RE-ENERGIZING THE U.S.-ISRAEL COMMERCIAL RELATIONSHIP:
A Policy Framework for Trade, Investment, and Innovation

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A Policy Framework for Trade, Investment, and Innovation

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Executive Summary

Israel and the United States have built an extraordinary economic partnership based on high-impact commerce, innovation, and trade. This world-leading collaboration is the result of the hard work and genius of U.S. and Israeli entrepreneurs and innovators—and has been supported significantly by pioneering policy decisions made decades ago by the two governments, including the U.S.-Israel Free Trade Agreement (FTA), which this year celebrates its 30th anniversary.

Continued U.S.-Israeli leadership is not guaranteed, however, in an era when governments and regions worldwide are aggressively using new public policy tools to collaborate in fostering trade, commerce, and innovation. There are particular risks that the United States and Israel could lose sight of the primacy of their economic partnership, especially as the United States pursues groundbreaking new trade agreements spanning the Atlantic and Pacific, and Israel seeks to expand economic ties with key emerging markets.

Recent initiatives, like the landmark 2014 U.S.-Israel Strategic Partnership Act, will play vital roles in fostering greater bilateral cooperation in key economic sectors. To maintain and grow their global competitive edge and assure the continuing priority of their special economic relationship, however, we believe that Israel and the United States must undertake an additional round of smart, cooperative policy innovation and adopt modern mechanisms to strengthen their already close economic ties.

The following report recommends that the United States and Israel boost their joint global competitiveness through a new Trade, Investment, and Innovation Framework. The proposed Framework would address economic, innovation, and trade policy challenges in five key areas through 17 concrete policy recommendations.

As explained in detail in our report, we recommend:

1. To enhance institutional arrangements:

   - Establishing a U.S.-Israel High Level Economic Dialogue (HLED), to be led by senior officials at the White House and Office of the Prime Minister and to include annual meetings hosted by the President and Prime Minister or their designees.
   - Establishing special HLED tracks for addressing key crosscutting issues—such as regulatory policy—on a high-level, holistic, and coordinated basis.
   - Rationalizing and coordinating—under the HLED’s guidance—existing bilateral trade and economic collaborations among expert groups, including the FTA Joint Committee and the Joint Economic Development Group (JEDG).
   - Establishing a Business Dialogue between Israelis and American companies, while launching an annual HLED Business Conference, a binational government-to-business forum which would take place in conjunction with the annual HLED meeting and would provide a structured opportunity for the U.S. and Israeli business sectors to provide detailed input to the HLED.
2. To advance U.S.-Israel trade relations:

- Negotiating new trade disciplines beginning with setting modern rules for digital trade and technical barriers to trade.
- Requiring regular and equal consultations between U.S. and Israeli trade officials on their trade negotiations with other countries and on modern trade strategies to promote strong trade ties under changing global rules.
- Eliminating current administrative, customs, and logistical barriers to trade, for example, addressing necessary changes in Israel US certificates and rule of origins documents in order to simplify bilateral trade.
- Expanding joint efforts to foster trade in Israel’s region through, for example, expansion of the Qualifying Industrial Zone (QIZ) program.

3. To enhance the bilateral business environment:

- Launching an initiative to improve the bilateral business environment, including eliminating impediments in tax, investment, and bureaucracy.
- Requiring a joint plan to make measurable improvements in obtaining visas for Israeli business visitors to the United States.
- Requiring a joint plan to make targeted improvements in bilateral access to U.S. and Israeli government procurements.

4. To promote regulatory cooperation:

- Initiating an ongoing, HLED-level, crosscutting collaboration on U.S.-Israel regulatory cooperation.
- Establishing a timetable for progressively reducing standards-related barriers to trade and commerce, beginning with the most commercially meaningful barriers.
- Expanding the coverage of Mutual Recognition Agreements for commercially important products of bilateral interest.

5. To boost U.S.-Israeli entrepreneurship and innovation:

- Requiring HLED consultations on the “innovation impact” of laws and regulations that could significantly affect the bilateral innovation ecosystem.
- Committing the United States and Israel to increasing resources available to support joint commercial R&D.
- Launching an annual U.S.-Israel Entrepreneurship and Innovation Conference, a public-private collaboration aimed fostering high-impact entrepreneurship and broadening joint commercial innovation, which, together with the HLED Business Conference, would advise and submit an annual report to the HLED on entrepreneurship, innovation, and R&D.
Building on a History of Innovation

For decades, innovation has been the hallmark of trade and commercial relations between Israel and the United States.

There are countless examples. Top American technology companies—including Intel, HP, IBM, and Cisco—operate world-leading research and development centers in Israel, tapping the brainpower of tens of thousands of Israelis for cutting-edge research in information technology. And the game-changing discovery of Israel’s offshore natural gas reserves has led to unprecedented collaboration with the highly innovative U.S. oil and gas sector, including leading companies like Noble Energy.

The U.S. and Israeli governments also have a long history of crafting innovative policies to foster two-way trade and commerce. The U.S.-Israel Free Trade Area Agreement—which this year celebrates its 30th anniversary—kickstarted exponential growth in bilateral trade over the last three decades. And longstanding policy innovations like the Binational Industrial Research and Development (BIRD) Foundation and the Qualifying Industrial Zone program have played critical roles in commercializing technology and supporting regional trade and stability.

Trade and commerce between Israel and the United States is robust, and has great potential to grow and deepen. But continued growth is also not guaranteed—especially when countries and regions worldwide are aggressively pursuing innovation and building modern policy structures to boost trade and commerce. To keep pace, the United States and Israel require a new round of policy innovation. In an increasingly competitive global economy, standing still isn’t an option.

