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The Milk Cartel Cracks

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Field Dossier: The Milk Cartel Cracks

ISRAEL'S DAIRY REFORM IS A FIGHT BETWEEN CONSUMER SANITY AND PERIPHERY MYTHOLOGY — AND THE OUTCOME WILL DEFINE WHETHER THE GOVERNMENT CAN TOUCH ANY PROTECTED SECTOR AT ALL.

Shabbat shalom, friends.

On February 4, hundreds of dairy farmers drove tractor convoys into Jerusalem, poured milk onto Highway 1 outside the Finance Ministry, breached police barriers, and hurled a statue of a cow at the building's entrance [at least it wasn't gilded]. At least the theatrics were photogenic—albeit funded by a guaranteed income.

Every farmer who dumped milk that morning operates inside a regime that sets the price of raw milk, caps who can produce it, blocks foreign competition with 40% tariffs, and penalizes anyone who sells a liter above quota. The system has existed for decades. The farmers were protesting the possibility that the crisis — for consumers — might end.

The numbers behind the performance are brutal. Israeli dairy and eggs cost “64% more than the OECD average” — second only to South Korea globally. Three companies — Tnuva, Tara, and Strauss — control 85% of the domestic dairy market and charge prices more than 50% above international equivalents. The farmer receives about NIS 2.85 per liter of raw milk; that same liter retails for approximately NIS 8.50. The gap is processing, distribution, and margins — all sheltered by a wall of regulation no competitor can breach.

Finance Minister Bezalel Smotrich wants to tear the wall down. His reform — embedded in the 2026 state budget — would cut the regulated price of raw milk by 15%, eliminate protective tariffs, reduce the national production quota by one-third, and wind down the Dairy Board's centralized planning authority. The Bank of Israel backs it. The arithmetic supports it. The OECD has urged it for years.

The farmers' lobby is betting none of that matters and draws on a playbook older than the quota system itself. Invoke food security. Invoke the periphery. Invoke a century of Zionist agricultural mythology. And... wait for a prime minister to calculate that the political cost of reform exceeds the political cost of overpriced cottage cheese.

The February strike gave the lobby some of its best footage. It also gave the reform its best argument. The strike cut roughly 20% of Israel's milk production and cost an estimated NIS 10 million per day. Supermarket chains imposed limits of two to three dairy items per customer. The same farmers who claim to be the guardians of Israel's food security deliberately created a food shortage to extract political concessions.

The question is whether this government — or, really, *any* Israeli government — can dismantle a protected sector when the beneficiaries wrap themselves in tractors and flags.

The Milk Cartel Cracks

THE COTTAGE CHEESE INTIFADA NEVER ENDED

The last time Israelis got angry enough about dairy prices to act? They won a battle, but lost a war.

In June 2011, cottage cheese prices had risen 43% over five years — from roughly NIS 5 to NIS 7 per container. A Facebook boycott drew over 105,000 participants. Consumption dropped 30%. Tnuva cut prices 12.5%. The government stepped in two years later and imposed price controls, declaring Tnuva's pricing "excessive and unreasonable" and forcing a roughly 20% reduction.

A report by the beleaguered global consulting behemoth McKinsey, later seized by the Antitrust Authority, revealed the cynicism behind the original hikes. McKinsey had advised Tnuva to raise prices by 15% or more because consumer demand was inelastic — Israelis would pay whatever the cartel charged.

The boycott sparked the broader 2011 social justice protests, which spawned the Trajtenberg Committee. That committee identified the food sector as having the "greatest failures of competition" and recommended reducing subsidized product prices and increasing market entry. The recommendations were adopted "in principle." Implementation was incomplete. Protest leaders called the results insufficient. They were right.

Here is the trajectory: dairy prices stood at 6% above the OECD average in 2005. By 2008 they had jumped to 44% above. By 2024 — thirteen years after the boycott, twelve years after the Trajtenberg report, and eleven years after the government declared Tnuva's prices unreasonable — the premium had risen to 64% above the OECD average.

The Trajtenberg Committee joins a familiar Israeli institutional pattern. The Sheshinski Committee addressed energy royalties. The Brodet Committee addressed defense spending. The Strum Committee addressed banking. Each produced a report. Each was absorbed by the political system. Each failed to deliver structural reform. The dairy cartel survived 2011 the same way it survived everything earlier. By letting the anger peak. Accepting cosmetic adjustments. And simply waiting it out.

