of culture, skill and initiative creates a flexible, working system that allows for great adaptability while producing breakthrough technologies and quick time-to-market solutions.

The Support

The State of Israel encourages local and foreign investment by offering grants of up to 24 percent of tangible fixed assets, reduced tax rates, tax exemptions and other tax related benefits through the Law for the Encouragement of Capital Investments. The Law for the Encouragement of Industrial R&D offers conditional grants of up to 50 percent of approved programs.
Israel offers the modern infrastructure and service required to conduct business efficiently and effectively, including: efficient, sophisticated communications system; reliable energy infrastructure; well-developed transportation system with modern international gateways; protection of trademarks, patents, and other intellectual property; highly developed and transparent financial system and a legal system based on common and corporate law.

Invest in Israel is the investment promotion center of Israel's Ministry of Industry, Trade and Labor, Foreign Trade Administration. The center serves as the marketing agency for foreign investments in Israel and as a full-service "one-stop shop" for foreign based companies and individuals who are interested in investigating direct investment and joint venture opportunities in Israel.
Invest in Israel works closely with potential and current investors before, during and after investment, and serves as a resource for investment related information about Israel. For more information contact the local Israeli economic mission. or the Invest in Israel offices in Jerusalem (www.investinisrael.gov.il).

Israel's Telecommunications Market

Dr. Yitzhak Peterburg

Former President & CEO, Cellcom

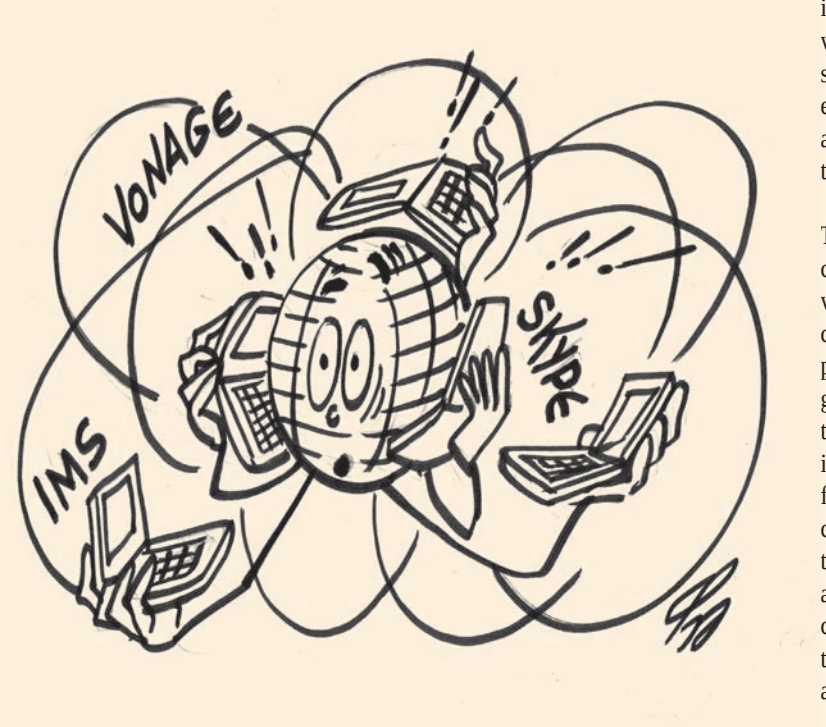
Israel's telecommunications market is undergoing changes the results of which will be seen in the coming years. Two recent huge transactions – the privatization of Bezeq and the acquisition of Cellcom Israel Ltd. by IDB Holding Corporation Ltd. – were the first stages in the transition from a decentralized competitive environment (several players in each segment) to the creation of two or three telecommunications groups that provide a broad basket of services to customers. Bundling (service packages) is the cornerstone of modern telecommunications marketing, and will probably comprise wireline and wireless voice services, Internet, and television.

Israel's telecommunications market is partly influenced by global technological trends. The present global environment, in which each operator has independent access infrastructure through which subscribers are provided all telecommunications services, is about to undergo a fundamental change. This change frees the service provider from subscriber access infrastructures. We can already see the first signs of this change in the form of Skype and Vonage. These companies provide telephony services over broadband and Internet access infrastructures. Under the new service structure, a subscriber no longer has to be connected to the local operator, but can obtain service wherever he or she is located. This is a continuation of a process that began when the telephone became a mobile device, and service became part of that device. Today, a subscriber can take service from network to network, from one access infrastructure to another, and from one device to another.
The substantial penetration of broadband Internet connectivity, and the steady expansion of bandwidth offered to subscribers are the foundation for the capacity of the link between subscriber and service, and control over the type of service. This picture is true for both fixed networks providing broadband services over copper wire or cable infrastructures, and for 3G cellular networks. Over the next two years, we will see the installation of systems such as IP Multimedia Subsystem (IMS), which can provide service independently of the subscriber access infrastructure.
This new technological environment creates many challenges for infrastructure and service providers. One of them is concern about continuity of service over different operators' infrastructures. Services such as video calls can begin on one network, wireless for example, go through another network run by a different

operator connecting several networks, and end up at the wireline network of a third operator. A network subscriber will expect service that connects him or her to any other subscriber on any type of network with the best possible service quality. In addition, service operators will want to send information among themselves in order to bill the subscriber for the service. In practice, new connectivity mechanisms have to be built, similar to the existing telephony transmission mechanisms. The challenge is great, but without building technology infrastructures and a business foundation for linking infrastructure and service providers, significant growth in the number of subscribers and users will not be possible.

Separating services from access infrastructures and cooperation by several infrastructure operators, with one or more service operators in providing subscribers with services, will necessarily bring about a new services pricing concept. Infrastructure operators will view subscribers as nomads who at any moment find themselves under the coverage of one or several access networks. A subscriber will be able to automatically or manually choose the most convenient access network in exactly the same way as a cellular subscriber traveling overseas does today. The choice of a service access infrastructure will mainly be affected by the pricing for use of a particular access infrastructure, and the quality of service of that infrastructure. It is important to note that the service operator could be a third factor. Because overly complex pricing models will likely be problematic, a simple method of billing subscribers for services will have to be found – a task that is not likely to be easy for a service in which many players share and which can be provided to subscribers in many ways.

The regulator will have a significant role in the process of redesigning the Israeli telecommunications environment. As elsewhere in the world, the regulator should encourage an environment in which single subscribers will be able to control the services they want to receive. The centrality of the subscriber in the new service concept is a general public interest, and therefore one of the regulator's important tasks is to support operators who will bring about a breakthrough in the existing services model. We are now seeing this concept entering Israel. The Ministry of Communications awarded five test licenses for providing broadband telephony services in the past year.



The telecommunications regulatory environment has changed rapidly in recent years. These changes were mainly driven by short-term political considerations. There is a need for setting clear policies and establishing regulatory stability. The government should publish a five-year plan for telecommunications that will enable operators and investors to build business plans and stay at the forefront of technology, so that Israeli citizens will continue to receive the high-quality service, one of the best in the world, to which they have become accustomed technology, so that Israeli citizens will continue to receive the high-quality service, one of the best in the world, to which they have become accustomed.