



U.S.–ISRAEL BUSINESS INITIATIVE

U.S. CHAMBER OF COMMERCE

2014 Policy Discussion Paper

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As the governments of the United States and Israel prepare for the 2014 Joint Economic Development Group meetings, the U.S. Chamber of Commerce's U.S.-Israel Business Initiative respectfully submits the following recommendations that we believe can help strengthen the commercial relationship between the United States and Israel.

There is no question that the U.S. and Israel enjoy a strong commercial relationship, which has grown dramatically since the signing of the U.S.-Israel Free Trade Agreement nearly thirty years ago. The sectors and focus of that commercial relationship continues to change and there are huge opportunities in new economic sectors that should be seized upon and expanded.

The U.S. Chamber of Commerce's U.S.-Israel Business Initiative and its partners in Israel are committed to supporting the bilateral commercial relationship between the United States and Israel. We will continue to work collaboratively to pursue policy and organize activities that deepen this strategic alliance through greater trade and investment.

The business community looks forward to a fruitful dialogue on these and other issues as we partner together to strengthen our bilateral economic relationship.

1. Establishing a U.S.-Israel Strategic Economic Dialogue

Issue: Current government-to-government dialogues between the U.S. and Israel are limited to specific departments and ministries, are not centrally coordinated and organized, and do not have a consistent or meaningful role for either country's private sector.

Recommendation: We suggest the creation of the U.S.-Israel Strategic Economic Dialogue. This Dialogue will bring together key government officials, leading business organizations and business leaders from the United States and Israel to deepen cooperation and strengthen strategic coordination on the most pressing economic and commercial issues in the bilateral relationship.

The Dialogue would have a number of interlocking objectives, including:

- Elevating the U.S.-Israel economic relationship to reflect the centrality of economic cooperation in our overall bilateral ties.

- Providing a framework for proactive efforts to address opportunities to enhance economic cooperation and growth.
- Minimizing misunderstanding between our governments and business communities. Inevitably, there will be differences of opinion on certain issues, but a regular forum to converse would allow the relevant parties to directly address causes of concern.

This Dialogue can be chaired by the Office of the Prime Minister and the U.S. Department of State. While the commercial relationship between the U.S. and Israel continues to be robust, we propose tracks that both private sectors and governments are keen on addressing, including energy, cyber security, policy to encourage innovation, and bilateral trade and investment issues.

The ultimate structure of the Dialogue would have to be negotiated by the respective governments, but we would encourage the Dialogue to be chaired by high-level leadership from each side and include the participation of key government and private sector leaders. Officials from the Ministries of Finance, Economy, Energy, and Transportation, among other offices, should represent Israel in this Dialogue. Officials from the U.S. Departments of State, Commerce, Energy, Transportation, and the U.S. Trade Representative, should represent the U.S. in this Dialogue.

2. Updating the U.S.-Israel Free Trade Agreement

Issue: Current negotiations between the U.S. and the EU on the Transatlantic Trade and Investment Partnership (TTIP) agreement may impact countries that have free trade agreements with the United States, like Israel. Given that the EU and the U.S. are Israel's two largest trading partners, we believe that now is an important time to revisit discussions to update the U.S.-Israel Free Trade Agreement to expand the opportunities for our countries to deepen commercial ties and benefit from the latest innovations and patterns in global trade. While the U.S.-Israel FTA was one of the first modern day agreements signed by the United States more than 25 years ago, today, it needs to include new features that can enhance the bilateral trade between the two countries and effectively utilize advanced platforms for trade and investment.

Recommendation: Begin a consultative process with the private sector on creating annexes in the FTA that would address issues central to modern relationships among advanced economies – e-commerce, technical barriers to trade, services trade, and standards – that have become more relevant over the years. Existing government-to-government discussions such as the Joint Committee of the U.S.-Israel FTA could benefit from having both private sectors engaged in pushing for changes to the existing framework. Addressing these issues does not necessarily need to be done by

opening up the entire agreement, and can instead be resolved by adding annexes targeting specific issues. For example, using the Trade in Services Agreement (TISA) negotiations currently taking place is one potential avenue for improving on the U.S.-Israel FTA's lack of services provisions.

