an open, competitive and transparent telecommunications industry.
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