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Trade Policy Review Body

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TRADE POLICY REVIEW

REPORT BY

ISRAEL

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Israel is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Israel.

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1 THE ISRAELI ECONOMY: RECENT DEVELOPMENTS

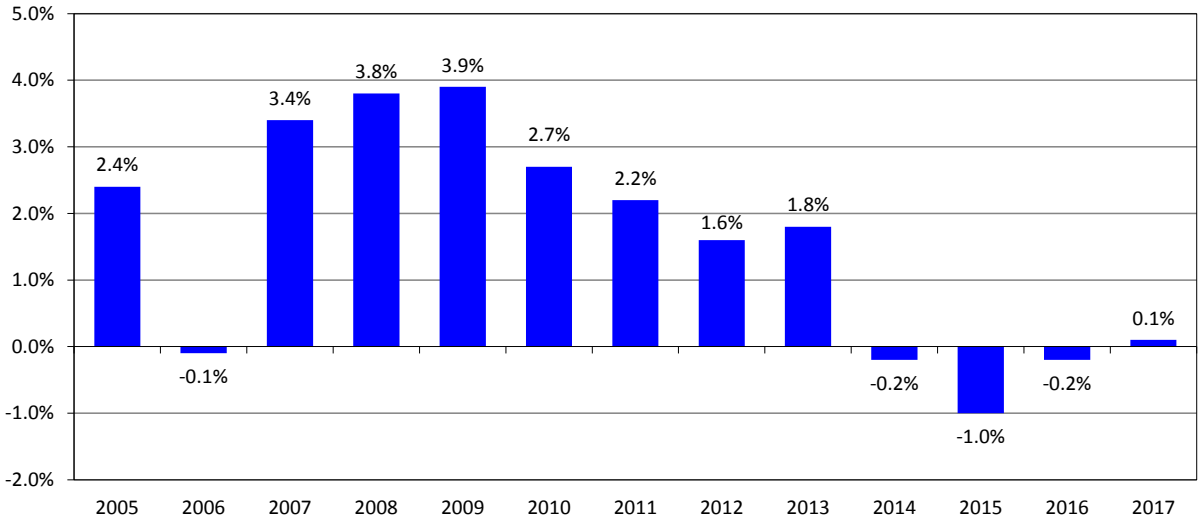
1.1 Main Developments

1.1. The State of Israel is an open, industrialized democracy. Since 1990, Israel has seen improvements in most economic indicators. Gross Domestic Product ("GDP") increased on average by 3.3% annually from 2012 through 2017. This rate has exceeded the average growth rate of many advanced economies.

1.2. The Israeli economy grew at a healthy pace in 2017 as consumption has led the economic growth in recent years and is expected to contribute to growth in the medium term. In the first quarter of 2017, GDP increased at an annual rate of 1.1% (as a result of a correction due to large scale car purchases in fourth quarter of 2016), however, it followed by an increase at an annual rate of 3.1%, 3.9% and 3.6% in the second, third and fourth quarters of 2017, respectively. In addition to GDP, there were significant improvements in the labor market with a notable decrease in the unemployment rate and an increase in the participation rate. In 2017, GDP per capita stood at a level of $36,250, ranking Israel 23rd among OECD countries. GDP is expected to grow by 3.4% in 2018 and by 3.5% in 2019, according to the Bank of Israel's forecast.

1.3. Since 1990s, Israel's fiscal and monetary policies have been formulated and coordinated with the overarching goals of enhancing economic growth, reducing tax burden, narrowing the Government's fiscal deficit, and maintaining low levels of inflation. The efforts made by the Government to reduce the cost of living in Israel have also influenced the rate of inflation (year-end compared to previous year end), which stood at 0.4% in 2014, -1.0% in 2015, -0.2% in 2016 and 0.1% in 2017.

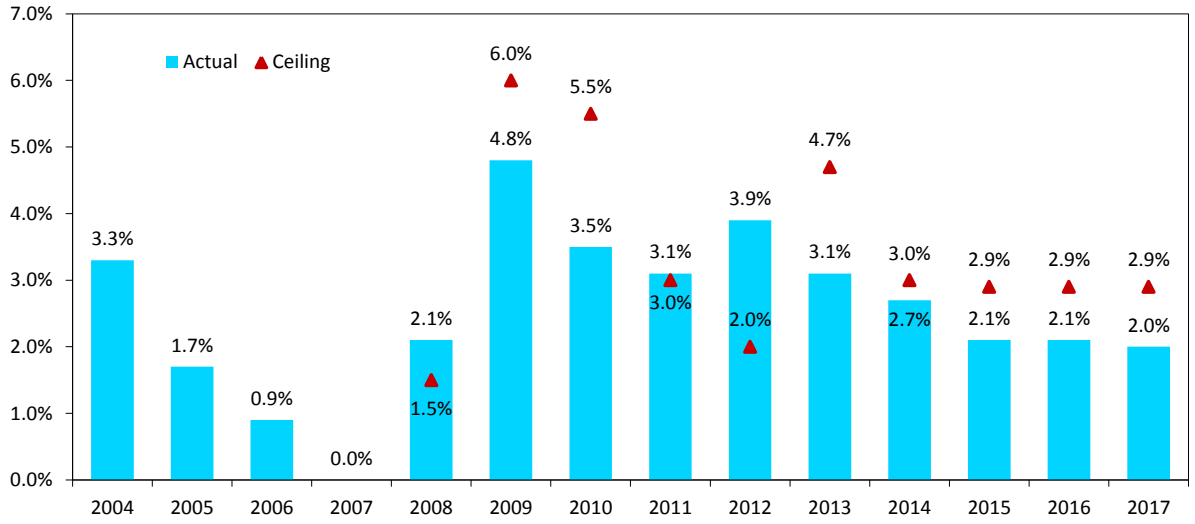
Figure 1: CPI Inflation Rate (year end- compared to previous year-end)



Source: Israel Central Bureau of Statistics (CBS).

1.4. As presented below in Figure 2, since 2013, the budget deficits are maintained below the ceiling which was also lowered between 2013 and 2015. The budget deficit amounted to 2.0% of GDP in 2017, well below the budget deficit target of 2.9% for that year.

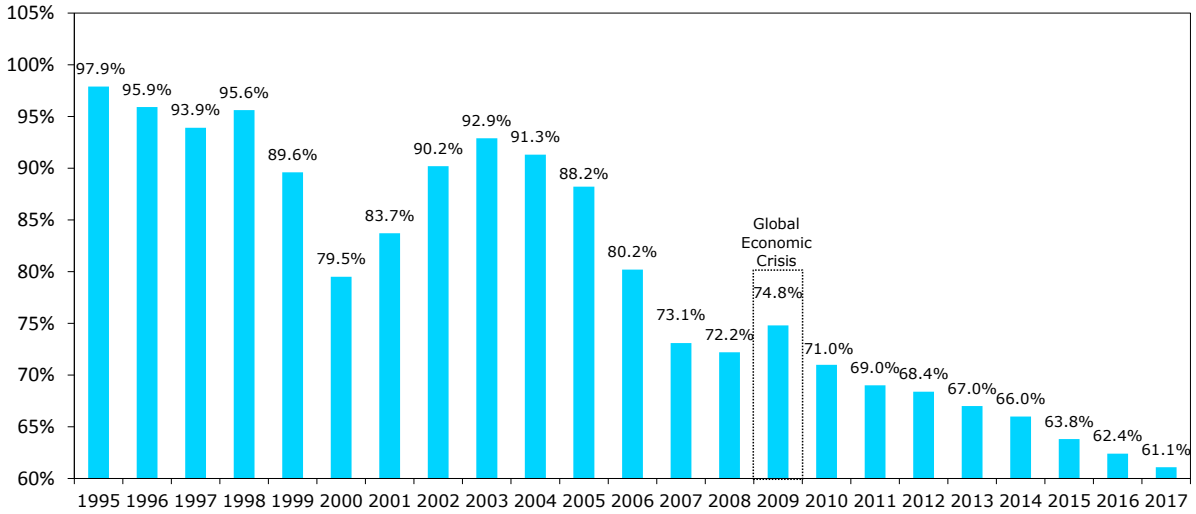
Figure 2: Central government budget deficit as % of GDP



Source: CBS, MOF.