The narrative that "the boycott worked" is one of the dairy lobby's most useful bits of fiction. The boycott generated attention. The attention generated a committee. The committee generated recommendations. The recommendations generated adoption "in principle." And the prices climbed back — higher than before, year after year, with no structural mechanism changed. A temporary consumer rebellion was absorbed by a permanent institutional cartel.

Food prices in Israel were 3% below the OECD average in 2005. By 2017, they had flipped to 3% above. By 2024, they had reached 52% above. The dairy sector is the single largest contributor to that gap. Every year of inaction is a transfer from Israeli consumers to industry titans—remember we're talking three major "competitors" shielded from real competition.

That consumer anger is back. The structural problem never left. The change now is we have a finance minister that has, for all his faults, staked his political credibility on doing what the Trajtenberg Committee recommended and the Knesset never delivered. Whether the system absorbs this attempt too depends on machinery most Israelis have never examined.

HOW THE QUOTA REGIME ACTUALLY WORKS

Israel's dairy sector operates as a centrally planned economy embedded inside a market democracy. The Dairy Board — operating under the Milk Economy Planning Law — sets monthly production quotas that divide an annual national volume among 660 farms. The government determines the minimum farmgate price and maximum retail prices for regulated products. Farmers who deliver above quota are penalized immediately.

Kibbutzim hold 57% of the national quota. Moshavim hold 42%. Agricultural colleges hold 1%. Milk can only be sold to licensed dairies under annual contracts — direct sales to consumers are prohibited. The system prevents a true market from existing.

Layered on top of the quota is a tariff wall. Import duties of up to 40% on foreign dairy products ensure that no external competitor can undercut domestic prices — regardless of how efficient the foreign producer or how excessive the domestic margin. The quota fixes output. The tariff blocks alternatives. The Dairy Board sets the price. The consumer pays.

The results are extraordinary by any developed-country standard. Israeli consumers pay 50–60% more than Europeans for yogurt, cottage cheese, and staple dairy products — despite operating the world's highest per-cow milk yield at 12,025 kg per year. Israel's cows are the most productive on earth— Israel's consumers, however, pay as though they are the least.

Only two other countries maintain comparable systems: Canada and Norway. Every other OECD member has dismantled centralized dairy planning. The EU abolished its quota system in 2015. New Zealand deregulated in 2001. Australia followed suit. Israel and Canada are the holdouts — and Canada's dairy cartel is itself under sustained domestic criticism.

The 660 farms employ roughly 7 workers each. Total industry employment — including processing, distribution, veterinarians, feed suppliers, and truckers — is approximately 15,000. Agriculture as a whole employs 1.5% of the Israeli workforce. The dairy sector is economically marginal as an employer and structurally dominant as a price-setter — a combination that exists only because political protection has replaced market discipline.

The national milk quota has grown from under 1 billion liters in the early 1990s to approximately 1.6 billion liters in 2024 — but population growth has outpaced expansion. Annual production sits at approximately 1.53 billion liters, serving a population that has nearly doubled since the quota was introduced. The system that was designed to guarantee supply now guarantees shortage at premium prices.

Consider a farmer at a kibbutz in the Hula Valley and a farmer at a moshav in the Negev. They receive the same guaranteed price — regardless of efficiency, cost structure, or proximity to processing facilities. The target price adjusts for feed costs and inflation — it does not adjust for productivity. The world's most productive cows generate the world's most expensive milk because the pricing mechanism is designed to keep the least efficient farm solvent. Every competitive advantage Israeli dairy has built — the genetics, the cooling systems, the feed optimization — is neutralized by an artificial price floor that rewards the wrong things.

The Dairy Board's governance compounds the issue. It is both regulator and industry representative — a dual role that is a textbook conflict of interest. The board allocates quotas, monitors compliance, and represents the interests of the farmers it regulates.

THE FINANCE MINISTRY'S CASE IS CORRECT

The reform embedded in the 2026 budget would eliminate the 40% protective tariffs on dairy imports, reduce the farmgate price by 15%, and dismantle Dairy Board centralized planning. A NIS 1 billion (~€250 million) buyout scheme would compensate farms that exit the industry, with individual packages reportedly ranging from NIS 2–3 million (\$550,000–\$850,000) depending on farm size. The Finance Ministry projects consumer price drops of 15–20% within just a few months.