This report recommends that the United States and Israel transform their commercial partnership for the coming decades through a new U.S.-Israel Trade, Investment, and Innovation Framework (the Framework).

The Framework would establish a modern policy structure for enhancing bilateral trade and commerce, including a new High Level Economic Dialogue that would elevate commercial discussions to the White House/Office of the Prime Minister level. The Framework would guide the governments in updating their trade relationship; deal comprehensively with “cross-cutting” issues like regulatory policy; address “beyond trade” issues like business regulation, standards, innovation, and entrepreneurship; and enhance the ability of U.S. and Israeli businesses, entrepreneurs, and innovators to provide advice and policy input.

Our report first reviews the great success of current U.S.-Israeli cooperation on trade, investment, and innovation and highlights the vital role that smart government policy plays—and must continue to play—in fostering this success. We then detail how a modern Framework could address current challenges through reforms in institutional arrangements, trade policy, the business environment, regulatory policy, and entrepreneurship and innovation—and recommend 17 concrete policy initiatives to support Israelis and Americans in building a more vibrant economic relationship.
A Productive Partnership

In the three decades since Israel and the United States launched their landmark Free Trade Agreement, the two countries have built a thriving economic relationship based on a shared commitment to trade, investment, and innovation.

Growing Trade and Commerce

Bilateral trade has grown significantly since the FTA entered into force in 1985. Between 1985 and 2014, two-way trade in goods expanded more than eight-fold—from $4.7B to $38.1B. At the same time, this trade has become increasingly concentrated in industrial and high tech products—including chemicals and pharmaceuticals, electronic products, and transportation equipment. Two-way services trade between Israel and the United States has grown notably, as well, expanding from about $2B in 1992 to almost $10B in 2013.

As a trade partner, Israel punches far above its weight. Israel is the 23rd largest export market and its 21st largest source of imports for the United States, despite having a population of only eight million and the world’s 37th largest economy. The United States exports more goods to Israel than it does to Russia or Indonesia—even though Russia’s economy is seven times larger and Indonesia has 31 times more people. Israel is the eighth largest U.S. export market for integrated circuits/parts and for aircraft parts, and is a top-five U.S. supplier of both pharmaceuticals and measurement equipment.

Impactful Investment

The United States and Israel also make significant investments in each other’s economies. In 2013, cumulative U.S. investment in Israel was $9.5B—the same value as Israel’s cumulative investment in the United States.

U.S. investments in Israel are concentrated in manufacturing (especially computers and electronics), and information and technical services. The Israeli operations U.S.-based companies—including global leaders like Intel, HP, and IBM—employ some 72,000 Israeli workers. Israel’s investments in America are also concentrated in manufacturing, especially chemicals and pharmaceuticals.

As with trade, Israel plays an outsized role as an investor in the United States. Israel’s $9.5B in cumulative foreign direct investment in the United States (FDIUS) is more than the FDIUS of Brazil, China, Hong Kong, India, Russia, or all of Africa, and Israel accounts for almost half of all U.S. investment from the Middle East.
Groundbreaking Innovation

The United States and Israel have also combined their knowledge, skills and resources in high technology to create a world-leading partnership on innovation.\footnote{11}

Israel is a global leader in research and development and is home to the most significant high-tech ecosystem outside of the United States.\footnote{12} Among leading industrialized countries, Israel spends the highest percentage on R&D (4.2\% of GDP) and has the highest percentage of scientists and technicians (17.2 per 1000 employees) in its workforce.\footnote{13} Of the world’s 20 best universities for computer science, two are in Israel—second only to the United States, which has 16.\footnote{14} Israel’s thousands of technology companies include the largest number of venture capital-funded startups outside of the United States and some of the most NASDAQ-traded companies outside of North America.\footnote{15}

World-leading U.S. tech companies—including Intel, HP, IBM, Cisco, Motorola, and Microsoft—have enthusiastically tapped into Israel’s innovation ecosystem, employing tens of thousands of Israeli researchers at R&D centers throughout Israel. For many of these U.S. firms, their Israeli R&D centers were their first outside of the United States. This active and growing collaboration has yielded an amazing array of innovative products and technologies, including Intel’s Sandy Bridge and Centrino microprocessors, GE’s portable cardiac ultrasound system, Google technologies for digitizing texts, and many others.\footnote{16}

Prospects for the Future

Economic collaboration between the United States and Israel is robust—and has very significant room to grow and deepen. There are exciting opportunities to intensify cooperative R&D in information technology; to expand cutting-edge collaboration in emerging priority areas; and to extend the benefits of bilateral commerce more broadly to
people in both countries. The U.S. Congress, for example, recognized this very significant potential in the landmark 2014 U.S.-Israel Strategic Partnership Act, which sets ambitious goals for future bilateral cooperation in sectors including agriculture, cyber, energy, and water resources.  

**Innovations by Intel Israel**

Since its establishment in 1974, Intel Israel has been responsible for many of Intel’s most significant innovations. Intel design teams in Haifa developed the first PC processor (the 8088, used in IBM PCs), the most widely distributed processor of the 20th Century (the Pentium MMX), and the first laptop processor with Wi-Fi. In 2012, Intel alone was reportedly responsible for an astounding 20 percent of Israel’s high-tech exports and 10 percent of Israel’s total exports. Intel has also been a leader in high-tech R&D and education in Israel, establishing the Computational Intelligence Institute to research human interaction with technology. 

Experts in Israel and California, for example, are engaged in a growing partnership on water technologies—a sector in which Israel is a global leader. Innovations like advanced drip irrigation, large-scale desalination, and pioneering water management enable Israelis, on a per capita basis, to use less than a third of the water that Californians use. Collaborating on water innovation could provide significant benefits to drought-stricken U.S. communities, while increasing yields, boosting efficiency, and lowering costs for the vital U.S. farm and food sector.