1.5. The public debt measured as percentage of GDP, which in the past was considered a substantial liability to the Israeli economy, continued to decrease gradually during the past 6 years reaching a historical low of 61.1% in 2017. This indicator was consecutively reduced every year since 2009.

Figure 3: Public debt as % of GDP



Source: MoF, CBS, The Chief Economist Department calculations.

1.6. In March 2018, the OECD published an Economic Survey[1] on Israel which also addressed various aspects of the Israeli economy. The findings were summarized by the following:

- Israel's economy continues to perform well both in terms of macroeconomic and fiscal outcomes. Growth has averaged 3.3% since 2000, higher than in many OECD countries. The external surplus is comfortable, and the public debt-to-GDP ratio, already well below the OECD average, is still falling. This success is largely attributed to a long history of effective macroeconomic policy settings and bold structural reforms, including the successful absorption of the wave of immigrants from the former Soviet Union, the

[1] OECD (2018), *OECD Economic Surveys: Israel 2018,* OECD Publishing, Paris. *http://dx.doi.org/18.1787/eco_surveys-isr-2018-en.*

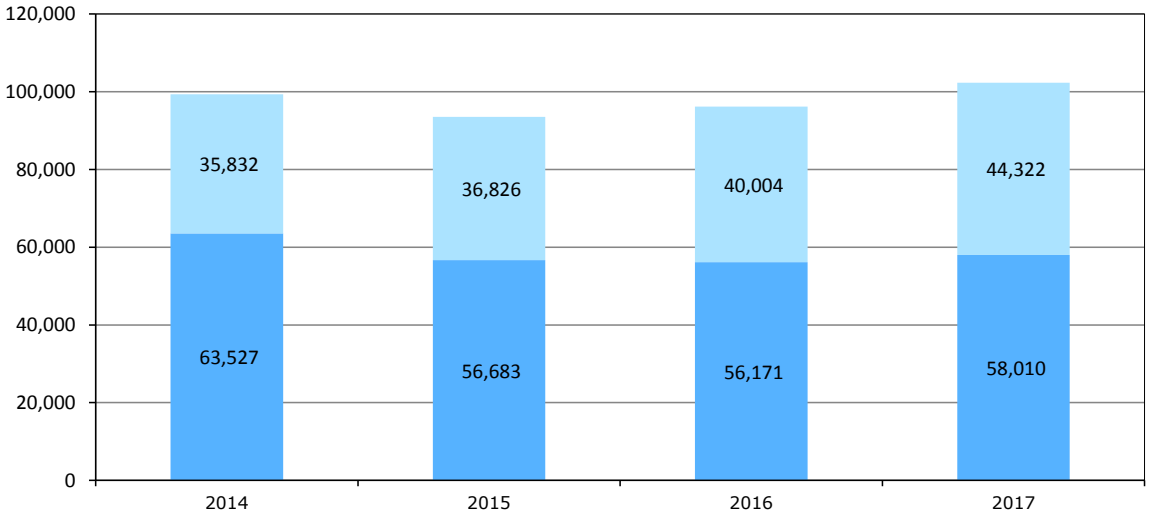
promotion of venture capital financing for the nascent high-tech sector and the liberalisation of higher education, all dating back to the 1990s, as well as improvements in work incentives in the early 2000s. These good results are expected to continue, thanks to the persistently dynamic high-tech sector and the forthcoming development of new gas fields. Against this backdrop, Israelis remain on average more satisfied with their lives than residents of most other OECD countries, even though wellbeing results are mixed in several respects, including the environment. They enjoy remarkable health and labour market outcomes, with historically low overall and long-term unemployment rates. Employment growth has been the main factor reducing the gap in average living standards with the most advanced countries these last 15 years.

1.2 Foreign Trade

1.7. Exports of goods and services[2] remain a crucial element of the economy's overall performance and competiveness. The Israeli exports of goods and services reached an historical high of $102.3b in 2017 compared to imports of $96.7b (a surplus of $5.7b following a surplus of $6.6b and $9.0b in 2016 and 2015 respectively).

1.8. The annual growth rate of exports of goods and services in 2017 stood at 6.4% after a growth rate of 2.9% in 2016 and a decline in 2015 of 5.9%. Services continue to constitute a large share of Israeli export and in 2017 constituted 43.3% ($44.3b) of total export, and goods constituted 56.7% ($58b) of total export (see figure 4). Export of goods grew by 3.3% and export of services grew by 10.8% in 2017.

Figure 4: Exports of goods and services in millions of dollars

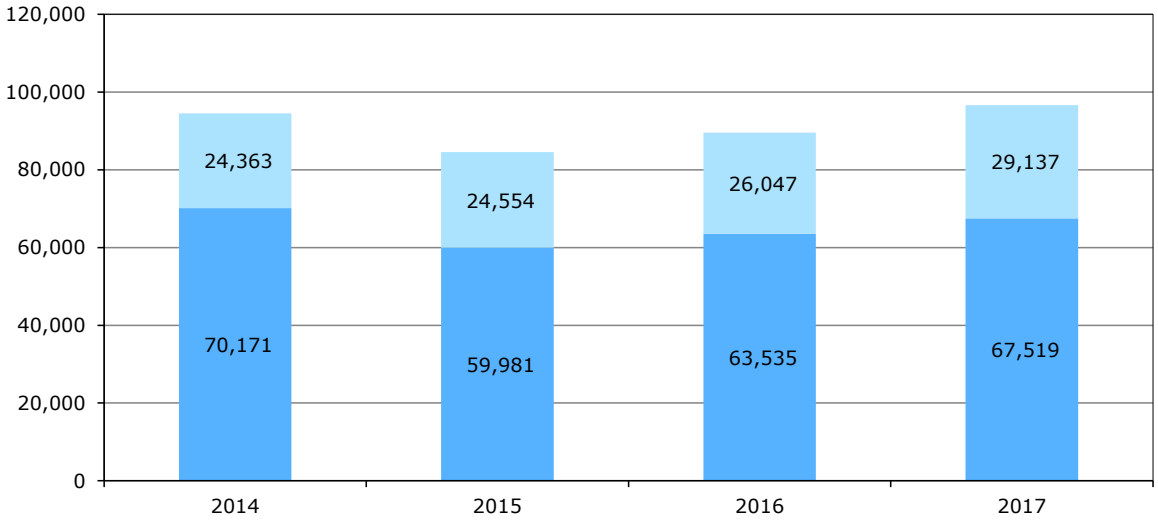


Source: Israel Central Bureau of Statistics.

1.9. Import of goods and services grew by 7.9% in 2017 after a further growth of 6% in 2016. Import of goods grew by 6.3% in 2017 and import of services grew by 11.9% in 2017 (see Figure 5).

[2] Figures in this section are adjusted to BOP.