The raw-milk price cut alone should produce an immediate reduction of roughly 7.5% on regulated products — raw milk accounts for 30–40% of retail price, so a 15% cut in input costs flows through at roughly half. The larger savings come from tariff elimination and import competition, which would force Tnuva, Tara, and Strauss to compete against European and international producers for the first time.

Smotrich's reform follows a template the Finance Ministry has applied before — and the one time it was allowed to work, it transformed an entire sector.

In 2012, the Finance Ministry broke Israel's three-company mobile telecom cartel by licensing Golan Telecom and Hot Mobile to enter the market. Barriers fell. Competition arrived. Mobile bills dropped by over 80%. Consumers saved NIS 5 billion in 2011–2012 alone. The average monthly cellphone bill fell from NIS 106–111 to NIS 82–89 within a year. Telecom prices now run 30% below the OECD average — the only Israeli consumer sector priced below the OECD benchmark.

The structural parallel is almost exact. Three dominant incumbents. Government-enforced barriers to entry. Tariff and regulatory walls preventing competition. Consumers overpaying by double-digit percentages. Incumbents claiming the market couldn't sustain new entrants. The same arguments the telecom companies made then are the arguments the dairy lobby makes now. In telecom, the incumbents were wrong, the reform was right, and the consumer won.

Smotrich has been characteristically blunt about the comparison. He described the reform as targeting monopolies: "They had no incentive to compete or

reduce prices. That is over.” During the February strike, he called the striking farmers “communists” and threatened to unilaterally abolish all dairy tariffs if production stoppages continued. In November 2025, he called the reform “a central component of the series of steps we are bringing in this budget to lower the cost of living” and described the industry’s opposition as a “false smear campaign” designed to “perpetuate the monopolies.”

Regardless of your thoughts about the messenger, the substance behind it holds. He issued temporary tariff waivers starting in August 2025, extending them through the High Holidays and into February 2026 — a live demonstration that imported dairy can enter the market without the supply chain collapsing. The temporary waivers are the reform’s trial run, and the trial has not produced the catastrophe the farmers predicted.

The critique that the reform was developed without an independent professional committee carries some procedural weight but misses the point. The Trajtenberg Committee already studied this. The OECD has published recommendations repeatedly. The Bank of Israel endorsed the dairy reform and urged the government to “adopt the necessary measures.” The analytical case is not in dispute. Really it’s just a matter of if the political will exists to execute it. Every year spent on “proper deliberation” is another year Israeli families pay 64% above what their counterparts in Berlin, Dublin, and Amsterdam pay for the same products.

The reform, isn’t perfect though. The reform targets the upstream structure — quotas, tariffs, the Dairy Board — but leaves the downstream concentration untouched. If Tnuva, Tara, and Strauss retain 85% market share after the tariff wall falls, they could absorb import price reductions into margins rather than passing them to consumers.

PERIPHERY, RESILIENCE, AND THE FARMERS’ REAL LEVERAGE

The dairy lobby’s strongest argument has nothing to do with milk.

The Israel Cattle Breeders’ Association claims the reform threatens approximately 400 dairy farms, many along Israel’s borders. The framing is deliberate: dairy farms in the Gaza envelope, the northern border, and the Jordan Valley serve as civilian presence in contested areas. Eliminate the farms, and you eliminate the people who hold the land.

October 7 gives the argument visceral force. Hamas targeted dairy farms near the Gaza border during the massacre. Workers were killed during morning milking. At Kibbutz Alumim — four kilometers from the fence — 12 Thai farmworkers were murdered, 4 abducted, and dozens of dairy cows didn’t survive. The dairy continued production throughout the war. Amit Ifrach, chairman of the Israel Farmers Federation, framed the stakes in existential terms: “Farmers and dairy farmers are the Iron Dome of the food security of the State of Israel.”

The emotional resonance is real. The analytical claim is thinner than it appears.

First, the 400/660 figure — that roughly 60% of all Israeli dairy farms are “border farms” — comes exclusively from the farmers’ lobby. No IDF or Home Front Command assessment of dairy’s strategic value has been published. The claim conflates farms in the broad periphery with farms in actual security zones, and inflates the number of economically vulnerable operations into a count of farms that would close. The reform does not specify which farms shut down. Market dynamics would determine that.