U.S.-Israeli cooperation in cyber security could also yield growing economic benefits. Israel is a world leader in cyber security, and has recently established an innovative National Cyber Directorate in the Prime Minister’s Office, which will bring a holistic approach to bridging the security and civilian sectors and addressing cyber threats to commerce. For its part, the U.S. Government is aggressively boosting funding for cyber research and is actively encouraging collaboration with Israel cyber firms and startups.

There is also vast opportunity for collaboration on cyber technologies to protect the private sector from growing digital threats.

**Deepening and Diversifying Cutting-Edge Collaboration**

Joint U.S.-Israel commercial innovation is rapidly diversifying far beyond the two countries’ longstanding—and still vital—focus on information and communications technology. Ten joint development projects recently funded by the BIRD Foundation, for example, will commercialize innovations in advanced manufacturing, high-tech materials, water resources, and digital health. Tel Aviv-based Life-Beam and Baltimore-based Under Armour are, for instance, partnering on smart fitness earbuds with bio-sensing technology. The 22 joint projects approved by BIRD in 2014 included eight in life sciences, including advanced insulin production, cutting-edge diagnostics, and microbial-based insect control products. Recent BIRD Energy projects include joint energy innovations on smart grid vehicle charging stations and carbon composite membranes that conduct electricity.
The Role of Government Policy

The shared economic success of the United States and Israel is due primarily to the extraordinary collective efforts of businesses, entrepreneurs, and innovators in both countries. Future shared prosperity will similarly depend on the hard work and genius of Americans and Israelis—and their world-leading capabilities in commerce and research. However, as we explain below, the U.S. and Israeli governments have also played—and must continue to play—a vital role in fostering a supportive environment for bilateral commerce and innovation.

A History of Pioneering Policies

In 1985, the U.S.-Israel Free Trade Area Agreement—America’s very first FTA—was a state-of-the-art trade policy tool. Over ten years, the FTA phased out duties on manufactured goods and boosted two-way goods trade from $4.7B to $11.3B. The FTA also established a Joint Committee as a government-to-government forum for addressing trade-related issues. Under the FTA, trade soon supplanted aid as the centerpiece of bilateral economic relations, with the value of Israel’s U.S.-bound exports exceeding American economic and military aid by 1990.

The FTA built on earlier innovations by the two governments to foster technology cooperation. In the 1970s, the United States and Israel established three joint organizations to promote and fund joint R&D: the Binational Science Foundation (BSF, 1972), the Bilateral Industrial Research and Development Foundation (BIRD, 1977), and the Binational Agricultural Research and Development Fund (BARD, 1979). These collaborations placed a particular emphasis on commercializing technology. The BIRD Foundation, for example, funds joint industrial R&D projects that pair U.S. and Israeli companies to develop, manufacture, and sell an innovative product.

In 1996, the FTA served as the platform for launching the Qualifying Industrial Zone (QIZ) initiative. This pioneering program was designed to promote regional peace and stability by granting U.S. duty-free treatment for goods from designated factories in Egypt and Jordan that contain specified amounts of Israeli inputs.

These longstanding government policy innovations have fostered enduring success.

In 2014, the two-way trade in goods and services kickstarted by the FTA approached $50 billion. Trade has also far surpassed aid as the linchpin of the economic relationship—the value of Israel’s U.S.-bound goods and services is now over nine times that of current U.S. aid, virtually all of which is military assistance. And the two governments have built on the FTA by opening up significant portions of their agricultural trade through understandings that supplement the FTA.

Policy collaboration in commercial innovation has also yielded notable results. Since 1977, the BIRD Foundation has funded almost 900 U.S.-Israeli projects to develop and commercialize cutting edge technologies, producing $10 billion in direct and indirect revenues. BIRD has fostered breakthrough products like the ReWalk device—a robotic exoskeleton that enables paraplegics to stand, walk, and even climb stairs—and BIRD’s
success has led to the establishment of BIRD Energy, which promotes bilateral cooperation in clean and renewable energy technologies.\textsuperscript{30}

\textbf{Regional Engagement Through the QIZ Program}

Since the QIZ initiative was extended to Egypt in 2005, Israel’s exports to Egypt have grown significantly, as Egypt’s QIZ operations have expanded to include 15 designated industrial zones and nearly 700 qualified companies.\textsuperscript{31} In 2014, Egypt exported $866 million in QIZ-eligible textile and apparel products to the United States—accounting for over 60 percent of Egypt’s total U.S. exports—and the trilateral program appears poised for significant additional growth.\textsuperscript{32}

\textbf{Losing the Competitive Edge in Policy}

Despite these successes, the pioneering policies that support U.S.-Israel commerce are increasingly losing their competitive edge. The global economy has changed remarkably since Israel and the United States entered into their groundbreaking FTA in 1985. In response, countries and regions worldwide are implementing an array of modern and sophisticated policy initiatives to foster trade and innovation.