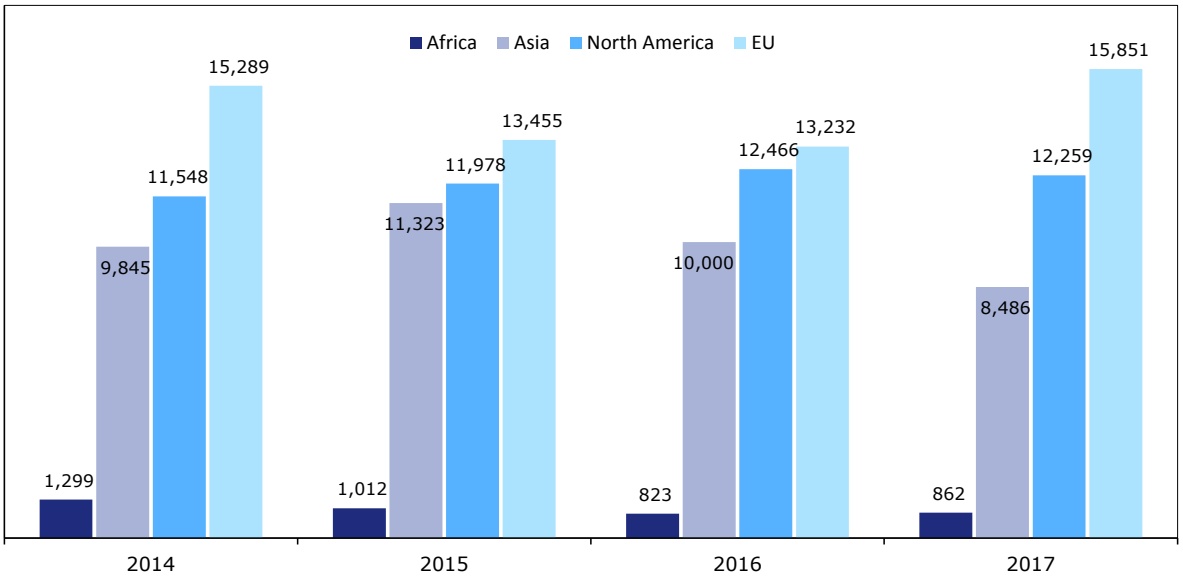
Figure 5: Imports of goods and services in millions of dollars



Source: CBS.

1.10. In 2017, the USA remained Israel's top export destination market for goods[3] with a total of $11.2b, the United Kingdom is the second export destination market with a total of $4.8b and China is the third destination with a total of $3.1b exports of goods. In terms of trading blocks, the European Union remains Israel's biggest export destination market (see Figure 6). Israeli export of goods to the European Union grew by 19.8% in 2017. The European Union is also the biggest origin of import to Israel, with $26.4b in 2017.

Figure 6: Exports of goods (excluding diamonds) by region in millions of dollars

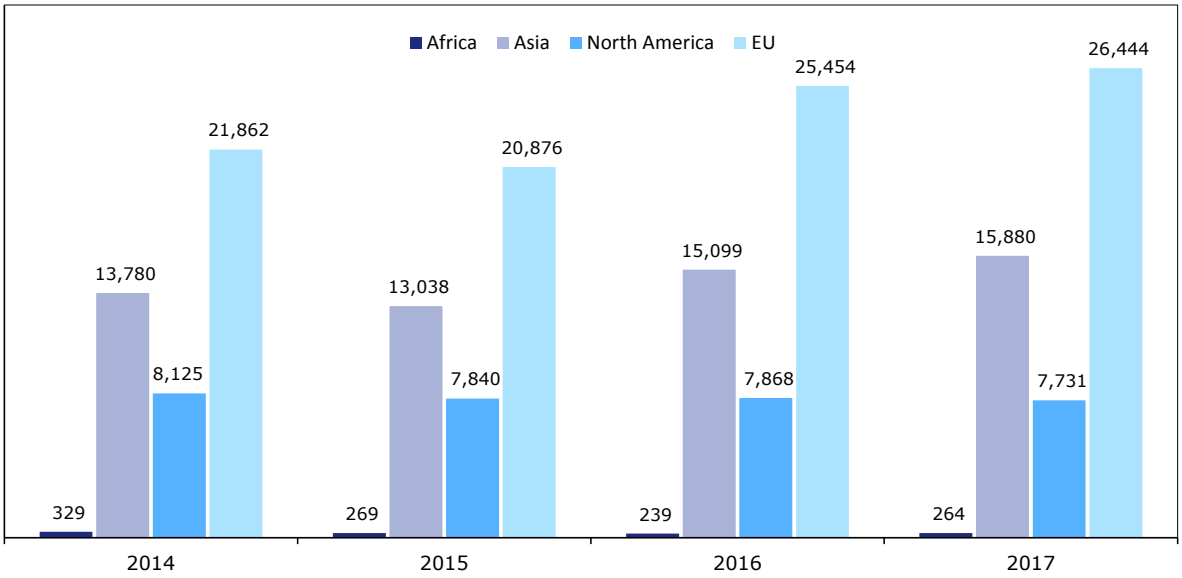


Source: CBS.

1.11. The composition of Israel's trade in goods reflects the industrialized nature of its economy. In 2017, exports of goods consisted primarily (85%) of manufactured goods section (industry related), which includes the dominant high-tech sector (see figure 8). This Industry related export grew by 3.3% in 2017. Raw materials and capital investment, including fuels and diamonds, comprised 80% of imported goods (see figure 8).

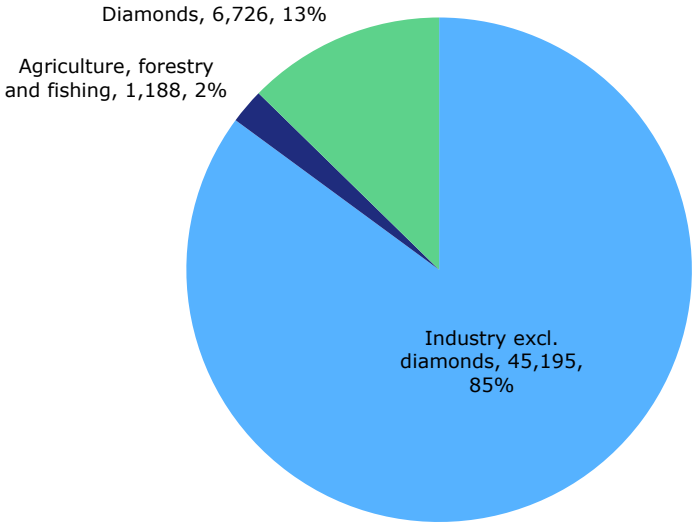
[3] Export of goods in this section exclude diamonds.