3. Promoting Support for Energy Development in Israel

Issue: The Israeli public's reluctance to develop homegrown sources of energy can often make decisions allowing for the development of these resources unpopular and politically difficult. At least some of this opposition can be attributed to a misunderstanding in the general population regarding the benefits of this energy (lower bills, job creation, and economic growth) and an overemphasis on the environmental dangers posed by this production.

Recommendation: Working with both governments, we propose the creation of an educational campaign that would inform the Israeli public of the benefits of developing this energy. This initiative would consist of a series of written and multi-media materials and town hall-style meetings throughout the country. The business community proposes the formation of a partnership with both governments to ensure an effective and robust educational effort to explain to the public the benefits of a responsible and growing hydrocarbon industry.

4. Streamlining the Regulation of Hydrocarbons in Israel

Issue: Israel's historic discoveries of natural gas mark an exciting new chapter in joint commercial collaboration, and U.S. companies now play an active role in developing these newly revealed resources. Unprecedented U.S.-Israel commercial cooperation in the hydrocarbons sector, particularly with respect to offshore natural gas exploration and production, has generated valuable opportunities for American companies as well as important economic, fiscal, environmental and security benefits for the people of Israel. Deriving the full value of such collaboration over the long term depends upon a stable, supportive, and transparent policy framework and regulatory regime.

Recommendation: The business community supports a public policy framework that further advances U.S.-Israel private-sector cooperation in support of expanded and responsible Israeli energy production including:

- Enhancing cooperation between the Israeli government and private sector to develop a joint-framework for cooperation that incorporates high standards and follows best practices for the development of new hydrocarbons that

satisfies environmental criteria and contains clear and consistent guidelines for how this practice should be carried out.

- Updating Israeli policies and procedures that reflect the current resources found in Israel, including centralizing all policy decisions in a single authority that is responsible for the regulation of hydrocarbons.

5. Including Israel in the Visa Waiver Program

Issue: The Visa Waiver Program (VWP) is one of the largest sources of inbound overseas travel to the U.S. and currently allows business and leisure travelers from 38 partnering countries to visit the U.S. for up to 90 days without obtaining a non-immigrant visitor visa. In 2011, nearly two-thirds of all overseas visitors traveled through the VWP, and their \$69 billion in spending supported 525,000 American jobs. Israel is not part of the VWP. This presents a challenge to the Israeli business community, which must contend with the hassle of applying for visas to travel to the U.S. to visit their co-workers, businesses, and investments. This often dissuades Israeli business people from investing and collaborating with their counterparts in the U.S. due to concerns that they will not have the opportunity to engage in on-sight visits and face-to-face meetings.

Recommendation: Expansion of the VWP to Israel would eliminate unnecessary barriers to business and leisure travelers and allow the Department of State to shift resources to higher risk countries. Additionally, expansion of this program would be a critical step in restoring the U.S. share of the global travel market to its 2000 level of 17 percent. We support the inclusion of Israel in the VWP.

6. Developing an Effective Cyber Security Framework

Issue: Global companies increasingly rely on modern communication networks and data flows to deliver services to customers, run internal operations, optimize manufacturing, and manage global supply chains. Restrictions on the ability of companies to securely move data across borders, including through data and server localization requirements, will undermine economic growth.

Israel is developing a Cyber Security Framework that will provide companies with a set of guidelines. Recently, the U.S. Commerce Department's National Institute of Standards and Technology (NIST) worked with stakeholders to publish the Framework for Improving Critical Infrastructure Cybersecurity. This is a voluntary framework – based on existing standards, guidelines, and practices – for reducing cyber risks to critical infrastructure.

Recommendation: We suggest the Government of Israel continue to encourage policies that encourage digital trade across borders, free of server localization requirements and other restrictions on legitimate data flows. We would also recommend that representatives from both the U.S. and Israeli private sectors have an opportunity to weigh-in on this framework document before it is finalized. We would encourage the Government of Israel to include language that:

- Mandates government-to-business sharing provisions that are backed by industry,
- Makes assurances that the framework will remain collaborative, flexible and innovative over the long-haul, and
- Creates strong deterrence against malicious acts by instituting penalties that are timely, legal, and proportionate to the crimes committed.