In 1985, there were fewer than 30 regional FTAs in force in the world economy. Today there are more than 400, with dozens more under negotiation.\textsuperscript{33} Pending pacts include U.S-sponsored “mega-regional” agreements like the Trans-Pacific Partnership (TPP)\textsuperscript{34} and the Transatlantic Trade and Investment Partnership (TTIP)—agreements that, together, would establish detailed new rules for two-thirds of global trade.\textsuperscript{35}

Modern FTAs also take a much more comprehensive approach to commercial relations. Unlike the 1985 FTA—which eliminated tariffs on manufactured goods—most current FTAs also contain detailed disciplines on an extensive range of issues, including technical trade barriers, services, and customs facilitation, and cover issues that go beyond traditional conceptions of trade, like competition and regulatory policy.\textsuperscript{36} Pending agreements like TPP and TTIP would also set up new, higher-standard rules for 21st Century issues like digital commerce, and for key “cross-cutting” sectors like small business trade.\textsuperscript{37}

\textbf{Transformation of the Global Economy Since 1985}

Since 1985, the \textit{real} value of global trade has surged by five-fold,\textsuperscript{38} and emerging economies—especially China—have been transformed from bit players to leading actors in global commerce.\textsuperscript{39} Lower transport costs, improved logistics, and the proliferation of technology have driven rapid growth in far-flung, multi-country supply chains, and trade in services has expanded exponentially.\textsuperscript{40} And the digital economy—a mere blip in 1985—is now an indispensable driver of global commerce, trade, and innovation.\textsuperscript{41}
Countries and regions have also created new structures to raise the level of their economic engagement, allowing them to address a wide array complex economic issues in a more coordinated and holistic manner.

The United States, for example, has established high-level economic dialogues with China, the European Union, and Mexico, while China has similar dialogues with the EU, Indonesia, and Japan. These dialogues include regular (usually annual) meetings hosted by senior leaders, as well as ongoing collaboration by specialized working groups. Vice President Biden, for example, has hosted recent high-level economic talks with both China and Mexico. These dialogues also benefit from significant private sector input through connected organizations like the APEC Business Advisory Council and the U.S.-Mexico High Level Economic Dialogue.

In a world in which trading partners are increasingly using smart policies to advance their economic success, the United States and Israel can’t stand still. To compete and win in the global economy—and to maintain the primacy of their special economic relationship—the two countries must adopt new policy tools and modern mechanisms to regain their competitive edge in trade and innovation.

Cooperating on More than Trade

The scope of modern government-to-government economic dialogues extends far beyond traditional trade matters. The 21 member economies of Asia-Pacific Economic Cooperation (APEC), for instance, use that forum to collaborate on cross-cutting issues like improving regulatory practices, increasing supply chain connectivity, and making it easier to do business. China and Japan have discussed energy efficiency, food safety, and infrastructure.

A New U.S.-Israel Trade, Commerce, and Innovation Framework

To restore their leadership in trade and economic policy and to support strong bilateral economic ties, we recommend that the United States and Israel enter into a new U.S.-Israel Trade, Commerce, and Innovation Framework. This comprehensive arrangement for updating and expanding bilateral economic relations would establish a holistic structure for addressing key issues, while building on past policy innovations.

The Framework would enhance bilateral commercial relations in five key areas— (1) institutional arrangements, (2) trade policy, (3) the business environment, (4) regulatory policy, and (5) innovation and entrepreneurship. We discuss each of these areas separately below—first highlighting the challenges that United States and Israel currently face, and then outlining a series of concrete policy recommendations designed to help grow and deepen bilateral prosperity.
Institutional Arrangements

Current Challenges

The United States and Israel collaborate extensively on commerce and innovation. But, unlike many other trading partners, the two governments lack a permanent, high-level body charged with taking a holistic policy approach to key economic issues and driving accountable, inclusive, ongoing, transparent, and results-oriented collaborations on these key challenges.

Existing government-to-government dialogues do vital work, but don’t cover the full spectrum of bilateral economic policy or include all the relevant government entities. The Joint Committee established in the FTA, for instance, focuses primarily on the bilateral trade relations. Throughout most of its 30-year history, Joint Economic Development Group has primarily been a forum for the U.S. State and Treasury Department and their Israeli counterparts to review economic conditions and reforms in Israel and related U.S. economic aid. The U.S.-Israel Energy Dialogue focuses on energy-related issues.

Other important collaborations—including joint R&D underwritten by the BIRD Foundation—implement policy rather direct it. And, although the governments have sought greater input from the American and Israeli business communities in recent years, there is no formalized, comprehensive arrangement for joint government-to-business collaboration on trade, economic, and innovation policy.

These multiple and loosely coordinated arrangements make it difficult to realize the full potential of U.S.-Israel economic cooperation. This is especially true for complex, crosscutting, economic challenges which require a high-level, and comprehensive approach to issues of commercial, regulatory, trade, and innovation policy, as well as close coordination with the business sector.

Recommendations

To address these institutional challenges, we recommend that the Framework:

1. Establish a High-Level Economic Dialogue. The HLED would provide a flexible, government-to-government platform to deal comprehensively the full range of bilateral economic, trade and competitiveness issues. It would be led by senior officials at the White House and Office of the Prime Minister and would include annual meetings, alternating between Jerusalem and Washington, led by the President and Prime Minister or their designees. By raising the level of bilateral economic cooperation, the HLED would broaden the scope of consultations and could help drive greater accountability among government participants.

2. Establish HLED tracks for addressing key crosscutting issues. Certain complex economic policy issues cut across many government bureaus and are best addressed on a high-level, holistic, and coordinated basis. The Framework would establish special HLED tracks for a limited number of key crosscutting issues—such as regulatory policy—to assure that these multifaceted issues are addressed comprehensively. Annual
HLED meetings would, on a rotating basis, identify a specific crosscutting issue for particular discussion and focus.

3. **Rationalize and coordinate—under the HLED’s guidance—existing bilateral trade and economic collaborations among expert groups**, including the FTA Joint Committee, the JEDG. The HLED might request, for example, that the Joint Committee and the JEDG take on additional issues beyond their current assigned responsibilities.