Figure 7: Imports of goods (excluding diamonds) by region in millions of dollars



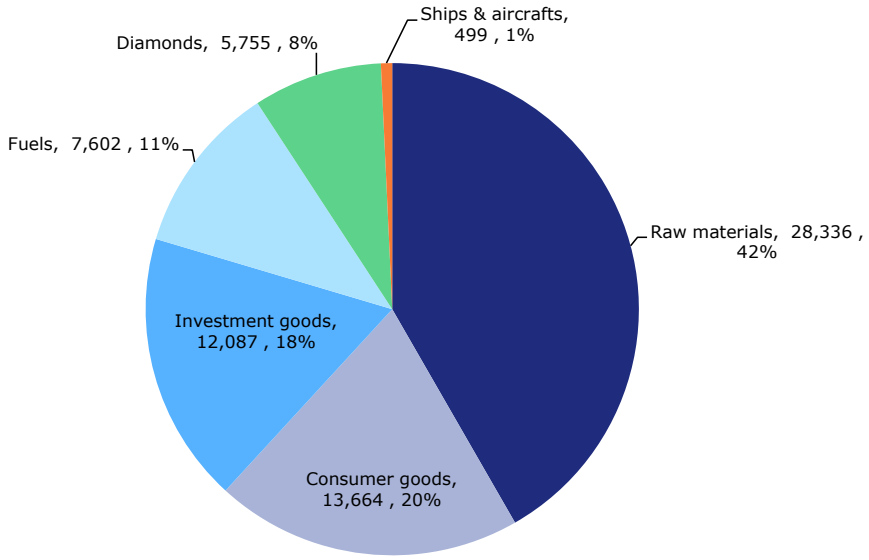
Source: CBS.

Figure 8: Exports of goods in 2017 (figures in millions of dollars)



Source: CBS.

Figure 9: Imports of goods in 2017 (figures in millions of dollars)



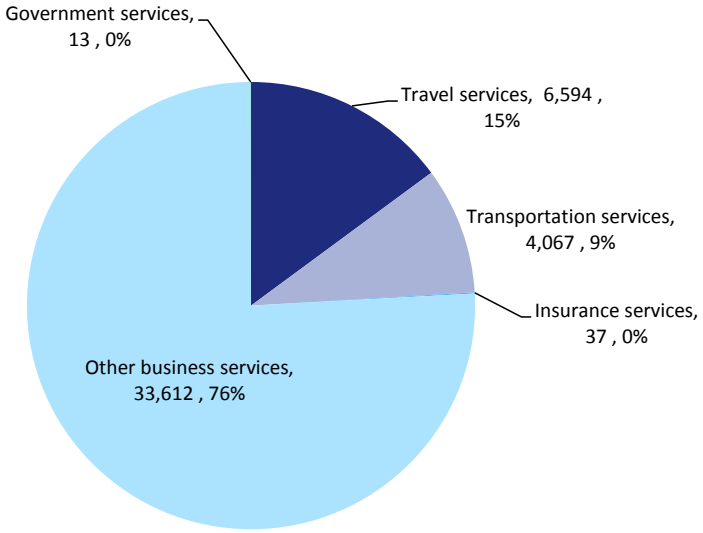
Source: CBS.

1.12. Trade in services continues to grow and constitutes a substantial part of Israel's foreign trade. In 2017, the majority (76% or $33.6b) of Israeli exports of services was in the "Other business services" sector, which includes research and development, information services, telecommunication services, computer related services, services between related enterprises and others (see figure 10). Exports in this sector grew by 9.6% in 2017, after a further increase of 13.8% and 5.0% in 2016 and 2015 respectively.

1.13. The second largest sector of Israel's exports of services is travel services, which increased substantially by 15.2% in 2017 and reached $6.5b.

1.14. The United States remained Israel's top services export destination (35% of total export of business services) followed by the European Union (24% of total export of business services).

Figure 10: Export of Services 2017

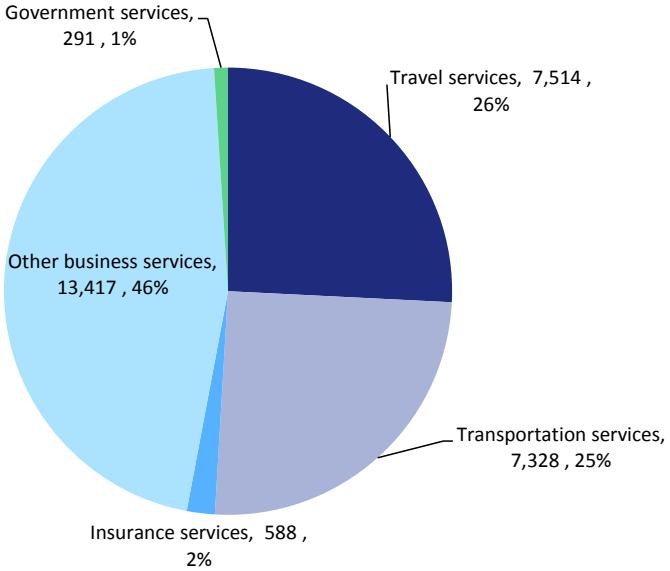


Source: CBS.

1.15. On the import side, "Other business services" comprised 46% of imported services, and grew by 18% in 2017. Travel services comprised 26% and transportation services consisted 25% of imported services (see figure 11).

1.16. The United States is the main origin of imported "other business services" to Israel (28% of total imports of "other business services") followed by the European Union (26% of total imports of "other business services").

Figure 11: Imports of services 2017 (figures in millions of dollars)



Source: CBS.

1.3 Israel's Monetary Policy

1.17. Since 1985, when the "Economic Stabilization" Plan was adopted, (in order to deal with the hyperinflation crisis of that time), Israel has made significant progress in stabilizing inflation through effective implementation of monetary policy by the Bank of Israel, together with fiscal restraint and trade liberalization promoted by the Government. Since 2001, the annual inflation target rate has been set at 1%-3%.

1.18. In response to the 2008 crisis the Bank of Israel implemented in 2009 an expansionary policy, resembling the policies adopted in many other countries. The Bank implemented its policy by using three important tools: (1) setting the interest rate, the principal tool in managing Israel's monetary policy, within the framework of an inflation target; (2) purchasing foreign currency in the market; and (3) purchasing government bonds in the secondary market. The rapid interest rate-cutting resembled exceptional measures which were taken by other countries, in order to confront the implications of the financial crisis and to minimize the risk of sliding into a deflationary environment while supporting activity and market stability.

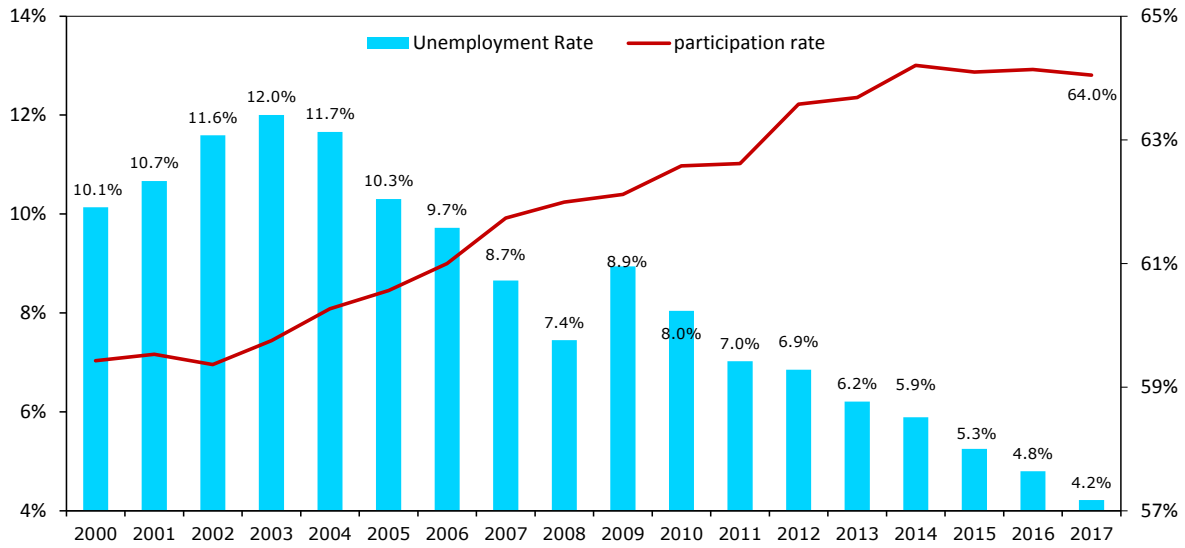
1.19. In recent years the Bank of Israel is maintaining a very accommodative policy, keeping its official interest rate at a historically low level of 0.1% since March 2015. The authorities also intervene in the foreign exchange market to limit fluctuations and excessive appreciation that would result from the extraordinarily accommodative monetary policy settings by the world's major central banks. These interventions come on top of currency purchase to offset the exchange-rate pressures from expanded natural gas production. The result of persistent intervention is that the Bank of Israel has foreign-currency reserves of US$118 billion (34.5% of GDP), one of the highest GDP shares amongst developed countries. Since November 2015 the Bank of Israel has also provided forward policy guidance to influence investor expectations: this accommodative policy is thus expected to be maintained as long as necessary to entrench inflation within the 1-3% target range. Although shorter-term inflation expectations are below 1%, they are well anchored to the target beyond this horizon, indicating monetary policy credibility.