The private sectors and governments would also be keen to discuss next steps related to legislation introduced in the U.S. Senate (U.S.-Israel Strategic Partnership Act of 2013) that calls for a study examining the feasibility of establishing a United States-Israel Center of Excellence on Cyber Security for the “purposes of sharing and advancing technologies related to the prevention of cybercrimes.”

7. Increasing U.S.-Israel Research & Development Collaboration

Issue: Opportunities for collaboration between the U.S. and Israel on science and technology are abundant. Both countries are on the frontlines developing new patents in the life sciences, nanotechnology, and a myriad of other fields. The U.S. ability to scale and help bring to market are unmatched globally. Hundreds of multinational companies have partnered with the Office of the Chief Scientist to build Research & Development facilities in Israel.

Recommendations:

- Create a formal partnership within the “U.S.-Israel Strategic Economic Dialogue” that would connect the U.S. private sector and the Office of the Chief Scientist of Israel to create and promote new programs that will facilitate partnerships for American companies around innovation and research & development.
- The Israel-U.S. Binational Industrial Research & Development Foundation (BIRD) provides enormous value to both the U.S. and Israeli economies. Since its creation in 1977, the BIRD Foundation has approved over 850 projects with leading American companies and cumulative sales of products developed under

its auspices have sold over \$10 billion. The increased funding of the BIRD Foundation is a priority for the U.S. and Israeli private sectors. We urge both the U.S. Congress and the Government of Israel to increase funding to this important program.

8. Continuing to Protect Intellectual Property

Issue: The business community takes note of the steps taken by the Israeli government to protect intellectual property. However, this past year the Knesset considered legislation that would infringe upon Intellectual Property by disallowing the usage of pictures, logos, and other distinctive visuals on packaging of certain products. If allowed to pass, this provision would contradict Israel's commitments to the WTO.

Recommendation: We would suggest that any legislation undertaken in the Knesset remain consistent with Israel's WTO obligations, and that the business community and the Government of Israel continue to work together to ensure the balanced protection of intellectual property. We would encourage the government of Israel to continue to have an open and transparent dialogue with the business community about this and any other regulatory decision that impacts commerce.

9. Making Infrastructure Procurement Processes More Competitive

Issue: U.S. firms bring significant resources and experience to infrastructure projects both large and small. Ensuring that these companies have an opportunity to access the Israeli government procurement market through competitively-sourced projects would help guarantee that projects are executed effectively.

Recommendation: We recommend that the Israeli government work with the U.S. government and both private sectors to ensure that the tender process is straightforward, open, and competitive to all companies. Ensuring that all firms have an opportunity to bid on these tenders in a fair and transparent process will raise the likelihood that the government of Israel hires the firm most likely to complete the project in a timely and cost-effective manner.

10. Promoting U.S.-Israel Third Party Cooperation

Issue: There are enormous opportunities for the U.S. and Israel to work together in other parts of world, including Africa and Asia. We have already begun to see the fruits of bilateral partnerships in infrastructure, agriculture, and other sectors, where U.S. and Israel companies join forces. There are massive opportunities – commercial and otherwise – that warrant additional coordination between the governments and

private sectors. Bilateral discussions up until now, however, have been very limited on these kinds of third party global engagements.

Recommendation: By connecting the key government agencies and companies, the U.S. and Israel can benefit from closer coordination and cooperation as both countries work in developing markets. Through our overarching framework, the creation of the U.S.-Israel Strategic Economic Dialogue, this would be an important area to touch upon, bringing together business, humanitarian agencies, the defense establishments, and other stakeholders.

About the U.S. Chamber of Commerce and U.S.-Israel Business Initiative

The U.S. Chamber of Commerce is the world's largest business organization representing the interests of more than 3 million businesses of all sizes, sectors, and regions. The U.S.-Israel Business Initiative (USIBI) is the premier vehicle advancing the bilateral commercial relationship between the United States and Israel. USIBI pursues policy and organizes activities to deepen our strategic alliance through greater trade and investment.