4. **Launch an annual HLED Business Conference.** The HLED would sponsor—together with leading U.S. and Israeli business organizations—an annual HLED Business Conference. This bilateral business-to-government conference would take place in conjunction with the HLED’s annual meeting and would provide a structured and direct opportunity for business to provide detailed input and advice to the HLED on trade and commercial policy. To enhance their ability to cooperate on these and other matters, the U.S. and Israeli business sectors would themselves create a separate U.S.-Israel Business Dialogue, a new bilateral business-to-business collaboration.

5. **Launch an annual U.S.-Israel Entrepreneurship and Innovation Conference.** As detailed below, this broad public-private collaboration, to take place in conjunction with the annual HLED meeting, would focus on fostering high-impact entrepreneurship and innovation. It would include national and regional governments, leading business organizations, entrepreneurs, investors, SMEs, foundations, technical experts, academics, and educators.

**Trade Policy**

**Current Challenges**

The United States and Israel are celebrating the 30th anniversary of the FTA—a pioneering deal that drove significant trade expansion and is still a pillar of the countries’ impressive economic ties.

But, after 30 years, the FTA is also showing its age.

As noted above, modern trade agreements are more comprehensive, covering the full spectrum of economic policy issues. Countries are also increasingly moving to regional, multi-party trade deals like TPP, TTIP and RCEP to rationalize the “spaghetti bowl” of different bilateral FTA rules and to reduce red tape for global supply chains.

The FTA’s relevance is also fading even in its prime area of focus—bilateral trade in manufactured goods. In 2014, the FTA applied to just 13 percent of U.S. imports from Israel, in part because trade in high tech and sophisticated manufactured goods is now largely duty-free under agreements reached through the WTO in the 1990s.

U.S. officials note that their trade negotiating resources are already stretched thin by an ambitious trade agenda that includes global talks on services, information technology, and environmental goods—in addition to TPP and TTIP.
U.S. officials are also sensitive to America’s longstanding trade deficit in goods with Israel and they continue to insist that further opening of Israel’s agriculture sector must be a component of any broader U.S. trade negotiations with Israel.

For its part, Israel has ramped up engagement on trade with Canada, China, Japan, the Pacific Alliance and others, and is actively participating in global talks on issues including services. Israel’s Government also faces difficult decisions on how to link up with emerging global trade architecture, including mega-regional pacts like TTIP. Israeli officials understand that joining a completed TTIP would require major changes to Israel’s trade, regulatory, and economic policies—while not joining could potentially impact Israel’s global competitiveness.

**Recommendations**

To upgrade and enhance the bilateral trade relationship, we recommend that the Framework:

1. **Commit both countries to negotiate new trade disciplines, beginning with modern rules for digital trade and technical barriers to trade**, for example, addressing necessary changes in Israel-US certificates and rules of origins documents. As global leaders in information technology and the digital economy, the United States and Israel should be international leaders in adopting pro-competitive, cutting-edge rules to promote e-commerce and open digital trade—including strong rules to assure cross-border data flows and to prohibit the “localization” of data storage and processing. The two countries have an immediate opportunity to achieve these goals in the context of the Trade in Services Agreement (TiSA), a high-standard trade agreement covering services now under negotiation in Geneva between the United States, Israel, and approximately 50 other countries. Similarly, Israel and the United States should seek new opportunities to introduce modern disciplines on technical barriers to trade—that require transparency, notice, and a meaningful opportunity to comment on new standards, and that mandate harmonization or the use of international standards whenever possible. Finally, pursuant to Article 16 of the FTA, the two countries should adopt a “declaration” committing themselves to cooperate fully in seeking high-standard, modern rules for services in the TiSA negotiations.

2. **Require regular and equal consultations between U.S. and Israeli trade officials on their trade negotiations with other countries and on modern trade strategies to promote strong trade ties under changing global rules.** The Framework should require, pursuant to Article 18 of the FTA, that the Joint Committee hold regular consultations on the countries’ third country trade negotiations—particularly on TTIP and TPP. The goal of these talks would be to minimize potential negative impacts on the U.S.-Israel relationship, to maximize new opportunities, and to explore ways to align approaches to key trade issues, especially in negotiations—such those on the TiSA and the expansion of the Information Technology Agreement—in which both countries currently participate.

3. **Eliminate current administrative, customs, and logistical barriers to trade.** For example, modernizing outdated customs rules—such as requirements for commercially
printed hard copies of FTA Origin Certificates—could facilitate trade, especially for small U.S. and Israeli traders.\textsuperscript{69}

4. \textit{Expand joint efforts to foster trade in Israel’s region.} The Joint Committee—in close collaboration with the U.S. and Israeli business communities and other government entities—should develop concrete plans for increasing the utilization of the QIZ program in Israel’s region. Such plans could include expanding the program in Egypt and Jordan, extending similar initiatives to additional countries, such as Turkey, and encouraging new manufacturing sectors to utilize QIZs.\textsuperscript{70}

\textbf{Business and Investment Climate}

\textit{Current Challenges}

The success of economic cooperation between the United States and Israel is due, in substantial part, to a shared approach to business.\textsuperscript{71} Both countries are largely open to foreign investment, place a high premium on flexibility and entrepreneurship, and strongly support private sector innovation.\textsuperscript{72} At the same time, however, the business environments in both Israel and the United States do pose current and potential challenges to continued economic success.

For U.S. firms, Israel’s business environment challenges include:

- \textit{Bureaucracy.} Israel’s “light-touch” approach to its innovation economy often doesn’t extend to firms operating in other sectors. U.S. and Israeli companies alike face a range of bureaucratic and administrative challenges that impede economic growth. According to the World Bank’s latest “Doing Business” index, Israel ranks 109th for speed of getting electrical connections, 111th for enforcing contracts, and 121st for dealing with construction permits.\textsuperscript{73} This impacts businesses in wide range of sectors and slows economic growth in Israel.