1.4 Employment and the Labour Market

1.20. Since 2012, the labour market continued its constant improvement (that started during the second half of 2009). The unemployment rate has gradually decreased, reaching a historical low of 4.2% at the end of 2017. The participation rate remained relatively stable throughout 2016 and 2017, standing at 64.0% at the end of 2017.

1.21. In recent years the labour force participation rate (the labour force as a percentage of the population over the age of 15) is growing and stood at 64.1% in 2016, similar to the rate in 2015, continuing the gradual upward trend that started in 2002 when it stood at 59.4%. The general participation rate was also positively affected by the growing participation rate in the ultra-orthodox and Arab populations which in the past had very low participation rates. The increase in the participation rate and the number of Israelis employed is attributed to, among other factors, to overall economic growth and the successful implementation of the Government's policy to cut transfer payments and lower taxation on labour.

Figure 12: Participation rate and unemployment rate in Israel, age 15 and older



Source: CBS.

2 FOREIGN INVESTMENT

2.1. During the period covered by the current report, Israel has reinforced its global position and image as an open economy with favourable environment for foreign investment.

2.2. Foreign investment inflow into Israel continued to grow in the past few years. Net foreign investment in Israel totalled $18.57 billion in 2017 and $17.86 billion in 2016. These figures include direct foreign investment, investment in Israeli securities traded both on the Tel Aviv Stock Exchange (TASE) and on foreign exchanges, direct credit to the public sector and to residents, trade finance and credit to suppliers, and deposits by non-residents in Israeli banks.

2.3. Economy-wide investment is primarily affected by the long-term real interest rate and the economy's risk premium. An increase in investment is the key to sustainable growth as well as the continued decline in the rate of unemployment. In light of the falling interest rate over the past ten years and the decline in the country's risk premium, foreign investment in the Israeli economy amounted to a total of $104.1 billion in 2015, up from $93.3 billion and $88.2 billion in 2014 and 2013 respectively. Israel's assets abroad grew by about $9.7 billion in 2015, to a total of $89.4 billion.

2.4. Israel's balance of payments and international investment position vis-a-vis the rest of the world is relatively strong: It has a current account surplus and its gross debt is relatively low. In addition, Israel's composition of liabilities is favourable, with most liabilities in the form of equity instruments and only a small portion in debt instruments most of which are denominated in

shekels and are therefore not exposed to foreign currency risk. The high level of foreign currency reserves and the balance in the current account also contributes to stability. The current account is expected to improve further in the medium-term due to the replacement of energy imports with local natural gas.

2.5. Israel has investment protection agreements with 37 countries and double taxation treaties in force with 54 countries.

3 STRUCTURAL AND SECTORAL REFORM INITIATIVES

3.1 Main Initiatives

3.1. During the period covered by the report the Government continued to initiate various reforms, with the aim of enhancing competitiveness and performance of the economy. As it is customary in Israel, for many proposed reforms, the Government initiated the convening of an ad hoc committee of experts which held deliberations including a process of stakeholders' hearings. The hearings are followed by the submissions of draft recommendations for the consideration of the Government and Knesset (as necessary). The process concludes with the adoption of final recommendations and, if relevant, enactment of the appropriate laws.

3.2. The underlying reason for many of the reforms is the Government's effort to reduce the relatively high cost of living in Israel as well as trying to reduce the burden of regulation. Considering the fact that Israel is a relatively small economy that is dependent on trade, some of the most important reforms carried out during the past few years were of an import liberalization nature and were meant to facilitate the process of importation to Israel in various sectors of goods and services. For some of these reforms there are already results in the form of reduction in prices of goods, increased competition and positive feedbacks from importers.

3.3. Those reforms include, among others, several rounds of unilateral tariff reductions, liberalizing and streamlining the process of placement of non-sensitive food in the market, a reform of the spare car parts' market, and liberalizing imports of some telecommunication equipment. Several reforms are underway in the financial services sector in order to increase competitiveness, allowing the adaptation of new products and technologies while safeguarding the system.

3.2 Reducing the Regulatory Burden and Regulatory Impact Assessment (RIA)

3.4. In October 2014, the Government of Israel approved a resolution for a plan to improve regulations and to reduce the existing bureaucratic burden of regulations.

3.5. In its resolution, the Government recognized that regulation is a central tool for encouraging the economy and advancing society. Maintaining a developed regulatory system is the basis for an advanced, developed country, helps protect vital public interests and allows for the existence of a modern, efficient and prosperous economy. However, good regulation must reflect a balance between protecting the public interest on the one hand, and superfluous regulation which burdens the economy and could prove detrimental to healthy market activity, on the other hand. The purpose of the resolution was to bring about a reduction in the regulatory burden, and to create the correct balance between vital governmental interventions while leaving room for market forces to operate.

3.6. The plan detailed in the resolution includes two central components: the first – reducing the regulatory burden of existing regulation, and the second – carrying out an assessment of the expected impact of regulation before formulating new regulation named Regulatory Impact Assessment (RIA).

3.7. The plan to reduce the existing regulatory burden will be implemented in such a way that within five years, there will be a reduction in the regulatory burden by all regulators in the Government. Each ministry is instructed to review regulations under its responsibility with the aim of eliminating unnecessary regulations or amending them.

3.8. The annual plan of each ministry should achieve 25% reduction in the aggregate administrative costs of the regulators, so that at the end of the five years, 25% of the overall administrative costs will be reduced.

3.2.1 Regulatory impact assessment

3.9. As of January 1, 2016, the requirement to conduct a regulatory impact assessment (RIA) is applied to any governmental legislative initiative, whether it is primary or secondary legislation.

3.10. In light of the resolution, the Governmental Handbook for Regulatory Impact Assessment was issued before the entry into force of the requirement.

3.11. A RIA is conducted before formulating the regulation itself, at the policy planning stage. If the regulation undergoes changes in the Knesset or one of the Knesset committees, the ministry will not be required to edit and publish a new RIA.

3.12. In order to avoid performing a complex process on negligible regulation, the responsible minister may exempt a specific regulation from the requirement to perform a RIA process in cases where the impact of the regulation on the targets of the regulation or on other public interests is negligible.

