ANALYSIS OF THE NATIONAL INDICATIVE PROGRAMME (2011-2013) OF ISRAEL
BRIEFING NOTE

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This briefing note was requested by the European Parliament’s Committee on Foreign Affairs.

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**LINGUISTIC VERSIONS**

Original: EN

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Manuscript completed on 22 January 2010.  
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*Printed in* Belgium  
The briefing note is available on the Internet at  

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EXECUTIVE SUMMARY

Israel is a mature and developed economy, which differentiates the country from others in the Mediterranean basin. To that extent, the European Neighbourhood Policy (ENP) funding is limited in its budget; however the scope of action, aiming to further economic and political cooperation, is broad. In broad terms, the lack of specific provisions to achieve these tasks makes it particularly difficult to assess the two programmes.

In the area of economic cooperation, the ENP Action Plan stresses the need for regulatory convergence so as to enable greater Israel’s integration in the EU’s Single Market. This area covers harmonisation of economic and trade-related rules and regulations with the potential to enhance trade, investment and growth. Israel and the EU have had a free trade in industrial products ever since late 1970s. New negotiations are continuing in the services and investments areas, which are still lagging behind in terms of EU’s economic integration.

Another key area addressed in both the 2007-2010 and 2011-2013 National Indicative Programmes (NIPs) is the emphasis on the resolution of the Israeli-Palestinian conflict, covering foreign and security policies and human rights issues. Apart from enhancing dialogue to identify common interests and cultural exchanges, the ENP programmes for Israel and Palestinian Authority could be aligned to give incentives for all parties to contribute to the peace process.

1. RELATIONS WITH THE EU

The EU and Israel share a long common history, marked by interdependence and cooperation. As an examination of key indicators aptly reveals, Israel is comparable to its EU counterparts in the areas of democratisation, respect for the rule of law and freedom, while remaining committed to an open international economic system based on market principles. Over the five decades of trade, cultural exchanges, political cooperation and a highly developed system of agreements have cemented these relations.

Israel and the European Community first established formal relations in 1975 by signing a Cooperation Agreement. This early agreement was eventually replaced by the EU-Israel Association Agreement (AA), signed in 1995 and entered into force in 2000, which currently represents the legal basis for relations between Israel and the EU. Israel was also among the first wave of countries to agree on an ENP Action Plan, launched in 2004, promoting greater Israeli involvement in the EU’s programmes as well as a political and economic integration in the EU’s Single Market.

The level of economic development and growth sets Israel apart from its neighbours in the Mediterranean area. Hence the EU activity should focus more on the co-operation and security in search of mutually-beneficial areas of interest rather than aid provision. This outlook is indeed confirmed by the limited budget provisions and broad scope of involvements provisioned under the two NIPs. Israel’s Country Strategy Paper (CSP) identified two main priority areas, deeper economic and political cooperation, to achieve the objectives set out in the Action Plan. The two NIPs covering the years 2007-2010 and 2011-2013 follow with appropriate programmes to address these priorities.

Under the 2007-2010, Israel received a total assistance of €8 million or an average of €2 million per annum. This is approximately equivalent to a per capita assistance of €1, which is significantly smaller than the amount (€10 per capita) provisioned under the ENP Country Programmes. The assistance provisioned under the 2011-2013 NIP will be €6 million or, once again, an average of €80 million per annum.
2. TRADE, INVESTMENT AND ECONOMIC INTEGRATION

The primary common interest between Israel and the EU is economic cooperation through trade and investment. To this end, both NIPs specifically set among their priorities support for trade and internal market issues. Israel is one of EU’s biggest trading partners in the region. Negotiations aiming at achieving a greater EU-Israel reciprocal liberalization of trade in agricultural and fishery products were concluded in 2008 and entered into force on 1st January 2010. Furthermore, the EU and Israel launched negotiations on an Agreement on Conformity Assessment and Acceptance (ACAA) for Industrial Products and pharmaceuticals, in November 2008. These initiatives are set to enhance Israel’s export capacity to the EU significantly. As noted in the conclusions of the 9 December 2009 Union for the Mediterranean Ministerial Conference, the trade initiatives are will continue in 2010 with the ultimate aim of creating a Euro-Mediterranean Free Trade Area.