- \textit{Investment Environment.} U.S. companies have raised a variety of recent concerns about the predictability and stability of Israel’s investment climate.\textsuperscript{74}

- \textit{Boycott, Sanctions and Divestment Movement.} There are growing efforts to delegitimize Israel through economic means, including boycott, sanctions, and divestment. The U.S. and Israeli business communities encourage our governments to promote legislation that discourages direct or indirect prejudice against commercial activity between the United States and Israel, and we support efforts to eliminate politically-motivated nontariff barriers on Israeli goods, services, or investment.

- \textit{Government Procurement.} U.S. officials note, among other issues, that Israel’s government procurement process often lacks transparency, discouraging U.S. companies from participating in major projects and disadvantaging those that do.\textsuperscript{75}

- \textit{Taxation.} U.S. business has serious concerns about proposed changes in Israel’s tax rules. One such example lies in a recent draft proposal on the taxation of services provided by foreign businesses via the Internet.\textsuperscript{76} The U.S. Chamber has noted, among other concerns, that this proposal would negatively impact Israel’s environment for U.S. investment, particularly in Israel’s tech sector.\textsuperscript{77}
For Israeli firms, U.S. business environment challenges include:

- **Government Procurement.** Israeli firms—including companies in Israel’s highly advanced water technologies sector—are often precluded from bidding on state and local contracts by rules that require U.S. content for certain federally-funded projects.

- **New World Trade Order.** As the United States engages in multilateral trade agreements such as the Transatlantic Trade and Investment Partnership, the Israeli business community has found that there could be potential negative impacts on the U.S.-Israel trade volume. The Israeli and U.S. business community should maintain close ties and find additional avenues to enhance the U.S.-Israel commercial relationship.

- **Visas.** Israeli companies with large U.S. investments note that it is often arduous and exceedingly time consuming to obtain visas for key company officials who are Israeli citizens to work in the United States. Israel’s foreign direct investment injects billions of dollars annually into the American economy. Effective visa procedures enhance the ability of Israel’s investors and businesses to expand and grow this investment and the business and jobs it supports.

**Recommendations**

To address these challenges, we recommend that the Framework:

1. **Commit the two countries to an ongoing initiative to improve the bilateral business environment.** This initiative would, among other things, examine the feasibility of pro-business updates to the countries’ 1990-era double taxation treaty and the impact of recent tax proposals, consider concrete steps to enhance the business environment for investors, and explore bureaucracy-busting initiatives, such as single regulatory windows.

2. **Require a joint plan to make measurable improvements in obtaining visas for Israeli business visitors to the United States.** Major improvements can be made by adding Israel to the list of countries that participate in the Visa Waiver program. The program encourages inbound trade to the United States by facilitating travel from partner countries into the United States. It is also crucial that the United States Congress reauthorizes the EB-5 Regional Center Program to enable high-capital foreign investors to obtain permanent residency.

3. **Require a joint plan to make targeted improvements in bilateral access to U.S. and Israeli government procurements.** Elements of this plan could include opposing efforts to politicize and otherwise undermine the integrity of the government competitive contracting process, opposing implementation of barriers to competition that add costly and unnecessary acquisition requirements, and opposing U.S. domestic content mandates for federal infrastructure projects including water/wastewater projects.
Regulatory Policy

Current Challenges

After decades of global tariff reductions, regulatory differences between economies are now often the most significant impediments to trade, especially for small- and medium-sized firms. Eliminating regulatory barriers is a major focus of many modern trade agreements—and is, indeed, the central focus of the TTIP.

Regulatory Cooperation in the TTIP

In the TTIP, the EU and U.S. negotiators are pursuing cutting-edge, binding disciplines to remove regulatory barriers. This important work encompasses technical barriers to trade (TBT), sanitary and phytosanitary (SPS) rules (e.g. food safety), sector-specific arrangements (e.g. autos, medical devices, and cosmetics), regulatory cooperation, and regulatory coherence (e.g. good domestic regulatory practices, such as transparency and consistency). Progress on these vital issues could break down significant trade barriers and open up important new opportunities for EU and U.S. traders, especially for SMEs.

Regulations and standards—which were not addressed in the 1985 FTA—also pose significant barriers to U.S.-Israel trade and economic cooperation.

Israel, for example, has historically aligned its technical standards with EU requirements, which can complicate trade in goods based on U.S.-oriented international standards developed in U.S.-domiciled development organizations.

Israel readily recognizes the need for greater coherence, transparency and stakeholder participation in its regulatory system, and has recently taken ambitious steps to reduce regulatory burdens, require conformance with international standards, and mandate advance notice of regulatory plans. But more is required to assure that the benefits of these and other regulatory reforms are extended fully to U.S.-Israel trade and commerce.

Recommendations

As noted above, the Framework would mandate negotiation of a modern and comprehensive technical trade barriers supplement to the FTA. Additionally, to address bilateral regulatory challenges, we recommend that the Framework:

1. Initiate, under the HLED track on regulatory policy, a high-level crosscutting collaboration on U.S.-Israel regulatory cooperation. This effort would be led by regulatory policy experts from the Office of the Prime Minister and the White House (e.g., the Office of Information and Regulatory Affairs (OIRA)), and would include experts from relevant Departments and Ministries. It would support Israel’s ongoing regulatory reform process, share best practices (e.g., OIRA’s experience in coordinating the U.S. regulatory process), share current information on other regulatory cooperation and coherence efforts (e.g., in the TTIP), and assure that regulatory reform efforts fully support the bilateral economic relationship. Like similar U.S. regulatory cooperation initiatives with other trade partners, this effort would also target an agenda of specific
regulatory challenges in both countries, and would offer high-level input and advice on key proposed rules of bilateral interest.