3.2.2 Standardization

3.13. The Government of Israel has been working for some time to reform aspects of Israel's standardization system. This includes an ongoing effort to adopt international standards, and to base checks of conformity assessment on a risk based analysis. In addition the Government has withdrawn the exclusivity of performing product testing granted in the past by law only to the Standards Institution of Israel (SII). SII is the country's national standards body. Its Standardization Division coordinates the preparation of Israeli standards through technical committees, comprised representatives from all sectors of the Israeli economy and society (as appropriate). The product testing laboratories carry out testing of domestic and imported products for compliance with the relevant Israeli mandatory standard, The reform passed in December 2016, contains several fundamental measures that aim to reduce the cost of imported goods, provide better and quicker service to importers and encourage greater participation of small and medium size enterprises in standardization process by ensuring equal representation for all sectors of the economy.

3.14. The two main structural changes are:

- Eliminating the monopoly of the SII in testing imported goods by opening the market for competition to other recognized, private, independent laboratories.

- Revision in the composition and budget resources of SII in the area of the technical committees. The expectation is that the change will enable wider representation of different stakeholders and will encourage the committees to adopt international standards that do not include any national deviations.

3.3 Antitrust and Competition

3.15. During the work on several reforms, an analysis of the market (as a whole or in specific sectors) showed that one important reason for the high cost of living in Israel is the concentration of players in the market. It was therefore agreed that some changes in the antitrust laws and other relevant regulations were necessary in order to increase competition, strengthen the ability of the Antitrust Commissioner (the "Commissioner") to enforce the law and to reduce the centralization level in the business environment in Israel. The reforms that followed may be divided into three groups:

- **New primary legislation:**

  (1) Enactment of the "Promotion of Competition and the Reduction of Concentration Law" of 2013 which aims to reduce the level of concentration in the Israeli market including by an establishment of a Centralization Committee that advises the Government on licensing and other rights granted to key entities in the economy; publication of lists of entities which are considered as concentrated, and setting an obligation for the regulators to take into consideration the level of industry competition in the process of allocating rights, and to consult with the Antitrust Commissioner regarding certain rights which have a significant impact on competition.

  (2) Enactment of the "Promotion of Competition in the Food Industry" Law, 2014, that regulates the activity of suppliers and retailers. The law prohibits behaviours that may strengthen their market power or reduce competition between them. In addition, the law addresses problems concerning the lack of regional competition in the food and consumer goods sectors, by requiring large retailers to obtain the Commissioner's approval in order to open additional branches in geographical areas in which the Commissioner considers lacking in competition.

- **Amendments to existing Laws:**

  (1) Amendment No. 12 to the Restrictive Trade Practices Law of 2011 which grants the Commissioner the authority to establish directives for the prevention of harm to competition or for the improvement of competition in a market in which an oligopoly exists.

  (2) Amendment No. 13 to the Restrictive Trade Practices Law (Financial Sanctions) of 2012 – which grants the Commissioner the authority to impose financial sanctions in an administrative proceeding for violations of the Restrictive Trade Practices Law.

  (3) Amendment No. 14 to the Restrictive Trade Practices Law (Amendment – Exemption for Agricultural Produce) from 2014 – The amendment reduced the statutory exemption to restrictive arrangements in the agricultural sector.

  (4) Amendment No. 15 to the Restrictive Trade Practices Law (Legislative Amendments – Increasing Competition) from 2014 – As part of the amendment to this law, the Antitrust Commissioner has been given the authority to conduct market examinations in economic sectors, while examining the existence of market failures.

  (5) Amendment No. 16 (Legislative Amendments – Increasing Competition) from 2014 where an Antitrust Tribunal is authorized to instruct a monopolist or a member of an oligopoly to sell an asset held by them, following an appeal by the Antitrust Commissioner to the Tribunal, if it is found that this can prevent harm or likely harm to competition.

- **Class exemptions:**

  (1) Class exemption for operating arrangements concerning international maritime transport, from 2012;

  (2) Class exemption for arrangements between air carriers concerning the marketing of flight capacity to destinations subject to open skies agreements, from 2012;

  (3) Class exemption for non-horizontal arrangements that do not include specific price restraints, from 2013;

  (4) Class exemption for actions and arrangements concerning consumer price from 2014;

(5) Class exemption for actions and arrangements concerning the arranging of goods at a large retailer's store from 2014;

(6) Class exemption for joint ventures for marketing and supply abroad of defence equipment from 2015 (amended in 2017);

(7) Amendment of class exemption for arrangements between air carriers, from 2013.

3.4 Digital Israel

3.16. Digital Israel is the Government national initiative that focuses on harnessing the potential of the digital revolution to advance information and communication technologies for the benefit of accelerating economic growth, reducing socio-economic gaps and making government smarter, faster, and more accessible to citizens.

3.17. The Government intends to leverage the country's start-up environment to greatly improve governmental and business services, ensuring they are delivered in the most advanced methods. To this end, in 2013, the Government adopted a resolution on establishing the "Digital Israel" – a national initiative", to set in motion a coordinated effort to realize the potential of advanced technological infrastructures.

3.18. As part of the "Digital Israel" national initiative, an advanced fibre-optic infrastructure will be deployed in Israel, enabling Israeli homes and businesses to connect to the internet at a speed of up to 1,000 MB. This infrastructure provides an opportunity for making a quantum leap in the area of digital services in the public and business sectors. The mechanism for implementing the Government resolution includes the Coordination Bureau in the Prime Minister's Office which formulates a national digital plan in this area.

4 TECHNOLOGICAL INNOVATION

4.1 Research and Development

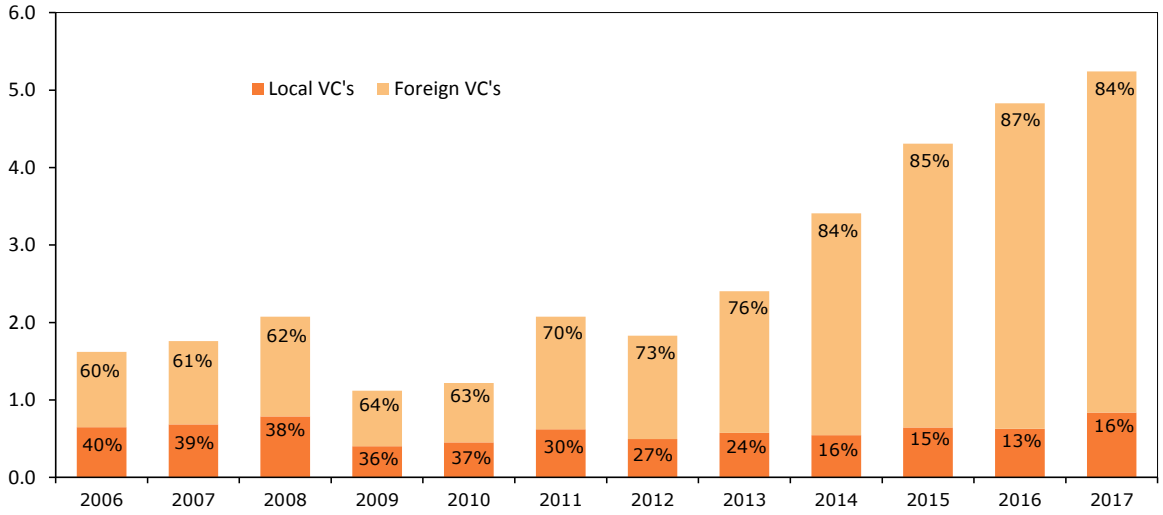
4.1. Israel maintains its strong position in innovation related parameters and excels on an international scale in particular in such areas as total expenditure on R&D as share of the GDP, venture capital availably, number of patents per capita and quality of research institutions. Foreign investment in R&D accounts for 57% of the total Business R&D and 84% of the investments in R&D comes from the business sector; these two indicators reflect the attractiveness of the Israeli research environment and strong business driven innovation eco-system that also helps create a business environment which is conducive to entrepreneurship and favours risk- taking.