Much like the EU and other developed nations, Israel is primarily a service-oriented economy, with the services sector accounting for around two-thirds of its national income and constituting around a third of exports in 2008. The free trade of industrial products has been in place since 1970s and bilateral negotiations on the liberalization of trade in services and the right of establishment are ongoing, and expected to mature into an agreement by 2010.

Furthermore, it may help to couple these negotiations with the recognition of academic and professional qualifications, which would enhance trade in services by dismantling yet existing (technical) barriers to trade.

Additional negotiations for a comprehensive EU-Israel Euro-Med aviation agreement are also in the play to enhance tourism. The European Commission and Israel signed in 2008 the horizontal air transport agreement bringing bilateral air service agreements between Member States and Israel in line with EC law. The 2011-2013 NIP could further on enhancing tourism between the two countries, going beyond the acquis-related activities already covered.

With a well-developed and highly productive economy, Israel represents an important investment opportunity for the EU. The country’s comparative advantage in trade is in high-tech industries, stemming mainly from the research and development activities in the homeland security sector that developed in the face of regional threats. The defence industry has also been a catalyst for the growth of new ICT (Information and Communication Technology) technologies. These developments are due to the high level of cooperation between the industry and academia and the availability and employability of a skilled workforce. The country boosts a sizeable venture capital industry that encourages seed investments.

Despite these opportunities and the country’s relatively open capital markets, the United States remains the major investing partner. Foreign direct investment (FDI) between the EU and Israel are negligible. The 2011-2013 NIP could give priority to improving investment relations, enhancing awareness of investment opportunities both in the EU and Israel.

3. RESOLUTION OF THE MIDDLE EAST CONFLICT

The EU’s objective regarding the resolution of the Israel-Palestinian conflict is a two-state solution with an independent, democratic and viable Palestinian state living alongside Israel and its other neighbours as proposed in the Quartet Road Map (US, EU, UN and Russia) defined in 2002. The EU remains opposed to the demolition of Palestinian homes, the eviction of Palestinian families, the construction of Israeli settlements and the construction of the “separation barrier”. There are also
deep concerns regarding the daily living conditions of the Gaza people, which can only be addressed by re-opening the crossings without delay, allowing a revival of private sector and a reduction of Gaza’s aid dependency. According to the last December 2009 European Parliament debate, EU wishes to start a new round of negotiations to reach a peace deal and welcomes Israel decision to take a first step with its temporary and partial settlement freeze.

An effective solution to the Middle East conflict cannot be constructed without coordinating efforts between several sides. The EU, through its ties with other regional states, could engage in an active dialogue, along with its partners, to identify key issues of mutual interest between Israel and the Arab states. Such initiatives were important instruments to bring Israeli together with the Palestinians and other Arab states on an informal basis to discuss issues that were later brought formally to the table during the 1990s. In this manner, the NIPs of various countries, including that of Israel, could be modified to engage in such discussions.

Another approach is to enhance the means of cooperation between Israel and the Palestinian Authority. For example, as suggested by Wasloff, Shapiro and Coyne (2009), developing new educational curricula and teacher training as well as providing students with practical skills and tools that foster critical thinking and open minds and attitudes about the other and the past could be an effective means of conflict resolution and reconciliation. Once again, the ENP instruments (including the Israeli NIP) will have to be arranged in conjunction with broadening the steps envisioned under the Palestinian ENP Action Plan.

The ENP initiative could also provide incentives for Israel to engage more actively in the peace process. One example is expanding the existing ENP assistance to enhance the viability of the Palestinian provided that Israel takes the necessary steps for reaching a comprehensive settlement of the conflict. Such an action would necessary imply a broad alignment of the priorities of the Israeli and Palestinian ENP instruments.