2. **Boost cooperation on standards.** The Framework would commit the United States and Israel to a timetable for progressively reducing standards-related trade barriers, beginning with the most commercially meaningful standards barriers. The two countries would also explore avenues to apply the results of U.S.-EU private sector standards cooperation in the TTIP context for the benefit of U.S.-Israel trade.

3. **Expand the coverage of Mutual Recognition Agreements.** The Framework would build on the landmark 2012 U.S.-Israel Mutual Recognition Agreement (requiring the mutual recognition of telecommunications testing laboratories and the mutual acceptance of test results) by encouraging additional MRAs (or other cooperative mechanisms) for other commercially important products of bilateral interest.

**Innovation and Entrepreneurship**

**Current Challenges**

As highlighted throughout this report, Israel and the United States have jointly built an extraordinary, world-leading innovation ecosystem that supports the rapid and effective commercialization of cutting-edge technologies. To maintain their technology leadership and expand economic opportunities, the two governments must advance new approaches to supporting entrepreneurs and innovators. In doing so, they must address two sets of challenges.

First—to paraphrase Hippocrates—it is vital that policymakers “do no harm” to the bilateral innovation ecosystem. The U.S.-Israel technology ecosystem succeeds in significant part because of government policies that strongly support commercial R&D, while also taking a “low-touch” approach to regulation. The two governments must maintain this supportive philosophy—and expand it to other sectors—while working diligently to assure that regulatory, tax, and other policies do not create impediments to commercial innovation.

Second, to maintain their technological leadership—in a world where countless competitors are seeking to create the next Silicon Valley—the United States and Israel must intensify their collaboration on innovation. Among other things, this will require expanding collaboration in new and emerging technical fields, and deepening relationships among the array of players—including entrepreneurs, business, innovators, government, and academia—that are vital for successful commercial innovation.

**Recommendations**

To support continued U.S.-Israel leadership on innovation and entrepreneurship, we recommend that the Framework:

1. **Require bilateral consultations on the “innovation impact” of laws and regulations.** The HLED process should specifically include regular consultations, including from the
Israel-US Business Dialogue on proposed or current policies, laws, or regulations in either country that could have a significant impact on the bilateral innovation ecosystem.

2. **Commit the United States and Israel to increasing resources available to support joint commercial R&D.** This commitment should include efforts to better leverage existing government resources to support U.S.-Israel commercial R&D by, for example, utilizing the results of the U.S.-Israel Science and Technology Foundation’s “mapping” of U.S. Government R&D programs (and including State and regional resources), and prioritizing and expediting MOUs between U.S. agencies and Israel’s Office of the Chief Scientist under the pending bilateral Science and Technology Agreement. It could also include increased funding for successful collaborations like the BIRD Foundation.

3. **Launch—as previously recommended—an annual U.S.-Israel Entrepreneurship and Innovation Conference.** This broadly representative public-private collaboration would be held in conjunction with the HELD annual meeting and would include representatives from national and regional governments, leading foundations, leading business organizations, entrepreneurs, investors, SMEs, technical experts, universities and other educators. The Conference would collaborate on a wide range of ideas [see box] aimed fostering high-impact entrepreneurship and broadening joint commercial innovation. Together with the HLED Business Conference, it would advise and prepare an annual report for the HLED on entrepreneurship, innovation, and R&D.

**Ideas for Advancing Innovation**

Collaborations fostered by the Entrepreneurship and Innovation Conference could include—among many others—linking export-ready U.S. SMEs with Israel’s “born global” exporters, assisting Israel in developing local technical expertise for its natural gas sector, sharing information on regional government and private sector resources for commercial R&D, fostering cooperation between U.S. and Israeli businesses and technology clusters, aligning joint R&D with global supply chains, and promoting relationships between innovative U.S. and Israeli universities to pursue technological breakthroughs and policy ideas for solving broader economic challenges.

**Leading in the Decades Ahead**

Israel and the United States have vast opportunities to trade, innovate and prosper together. Avi Hasson, Israel’s Chief Scientist, has noted that the two countries are only “scratching the surface” on joint commercial innovation. And, as noted, in the 2014 U.S.-Israel Strategic Partnership Act, the U.S. Congress has set ambitious targets for exciting new cooperative research on agriculture, cyber, energy, and water resources.

The United States and Israel are global pacesetters in high-impact commerce, and innovation because—decades ago—their leaders in business, government, and technology were willing to collaborate, take risks, meet new challenges, champion innovation, and pursue pioneering public policies. Maintaining this leadership—and the two countries’ special economic relationship—in the coming decades will require renewed effort by all and a new round of smart policy innovation. We hope that the
policy recommendations detailed in this report will help both governments as they work—together with businesses and innovators—to advance and deepen an extraordinary economic partnership.


7 U.S. Department of Commerce, Bureau of Economic Analysis, “International Data: Table 2.3, Trade in Services, by Country of Affiliation and by Type of Service (Israel),” 2014: http://web.ita.doc.gov/tacgi/fta.nsf/7a9d3143265673ee85257a0700667a6f/196ed79f4f79a0085257a070066961d.


11 When the U.S-Israel innovation relationship is benchmarked against America’s relationship with Israel’s peer countries, the Israel relationship is #1 in such key categories as trade in knowledge-intensive industries, cross-listed knowledge-intensive companies, and combined patent applications. U.S.-Israel Science and Technology Foundation, “The U.S.-Israel Innovation Index, Data Annex,” pp. 22-23, 26, 34-35, Dec. 2013: http://www.usisdf.org/us-israel-innovation-index/.