4.2. According to Israel's Central Bureau of Statistics (CBS), the High-Tech sector accounted for 301,000 jobs in 2017 (11.6% of total employed in the Israeli market). However, the High-Tech portion of Israel's industrial exports (including services) in 2017 was 50%.

4.3. The competitive advantage of the Israeli High-Tech sector is based on various factors, notably an innovation culture and infrastructure that benefits from the world's highest expenditures, 4.3% as a share of GDP, for civilian R&D. As for 2017 there were about 5,000 start-up companies in Israel and over 300 foreign R&D centres of Multinational Corporations.

4.4. In 2017, Israeli high-tech companies attracted $5.2 billion from local and foreign venture investors. This is an 8% increase from $4.8 billion which were raised in 2016 and a 21% increase from $4.3 billion raised in 2015 (see Figure 13).

Figure 13: VC investments in Israel (US$ billions)



4.5. In 2017 the total amount of Israeli companies' exits reached a record high of $24 billion including the purchase a company in the field of car accidents prevention systems and autonomous driving, in the amount of $15 billion, which was the highest purchase of an Israeli company up to date.

4.6. One of the most substantial developments in Israel in this field since the last Trade Policy Review was the establishment of the Israel Innovation Authority. The Authority was set up on the basis of the Office of the Chief Scientist in the Ministry of Economy and Industry. The objective was to fulfil the missions assigned to it by the R&D Law in a more conclusive way, and to provide more efficient and high-quality service to the Israeli innovation community. In order to do so, the Authority operates with a structure of "innovation divisions" that allocate a cumulative budget of approximately NIS 1.6 billion each year.

4.7. The Start-up Division offers unique tools to support the early development stages of technological initiatives. These tools assist entrepreneurs and start-up companies in developing their innovative technological concepts at the pre-seed or initial R&D stages, transform their ideas into reality and reach significant milestones.

4.8. The Growth Division operates a wide range of incentive programs that promote technological innovation of mature and growth companies. This division contributes to the promotion and preservation of competitiveness and technological leadership of companies, as well as the increase of their growth rates and potential.

4.9. The Technological Infrastructure Division focuses on collaboration between industry and academia to produce advanced technologies and innovative products. The incentive programs offered by this division promote cooperation, exchange of knowledge and experience, and development of generic ground-breaking knowledge by an integrated group of researchers from academia and industry. These incentive programs seek to strengthen the long-term technological advantages of Israeli industry in the face of fierce international competition.

4.10. The Advanced Manufacturing Division focuses on promoting the implementation of R&D and innovation processes in companies in the manufacturing sector, in order to strengthen their competitiveness in the global arena and improve productivity across a variety of industrial sectors. The programs offered by this division aim to boost manufacturing-oriented industries and encourage the owners of mainly small and medium sized factories to develop products, technologies and manufacturing processes to realize these goals.

4.11. The Societal Challenges Division focuses on improving productivity through technological innovation in the public sector and social organizations. This division is also responsible for R&D aimed at dealing with social and environmental challenges, including the diversification of the

population employed in the hi-tech industry and the creation of appropriate technological solutions for disadvantaged populations in Israel and abroad.

4.12. The International Collaboration Division is responsible for creating bridges to new international markets, building platforms for cooperation in innovative R&D, and attracting strategic foreign stakeholders to Israel, all while creating competitive advantages for the Israeli industry in the global market. These initiatives are made possible through an array of bilateral cooperation agreements and bi-national funds that support joint R&D and projects between international partners.

4.2 Israel NewTech

4.13. With the aim of responding to increasing global environmental challenges and the water shortage in Israel, the Government continued "Israel NewTech" national program, focused on water and renewable energy technologies respectively. This pioneering national program is led by the Ministry of Economy and Industry, and is supported by a number of additional government agencies. Israel NewTech helps to advance the water and sustainable energy sectors by supporting academia and research, encouraging implementation of novel solutions in the local market, and promoting those solutions in the international arena.

4.3 Digital Health

4.14. Designed to improve medical care, enable the country to better cope with the health challenges of the 21st century, and promote medical research with clinical data, Israel’s national digital health initiative aims to change the way healthcare is delivered, and to open opportunities for more research in this area.

4.15. For the last three years Israel has been building a comprehensive digital health infrastructure, positioning its public health system in the front of the new data-driven medical world. The goal is to enable the system to cope successfully with the challenges that health systems face worldwide: aging population, overcoming chronic diseases, an unhealthy lifestyle etc., all of which puts the health care system under growing pressure.

4.16. The transformation of the healthcare system by leveraging digital technologies is a national goal, which is prioritized and promoted by the Prime Minister and various government ministries. Dedicated teams have been working in three areas to consolidate Israel’s digital health project.

4.17. The first is to complete the missing clinical information regarding the patient’s medical history by collecting and fusing data from all possible sources and using a Health Information Exchange national platform. The goal is to allow every physician, including those who work in small and distant clinics, to receive all relevant medical information about their patients in order to make the best medical decision in real time.

4.18. The second is to synchronize all administrative and medical data regarding patients between all medical institutions, and enable secure data sharing between different health organizations. Ultimately, the goal is for the patient not to have to hold or deliver any paper, whether it is a payment commitment or medical summary.

4.19. The third element is to promote analysis of the medical information for the benefit of medical research, using Big Data analysis tools, without compromising the privacy of the patients. Big data analysis of multi-omics data may lead to new discoveries in personalized medicine and preventive medicine, and here the goal is to enable an end-to-end process which begins with academic research and ends with services, products and methodologies which can be implemented at the Israeli public health system.

5 ISRAEL'S TRADE POLICY

5.1 Introduction

5.1. International trade plays a vital role in the economy of the State of Israel. Indeed, the Israeli economy has integrated into the global trading system in a rapid and efficient manner, by

implementing multilateral and bilateral trade agreements, as well as by pursuing a unilateral process of trade liberalization and structural reforms. Israel's surplus in its Current Account amounted to 2.8% of GDP at the end 2017. In addition, in 2017 imports represented 27% of the resources of the Israeli economy while exports represented more than 29% of the uses.

5.2. The Israeli economy has undergone a substantial process of structural reforms, so that in a relatively short time the Israeli economy has developed into a liberalized market place, trading in a wide range of manufactured goods and services worldwide. Intense entrepreneurial activity became the hallmark of the business environment, attracting the attention of foreign and local investors. The Israeli technological, research and knowledge based industries have gained worldwide recognition and have served as an engine for economic growth.

5.2 Trade Policy

5.3. Israel's trade policy objectives are as follows:

(1) Continued integration of the Israeli economy into the global trading system, through the use of policy instruments that relate to trade in goods, services, investment, competition, environment, intellectual property, and others.

(2) Promote and maintain Israel's exports competitiveness by expanding and updating the network of international agreements designed to promote trade, facilitate market access, eliminate non-tariff barriers and encourage long term economic growth.

(3) Increase the efficiency of resources' allocation, by enhancing reforms that aim at the introduction of greater competition and increased transparency in the domestic market and to support the Government's initiatives to reduce the cost of living for the welfare of consumers.

(4) Create an attractive climate for investors, business people, and consumers.