4. HIGHER-EDUCATION

The new NIP continues its support of activities in the field of higher education, with a view to harmonise education and training policies. Israel was the first non-European country fully associated to the EU’s Research and Technological Development Framework Programmes and has recently been associated to the 7th Framework Programme from its start in January 2007. Israel was the also first non-EU member to be associated to the EU’s Framework Programme for Research and Technological Development (RTD). In July 2008, the European Commission and Israel also signed a Joint Declaration on co-operation and dialogue in education and training. Both EU and Israel have then full incentives to continue this already intense collaboration.

A possible way in which EU and Israel could further enhance their cooperation in higher education could be, as suggested above, by advancing negotiations on mutual recognition of professional qualifications. In so doing academic exchanges could be intensified and both countries would gain in terms of a freer and potentially more intense circulations of youths. The harmonisation of these qualifications could also aid trade in services following the completion of negotiations.

5. ENERGY AND ENVIRONMENT TECHNOLOGIES

The ENP Action plan provides support for increased cooperation in the area of science and technology, transport, energy and telecommunication networks. As noted above, Israel enjoys a comparative advantage in the ICT sector, with spillovers to many related fields ranging from defence and security land equipments, to agro-technology and water-technology sectors. Several initiatives have been put forth so far in these fields. At the Barcelona Euro-Mediterranean Summit in November 2005, the two sides collectively committed to endorse a feasible timetable to depollute the Mediterranean Sea by 2020. Furthermore, Israel, the Palestinian Authority and the European Commission re-launched in 2008 an energy cooperation programme with the aim of facilitating the joint Israeli-Palestinian “Solar for Peace” initiative and the establishment of a joint energy office. An EC financed study was undertaken to support this project. Once again, coordination between the ENP programmes of Israel and Palestinian Authority would be needed to achieve these steps.

A possible way in which the cooperation on Energy and Environment could be enhanced is by building on mutual interest needs and complementarities. For example, further cooperation could be promoted in the area of ‘Water Technology’, one of Israel’s comparative advantages with a strong specialization in the creation of desalination plants for irrigation purposes. Improvements in this area would in fact greatly improve also the agricultural productivity for which both EU and Israel share common aims and face same problems.
ANNEX I – SUMMARY OF RECOMMENDATIONS

General recommendations and remarks

1. In broad terms, the lack of specific provisions for the achievements of the tasks included in the new NIP and Action Plan makes it particularly difficult to assess past and current programs.

2. Overall, the emphasis is on the need for regulatory convergence so as to enable greater Israel’s integration in the EU’s Single Market with the potential to enhance Israel’s trade, investment and growth (namely through the promotion of activities in high education). The issue of the resolution of the Israeli-Palestinian conflict, covering foreign and security policies and human right issues is also covered.

SPECIFIC RECOMMENDATIONS

Priority Area 1 – Acquis-related activities

1. More specific address to the tourism activities between EU and Israel beyond the acquis-related activities could be appropriate.

2. Recognition of academic and professional qualifications, in order to enhance trade in services, would also be a right step.

3. Priority could be given to improving investment relations, enhancing awareness of investment opportunities both in EU and Israel in the ICT sector – which represents Israel’s comparative advantage.

4. More engagement should be seen in terms of multilateral dialogue and internal coordinating efforts between Israel and the Arab States. Cooperation between Israel and the Palestinian Authority should also be enhanced. In particular, the ENP instruments (including the Israeli NIP and the ENP support to other states) will have to be coordinated.

5. In the area of science and technology, energy and environment, further cooperation could be promoted in the area of ‘Water Technology’, especially for what concerns the creation of desalination plants for irrigation purposes.

Priority Area 2 – Activities in the field of higher education

A specific focus on the advancement of negotiations on mutual recognition of professional qualifications should be intensified to achieve of a freer and potentially more intense circulation of youth
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