Second, the October 7 supply disruption was in produce, not dairy. Gaza-area farms produced 70% of Israel’s tomatoes and 30% of its potatoes — those supply chains broke when roughly 3,000 of the area’s 4,000 Thai workers fled after the massacre. Dairy production held. The military banned farming within 4 km of the Gaza border fence, but the dairy-specific impact was modest compared to the agricultural sector as a whole.

Third the February 2026 supply disruption was not caused by an external security threat. It was caused by the farmers themselves. The strike cut 20% of Israel’s milk production and cost an estimated NIS 10 million per day. Major supermarket chains imposed rationing limits. The same people invoking “food security” created the shortage they warned about. The system they claim protects supply was weaponized against consumers as political leverage.

The periphery argument has a defensible core — civilian presence in border communities matters, and the government has a legitimate interest in maintaining it. A well-designed reform should acknowledge this. The NIS 1 billion compensation package may do so, though whether it specifically targets periphery farms or is farm-agnostic is unclear. Smotrich himself acknowledged the reform would harm small local dairy producers but promised statutory protection and compensation—and, to be frank, dairy farmers *can* pivot to producing something else, no one is taking land away from them.

The defensible core does not extend to the entire quota system, the tariff wall, or the Dairy Board’s planning authority. Dagan Yarel, director of the Israel Cattle Breeders’ Association, gave the game away when he argued that “the government prefers to harm dairy farmers around Gaza and reward dairy farmers in Poland.” Stripped of its emotional packaging, the statement means: Israeli consumers should pay 50–60% above European prices indefinitely so that domestic producers never face competition from more efficient foreign farms. “Rewarding Polish farmers” is what lower grocery bills look like from the cartel’s perspective.

FOOD SECURITY IS NOT SELF-SUFFICIENCY

Israel conflates two concepts that sound alike and require different policies.

Food security — as defined by the 1996 World Food Summit and the FAO — exists when all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food. The definition does not require domestic production. Food self-sufficiency means producing all your own food. One is a security strategy. The other is an economic ideology with a flag on it.

Israel already imports the majority of its staple foods. Grain, meat, produce, oils — all flow in from international supply chains that function in peacetime and wartime alike. The dairy sector's claim to special protection rests on the premise that domestic milk is a strategic asset. That premise, applied consistently, would require autarky across every food category — a position no one advocates because the cost would be civilizationally stupid.

The country that has solved this problem most cleanly is the one with the most reason to worry about it.

Singapore imports over 90% of its food from 187 countries and ranks 28th on the Global Food Security Index despite less than 10% domestic self-sufficiency. Singapore's strategy is "self-reliance" — diversified import sources, strategic stockpiles (a two-month rice reserve requirement for importers), and buffer production through its "30 by 30" goal of 30% local production by 2030. The local production target is a buffer, not a replacement for trade. Food security does not mean food self-sufficiency—which is a good thing since no country can be self-sufficient in all food products.

Autarky has its place in the Israeli system, to be sure. Milk is probably not that place.

Israel faces different strategic constraints than Singapore — it shares land borders with hostile actors and has experienced wartime supply shocks. These are reasons to invest in supply diversification, strategic reserves, and trade agreements with multiple dairy-exporting nations. They are not reasons to maintain a cartel that charges consumers 64% above OECD prices so that 660 farms can operate inside a guaranteed-margin regime.

The correct policy response to wartime vulnerability is redundancy. Israel maintains grain reserves. It diversifies energy imports. It builds desalination plants rather than mandating that every community operate its own well. The logic of strategic resilience — multiple sources, buffer stocks, rapid substitution capacity — applies identically to dairy. A strategic reserve of shelf-stable dairy products, combined with trade agreements with at least three or four exporting nations, would provide greater wartime resilience than a domestic cartel that can be shut down at a whim.

When the EU abolished its milk quota in 2015, production increased 4.4%, raw milk prices declined 10%, and butter and powder production rose 5–6%. Ireland — a small island economy with genuine supply chain vulnerabilities — became the most competitive dairy sector in Europe after quotas ended. New Zealand dissolved its single-desk export monopoly in 2001 and built a global dairy powerhouse. In every documented case, deregulation produced expansion, not collapse.