5.4. Israel's trade policy is enhanced by a wide range of international agreements and commercial arrangements with individual countries and international bodies. In recent years, the Government of Israel has been pursuing its international trade policies in a well-coordinated effort, along three paths in parallel: multilateral, bilateral and unilateral. Israel believes in the primacy of the WTO multilateral system as the prime tool for the expansion of trade and global prosperity. At the same time, Israel believes that its regional and bilateral Agreements, concluded within the framework of Article XXIV of GATT 1994, complement its multilateral obligations and allow further trade liberalization. Indeed, opening up to foreign competition through bilateral agreements has paved the way to the extension of greater liberalization *vis-à-vis* other WTO member countries.

5.3 WTO

5.5. Israel is a founding and active member of the WTO. Israel strongly supports the fundamental principles and norms of the WTO rules based system, i.e., non-discrimination; transparency; consensus based decision-making; promoting competitiveness and free trade through discouraging unfair trade practices and progressive liberalization; and special and differential treatment for developing countries and LDC's. Israel believes that full observance of the above-mentioned principles and norms is imperative for the goals of the WTO to be attained for the benefit of all. As such, they should be respected by all existing WTO Members and future acceding countries. This is why Israel reaffirms its full commitment to uphold the WTO agreements and its preeminent role in advancing trade liberalization and promoting economic growth. Nevertheless, Israel also acknowledges the reality and the need to find new approaches to advancing trade liberalization and promoting economic growth.

5.6. Since Israel's last TPR, WTO Members negotiated and concluded the **Trade Facilitation Agreement (TFA)**, the first multilateral agreement since the establishments of the WTO. Israel took an active role in the negotiations and an ambitious approach in its implementation, having notified all its commitments under Category A. In the same spirit, Israel was one of the first few countries to notify and modify its schedule of commitments, implementing the Nairobi Ministerial Decision on **Export Competition**. Israel's engagement in the multilateral trading system and the

Doha Development Round (DDA) is further exemplified by the support and participation in other initiatives that unfortunately have not come to fruition yet, such as the fisheries subsidies negotiation. Israel is also making efforts to advance negotiations and support the multilateral trading system through different fronts and configurations — including actively participating in groups, such as, G-10 (agriculture), Friends of Anti-Dumping Negotiations (FANs) and Friends of the System (FoS). Israel will continue to advance trade liberalization and promote economic growth through the existing MTS initiatives as well as any other new approaches with this aim.

5.7. Israel took an active role in two plurilateral initiatives that have been negotiated and concluded under the auspices of the WTO since our last TPR, namely the **revised Government Procurement Agreement (GPA)** and the **expansion of the Information Technology Agreement (ITA)**. The revised GPA was concluded in time for the eighth Ministerial Conference and was ratified by Israel in 2014. This agreement is gaining wider support between other WTO Members, as evidenced from the slate of recent accessions and those currently in the process of acceding. Israel hopes that the GPA becomes more widely accepted in the near future to reflect greater geographical representation. Israel also took an active part in the negotiations of the expansion of the ITA that was concluded by over 50 Members at the Nairobi Ministerial Conference in December 2015, and now covers over 201 tariff lines valued at over $1.3 trillion per year – market access of which all the WTO membership can benefit from.

5.8. Unfortunately, some of the plurilateral initiatives Israel also took part in have failed to materialize, notwithstanding the intensive work by all participants. These plurilateral initiatives include the Trade in Services Agreement (TiSA) and the Environmental Goods Agreement (EGA). TiSA aims to achieve an ambitious outcome, compatible with the GATS, that would attract broad participation and that could be multilateralized in the future. EGA seeks to eliminate tariffs on a number of important environment-related products with the objective of helping to achieve environmental and climate protection goals. The benefits of a potential EGA would be extended to the entire WTO membership, which show how some plurilateral initiatives can have an effect on a multilateral level. At the moment the future of these initiatives remains uncertain, but Israel remains open and willing to continue working towards their conclusion.

5.4 Bilateral Trade Agreements

5.9. Bilateral agreements have been an important pillar of Israel's trade policy. Bilateral initiatives are useful as a supplementary way of achieving substantial results more rapidly than would be possible at the multilateral level. They provide a particularly effective alternative when they are conducted, as has been the case for Israel, with the country's main target markets. Israel’s bilateral trade agreements cover substantial, however decreasing portion of Israel’s international trade.

5.10. Israel has had free trade agreements with its major trading partners for many years - with the European Union since 1975, with the United States since 1985, as well as with the EFTA States since 1993. In November 1995, Israel and the European Union concluded a more comprehensive agreement to cover wide aspects of economic relations beyond trade in goods, enabling Israel’s participation in the European Union’s Research and Development Framework Programs. The agricultural market access in Israel's agreements with the EU as well as with the U.S. is being further liberalized from time to time. A recent update with the EU became effective as of 2010.Other free trade agreements include: Israel-Canada (1996), Turkey (1997), Mexico (2000) and the MERCOSUR bloc (2007). Israel also concluded free trade agreement negotiations with Colombia in 2013 and with Panama in 2015. The Agreement with Colombia was signed and is in ratification process, while the agreement with Panama is not signed yet. The purpose of these agreements was to further open markets and to maintain Israel's exports competitiveness in European, North-American and South-American markets. In addition, an update of the free trade agreement with Canada was recently completed (awaiting signature and ratification) and the agricultural part of FTA with EFTA is being updated to provide a more liberalized trade in this sector

5.11. Continuing this strategy, Israel is looking at new initiatives to expand its market access to other countries through either multilateral or bilateral agreements and is currently negotiating free trade agreements with China, Korea, India, Ukraine, Viet Nam and The Eurasian Economic Union.

5.12. As customs duties are declining, Israel is looking for ways to remove non-tariff barriers as well. To that end Israel has concluded varied types of Mutual Recognition Agreements with the EU (a framework agreement with an Annex on pharmaceuticals), and with Canada (on telecom equipment). A similar agreement on telecom was signed with the U.S.

5.13. Economic relations with its neighbours in the Middle East are of particular importance to Israel. Initiatives named Qualified Industrial Zone (QIZ), operating under the framework of the Israel-U.S. free trade area agreement, have been concluded with Jordan (1997) and Egypt (2004). The QIZ Agreements have contributed substantially to the bilateral growth of trade between Israel and Jordan on the one hand and Israel and Egypt on the other hand. Israel holds that trade mechanisms have the potential to enhance cooperation and stability in the region.

5.5 Unilateral Trade Liberalization

5.14. Israel continues to pursue trade liberalization as part of its general economic policy. In recent years, as part of the Government's review of tariff and non-tariff measures and in an effort to reduce the cost of living, Israel has eliminated tariffs on more than 1,300 tariff lines (at HS 8-digit level) on many consumer goods, where the prior level of customs duties had been in the range of 6-12%. The reductions are worth over $150 million in annual customs revenue. In addition, in the past few years, Israel introduced new voluntary Tariff Rate Quotas of substantial amounts, open for all WTO members, for a number of highly demanded food and agricultural products such as fresh and chilled beef, hard cheese and olive oil. For some of the product, the out of quota duty rate was reduced as well.

5.6 Conclusion

5.15. Since its inception, Israel has been highly dependent on international trade as a means for economic growth and development. Throughout the years, and particularly in the last twenty years, Israel has developed and keeps on expanding an integrated network of international trade agreements, in which bilateral, regional and multilateral trade agreements work in harmony and in a joint effort to promote trade and facilitate market access in Israel's export markets, as well as to increase competition and efficiency in the allocation of resources in the Israeli economy.