12 Microsoft, Israel R&D Center, “Building Israel’s Software Crown Jewel,” May 2011. The 2015 Bloomberg Innovation Index ranked Israel as the world’s fourth-best country for innovation overall, #2 for R&D and #4 for education and research personnel. The Index also noted that Israel—a country of only 8 million people—was #11 globally in total number of hi-tech companies. Bloomberg, “The Bloomberg Innovation Index – 2015:” http://www.bloomberg.com/graphics/2015-innovative-countries/.


20 Israeli water technology delegations have, for example, recently met with leading U.S. food companies, including Coca-Cola, Costco, and Leprino Foods, about potential collaboration. Ilana Curiel, “Israel, a water superpower, is helping California fight drought,” YnetNews.com, Jul. 23, 2015: http://www.ynetnews.com/articles/0,7340,L-4683198,00.html.


China accounted for 12 percent of global exports in 2013, up from only one percent in 1983. World Trade Organization, “International Trade Statistics 2015;”


The number of worldwide Internet users has surged from only 21,000 in 1985 to almost 2.9 billion today. ETForecasts, “Internet User Forecast by Country, Table 1.1;”


Asia-Pacific Economic Cooperation, “Achievements and Benefits;”

U.S.-Israel Free Trade Agreement, Art. 17, entered into force Aug. 19, 1985:


In recent years, JEDG consultations have included a broader array of issues of interest to business. At the 2014 JEDG meeting, for example, U.S. and Israeli officials discussed an expanded list of economic issues, included some 80 experts, and incorporated perspectives from the business community. See U.S. Department of the Treasury, “Remarks of Secretary Lew at the U.S.-Israel Joint Economic Development Group Meeting in Jerusalem,” Jun. 18, 2014: http://www.treasury.gov/press-center/press-releases/Pages/jl2433.aspx. The October 2015 JEDG consultations reportedly included issues like innovation, digital commerce, ICT technology, and small business.

A coordinated, high-level approach to bilateral concerns on these issues is particularly appropriate because cyber/digital and energy policy both involve an extensive array of economic policymakers—on issues ranging
from competition, investment, regulation, and trade—as well as critical defense, security, and geopolitical concerns.


53 The United States and Mexico have a similar, ongoing public-private collaboration. U.S. Department of State, “Mexico-U.S. Entrepreneurship and Innovation Council,” http://www.state.gov/e/eb/cba/entrepreneurship/museic/.


61 The United States and EU have repeated emphasized that they are not opening up the current TTIP talks to additional countries; interested countries will have to wait until completion of the TTIP. Countries including Canada, Mexico, and Turkey, have expressed significant interest in possibly joining a completed TTIP.


Article 18 of the FTA provides that a party negotiating trade pacts with third countries must provide notice to the other party of proposed trade measures and empowers the other party to request consultation on the proposed measures. United States-Israel Free Trade Area Agreement, Art. 18, entered into force Sept. 1, 1985: https://ustr.gov/archive/Trade_Agreements/Bilateral/Israel/Section_Index.html.


Extending the QIZ program to Turkey could, for example, expand economic cooperation between Israel and Turkey and help in their ongoing reconciliation process. See Barak Ravid, “In secret meeting, Israel and Turkey renew reconciliation talks,” Haaretz, Jun. 22, 2015: http://www.haaretz.com/news/diplomacy-defense/.premium-1.662476.

The two economies are also highly complementary—as illustrated by countless tech sector collaborations between world-leading and resource-rich U.S. multinationals and the nimble and risk-taking members of Israel’s Start-Up Nation. See Microsoft, Israel R&D Center, “Building Israel’s Software Crown Jewel,” May 2011.


The U.S. Chamber has also urged Israel to undertake any such change in tax policy through a transparent legislative process—rather than through administrative action as proposed by the ITA—and to avoid tax policies that single out the digital economy. Letter to Moshe Asher, Commissioner, Israel Tax Authority from Khush Choksy, Vice President Turkey and Middle East Affairs, U.S. Chamber of Commerce, May 28, 2015.


A 2011 OECD study noted, for example, that Israel had harmonized 342 standards with the European Committee for Standardization (CEN) but only 30 with Underwriters Laboratory (UL) and the American Society for Testing and Materials (ATSM). OECD, “Enhancing Market Openness, Intellectual Property Rights, and Compliance Through Regulatory Reform in Israel,” p. 34, 2011: http://www.oecd.org/israel/48262991.pdf.


The Framework would also recommend that the governments encourage and co-sponsor forums to educate regulators and businesses on U.S-oriented international standards. See, for example, the workshops and seminars sponsored by the National Institute of Standards and Technology under its Standards in Trade program. U.S.


88 The OECD has noted, for example, the importance of expanding innovation beyond hi-tech to Israel’s broader industrial and services sectors. Ilan Moss, “Start-up nation: An innovation story,” OECD Observer, No. 285, 2011: http://www.oecd.org/cfe/leed/50540391.pdf.


91 Avi Hasson, Israel’s Chief Scientist notes that deepening collaboration on innovation is especially important as the broader economy—in sectors including autos and healthcare—converges around digital technology. The 2014 Strategic Partnership Act also stresses the importance of deepening U.S.-Israel cooperation in fields including cyber, energy, homeland security, and water resources. United States-Israel Strategic Partnership Act of 2014, Pub. L. No. 113-296: https://www.congress.gov/bill/113th-congress/senate-bill/2673/text.


The U.S. Chamber of Commerce’s 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. 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.

www.usisraelbusiness.com

The Manufacturers Association of Israel (MAI) is the representative body of all industrial sectors in Israel: private, public, kibbutz and government industries. It consists of more than 2,000 organizations and industrial factories which are responsible for more than 95% of the industrial production in Israel.

http://www.industry.org.il/Eng/