



A Recipe for Growth: A New Approach to Regulating Restaurants in Israel

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This paper examines the heavy regulation the Israeli government imposes on small businesses in the food industry, its subsequent harm to the restaurant industry and to the Israeli public and discusses ways to ease the regulatory burden and allow the industry to become more efficient and competitive, lowering prices for the consumers. This paper focuses on comparative research of Israel's regulatory regime with the corresponding systems in leading countries around the world and recommends adopting a similar approach, tailored to Israel's specific needs.

The **first chapter** surveys the food industry's small businesses numbers, and the regulation they operate under, including its direct and indirect costs, its burden on restaurateurs and its ranking according to international systems.

The **second chapter** focuses on the problems with restaurant regulation in Israel, looking at the legislative infrastructure and detailing the absence of organized and unambiguous information, the excessive regulatory detail, the uncertainty and *ad-hoc* enforcement and the issues involving local authorities.

The **third chapter** describes the principles of regulation formulation, explains how to choose the right regulatory approach and analyzes a comparative study of restaurant regulation in other countries.

The **fourth chapter** delineates the recipe for a new approach to restaurant regulation in Israel, highlighting simplicity, certainty and a focus on end results, and proposes the design of new regulation.

Summary:

The restaurant industry in Israel employs hundreds of thousands of workers and represents a respectable portion of the economy. In Israel, the preparation of food for consumption on site is subject to complex and excessive regulation, resulting in two negative outcomes: (i) an unnecessary burden on existing businesses and (ii) the

prevention of new ones being established. This burden translates into a substantial amount of time (and money) restaurateurs have to invest just to comply with the rules, and that expense is transferred to the consumers who pay high prices. The most acutely affected are independent restaurant owners since, as small business owners, the regulatory burden on them is relatively heavier. In addition, the outdated regulation prevents the establishment of new businesses of the kind found around the world – hot dog or crepe stands in large cities, neighborhood bakeries, confectionery shops, chocolatiers or boutique breweries that serve local areas. The time and money that small businesses must invest in regulation requirements cause the industry instability, bankruptcies and high prices.

International rankings such as the World Bank's Doing Business report and the OECD's Product Market Regulation (PMR) indicators attest to the problematic situation in Israel. Israel scored low on both, demonstrating the severity of the issue. As was made clear through the research for this paper, Israel's regulation of the food industry is inconsistent, unclear, partially outdated and its approach is to micromanage restaurants' operations. For the restaurateurs, it is burdensome and often unpredictable. Current regulations' level of detail and stringency is unnecessary for protecting public health.

Many states around the world use different models of regulation. These are based on simple and comprehensible legislation that is focused primarily on the goal and not the minutiae of day-to-day management, and ensures business owners' certainty about their obligations. Applying such a model to Israel will facilitate the industry's growth and efficiency.

To propose an alternative that can allow businesses to flourish without compromising public health, we reviewed the regulation in those countries scoring especially high in the rankings systems mentioned above: Australia, New Zealand, Hong Kong and Singapore. In general, their regulation differs in the following points:

- a) Simplicity – specifications exist, spelling out the various rules for each industry. These are published online, so entrepreneurs can access the legislation, understand the requirements and assess projected costs before renting space, interviewing employees or obtaining a license.
- b) Certainty – licensing for opening a business and establishing contact between entrepreneurs and the relevant authorities regarding the kitchen structure and business details, such as the type of food served and precautions taken, are all handled before the first customer sits down to a meal. In such a way, entrepreneurs who take out loans to set up their business have high certainty about the legal requirements and the implications therein for employee management and expenses.

- c) Focus on end results – most laws and regulations in the reviewed countries set general requirements at the macro level of restaurant management as defined by the expectant results rather than at the micro level of the restaurants' operational details. For example, in contrast to Israel, there are no specific rules about the kitchens' fan capacity, lighting intensity, floor type or ceiling height, only the general requirement that the kitchen be designed to be well-lit, airy, devoid of the accumulation of smoke and steam and clean and comfortable to work in.

Recommendations:

Recent years have seen a positive change in the political and professional discourse surrounding regulation. Governments around the world are working to simplify the rules and create effective and smart oversight that can allow the business sector to grow without jeopardizing public safety. The ongoing efforts in Israel, including the licensing reform, are commendable, but do not address the main issue with the food industry: there are too many unclear, inconsistent requirements from different authorities, and the arbitrary enforcement (likely the result of the cumbersome and complex regulation being as hard to supervise as it is to comply with) creates unpredictable demands.

There is a need to **design an entirely new regulatory regime based on the principles of simplicity, certainty and focus on goals**. The regimes in other countries can form the basis for the new regulation, as all developed countries share similar conditions and concerns regarding food. **All current laws and regulations should be replaced, and some authorities revoked** so that a **single regulator will have the responsibility of oversight over the industry**. Such a "food authority" would also be the address for complaints and recommendations **and continuously assess the regulations' efficiency and adapt it to changing circumstances**. Under the proper enforcement of simple and efficient regulation, Israel's restaurateurs will be free to invest their efforts in competing for customers, leading to improvements in service, employment and economic growth.

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