The farmers' lobby warns that abandoning domestic milk production leaves Israel dependent on foreign supply during wartime. The argument would carry weight if Israel were generally self-sufficient in food. It is not. Dairy exceptionalism has no security basis that does not apply with equal force to grain, meat, and produce — sectors where import dependency is accepted without controversy.

THE POLITICAL KILL ZONE

Netanyahu instructed the coalition to support the dairy reform. Whether that decision holds — or whether Netanyahu trades dairy reform away as coalition currency when the pressure peaks — is the central political uncertainty.

The budget mechanics constrain everything. The 2026 state budget — NIS 662 billion — passed its first Knesset reading on January 29 by a 62–55 vote. Under law, at least 60 days must pass between first and final readings. The budget must pass second and third readings by March 31, 2026, or the Knesset dissolves automatically and elections move from October to June. The arithmetic gives the coalition zero margin.

The Arrangements Law was split in two in February to expedite passage. The dairy reform was kept in the prioritized half. The Knesset House Committee voted 8–7 to reject the Knesset legal adviser’s recommendation that the dairy reform be separated from the budget and advanced independently. And the reform was routed to the Public Projects Committee — chaired by MK Ohad Tal (Religious Zionist Party) — rather than to David Bitan’s Economic Affairs Committee, where it would have been buried.

These procedural moves indicate Smotrich and the coalition whips are serious. The committee routing alone is decisive in this instance.

The opposition is not the threat. Yair Lapid called the budget a vehicle for “crooks and draft dodgers” — standard rhetoric that attacks the budget frame, not the dairy reform specifically. No opposition party has articulated a distinct position on dairy reform. The consumer case is strong enough that opposing it openly would cost more than ignoring it.

The internal coalition tensions are the threat. Agriculture Minister Avi Dichter cast the only cabinet vote against the reform. Ben-Gvir and Eliyahu abstained. Multiple Likud MKs have publicly declared they will fight to remove the reform from the Arrangements Bill. The Haredi parties are a separate wild card. Degel HaTorah warned it was “not committed” to voting for the budget in second and third readings until the draft exemption law passes. Three Agudat Yisrael MKs voted against the first reading.

The legal flank is open but probably empty. The Dairy Board filed a High Court petition against Smotrich’s cheese import order, claiming violation of the sectoral agreement and the Milk Economy Planning Law. The budget timeline likely outruns the court’s calendar. Ongoing tensions make the court cautious about intervening in economic legislation — a rare instance where coalition friction on one front creates maneuvering room on another.

Smotrich’s personal exposure is high. His party hovers near the electoral threshold. The dairy reform is one of his most visible initiatives — a cost-of-living win he can point to before elections if it passes, or a leadership failure if the coalition strips it from the budget. He has threatened to unilaterally abolish all tariffs if farmers continue striking. Whether he has the legal authority to do so is contested.

Bibi, characteristically, has kept distance. He publicly states the government will serve its full term but privately instructed aides to prepare for possible June elections. If the budget fails — for any reason — the dairy reform dies with it.

SCENARIOS: HOW DAIRY REFORM PLAYS OUT

Five paths. The odds for which is the likely outcome will fluctuate weekly. The first option is correct—though it's a toss up between that or the second. The others are possible, but not particularly probable. I'd estimate the greater likelihood of an outcome to be 1 or 2 followed, in order, by 3, 4, and 5.

1. Full Smotrich

Phased liberalization proceeds on schedule. Quotas wound down over 5–7 years, tariffs eliminated, the Dairy Board restructured into a regulatory body rather than a planning authority. Consumer prices drop 15–20% within a year. Periphery farms receive compensation packages. The sector consolidates around efficient producers and competes with imports.

Preconditions: the budget passes by March 31 with the dairy reform intact; Netanyahu holds the coalition; Likud rebels are contained; no High Court intervention; farmer protests fail to shift public opinion. The reform survived first reading, the House Committee vote (8–7), and the committee routing. Bank of Israel endorsement and coalition whip discipline suggest the institutional machinery favors passage. The March 31 deadline leaves zero margin, and every coalition defection is existential.

This is the outcome the arithmetic supports. Whether the arithmetic governs the politics remains to be seen.

2. Cosmetic Trim

Tariffs reduced marginally — from 40% to, say, 25%. Quotas untouched or minimally adjusted. Both sides declare victory. The Finance Ministry claims a cost-of-living achievement. The farmers' lobby preserves the structural cartel. Consumer savings are real but modest — single-digit percentage reductions instead of the 15–20% the Finance Ministry projects.

This is the compromise Netanyahu defaults to when coalition noise exceeds his threshold. Likud MK opposition, cabinet dissent, farmer mobilization, and the 420-page complexity of the Arrangements Law all provide cover for quiet dilution. The mechanism is familiar from Israeli reform history: the headline survives, the substance erodes in committee, and the lobby gets enough of what it needs to stand down.

Smotrich may refuse — he has staked personal credibility on the full reform and threatened unilateral tariff abolition — but his leverage depends on being willing to sink the entire budget, and that willingness has limits. He needs the budget to pass for fiscal reasons, for coalition survival, and for his own political future. The dairy reform matters to him. The budget matters more.

3. Wartime Freeze

The reform shelved indefinitely under “national resilience” framing. Temporary tariff waivers extended. The quota system preserved. Prices remain at 64% above OECD average.

This scenario requires a security escalation —and looking around, it seems we’re smack dab in the middle of one with the Iranian strikes — that shifts the national conversation away from cost-of-living and toward security. The farmers’ lobby has already laid the rhetorical groundwork: border farms, October 7, food security for the next war. The unverified 400-border-farm claim becomes politically bulletproof if rockets are falling.

The risk runs in both directions. Cost-of-living pressure is the government’s other political vulnerability. Shelving the reform invites attacks on governing credibility from the same consumer base the coalition needs for October elections.

If domestic politics stays focused abroad, this is a likely option.

4. Protest Capture

Farmer mobilization forces a compensation package so large it negates consumer savings. The quota system survives with adjustments. The tariff reductions are paired with subsidies that preserve producer margins. The reform becomes a fiscal transfer from taxpayers to farmers, dressed as liberalization.

The February strike demonstrated real leverage. Twenty percent of national production halted. NIS 10 million per day in losses. Supermarket shelves emptied. Purchase limits imposed. If the government reads the strike as a preview of what sustained mobilization looks like — and judges the visual of empty dairy aisles more dangerous than the visual of overpriced yogurt — the compensation calculus shifts.

The irony: the strike also proved that farmers, not external threats, are the supply risk. If Smotrich frames the strike correctly — as an argument for reform, not against it — this scenario collapses.

5. Judicial Grenade

The High Court strikes down the import order or the budget procedure, scrambling the timeline.

The Dairy Board’s petition claims violation of the sectoral agreement and the Milk Economy Planning Law. The legal basis may have merit — the Knesset legal adviser’s recommendation to separate the reform from the budget could support a procedural challenge. But no interim injunction has been issued, and the budget’s March 31 deadline likely outruns the court’s calendar.

Unless a hearing is scheduled in March, this scenario is dormant.

The bureaucratic default — what happens if no one acts — is stasis. Temporary tariff waivers expire. Quotas remain. Prices stay high. Periodic shortages continue during peak demand. The status quo is unstable but has persisted for decades, which is just fine for the dairy cartel. It has never needed to win the argument merely to outlast the reformer.

Conclusion

Every protected industry in Israel watches this reform. The ports, the agricultural cartels, the professional guilds, the defense contractors with cost-plus contracts, the construction regulators who keep housing supply artificially constrained. Each has its own version of the Dairy Board. Each wraps market distortion in public interest language. Each knows that the political system has great difficulty sustaining a structural reform against an organized lobby with access to the Knesset and the evening news.

The question is not whether Israeli consumers deserve lower milk prices — the arithmetic settled that years ago. The question is whether the Israeli political system can dismantle a protected sector when the beneficiaries know how to push every button. Security. Periphery. Wartime sentiment. Coalition fragility. Procedural delay. To say nothing of tractor convoys on Highway 1.

Smotrich has the Bank of Israel, the OECD, the telecom precedent, and a consumer base paying 64% above the developed-world average. The farmers have a lobby that weaponizes its own supply chain, unverified statistics, and a PM who has never met... well much of anything that he wouldn't trade for coalition stability.

— Uriel Zehavi · Intelligence Editor, Israel Brief

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