



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP
INSTRUMENT**

ISRAEL

**STRATEGY PAPER
2007 - 2013
&
INDICATIVE PROGRAMME
2007 - 2010**

Executive Summary

This Country Strategy Paper (CSP) for Israel covers the period 2007-2013. Support to Israel over that period will be provided under the new European Neighbourhood and Partnership Instrument (ENPI) which is being established to provide assistance for the development of an area of prosperity and good neighbourliness involving the European Union and the partner countries covered by the European Neighbourhood Policy (ENP).¹ Under this new instrument, specific assistance is provided to all partner countries that have concluded an Action Plan with the EU to support the implementation of the Action Plan.

Funding levels for Israel under the national ENPI envelope are currently estimated at €14 million for the period 2007-2013. Israel will also be eligible under the ENPI regional and cross-border cooperation programmes. Given the scope of the allocation, the most suitable approach seems to be to concentrate on support activities for the implementation of the Action Plan priorities, mainly in the form of institutional cooperation.

The principal objective of EU-Israel cooperation is to develop an increasingly close relationship between the EU and Israel, going beyond previous levels of cooperation, including a significant level of economic integration, and a deepening of political cooperation including in the area of foreign and security policy and in the resolution of the Middle East conflict and on human rights issues, on the basis of the EU-Israel Action Plan.

EC support over the period covered by this strategy will aim at supporting the attainment of the above policy objectives. Under the National Indicative Programme (NIP) 2007-2010 this translates into support for those areas identified as priorities of mutual interest, based on the ENP Action Plan.

¹ **Regulation (EC) No 1638/2006 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument**

EU COOPERATION OBJECTIVES

Overall external policy goals of the EU

The EU promotes its values and interests by operating as a global economic and political player, using various instruments ranging from the Common Foreign and Security Policy (CFSP), assistance and trade to the external dimension of the EU's internal policies.

In particular, the EU strives to promote prosperity, solidarity, security and sustainable development worldwide.

It is of the utmost importance to the EU to define the right "policy mix". That means that, in the light of the EU's strategic external relations objectives, policy coherence needs to be ensured between all available instruments in dealing with Israel.

Strategic objectives of EU/EC cooperation with Israel

The EU/EC approach to cooperation with Israel is shaped by a combination of country-specific, regional and global strategic objectives:

In the **Association Agreement** of 20 November 1995 the EU and Israel committed themselves to establishing a partnership which provides for close political and mutually beneficial trade and investment relations together with economic, social, financial, civil scientific, technological and cultural cooperation.

The objective of the **ENP**, which was launched in the context of the 2004 enlargement round, is to share the EU's stability, security and prosperity with neighbouring countries, including Israel, in a way that is distinct from EU membership. The ENP is designed to prevent the emergence of new dividing lines within and in the vicinity of Europe by offering neighbouring countries closer political, security, economic and cultural cooperation.

It also addresses one of the European Union's strategic objectives set out in the **European Security Strategy** of December 2003, namely to bolster security in the EU neighbourhood. ENP partners expect to gain closer cooperation with the EU, the chance to participate in EU programmes and a stake in the EU's internal market. In the case of Israel, specific objectives have been established in the EU-Israel ENP Action Plan which was jointly endorsed in December 2004.

Relations between the EU and Israel are also part of the Union's wider efforts to contribute to a **resolution of the Middle East conflict**. The achievement of lasting peace in the Middle East is a central aim of the EU, whose main objective is a two-State solution leading to a final and comprehensive settlement of the Israeli-Palestinian conflict based on implementation of the Road Map, with Israel and a democratic, viable, peaceful and sovereign Palestinian State living side-by-side in peace within secure and recognised borders and enjoying normal relations with their neighbours.

ISRAEL'S POLICY AGENDA

Israel, from the outset, expressed a keen interest in the ENP as an opportunity to improve and deepen bilateral relations. This is reflected in significant mobilisation of staff both in the Israeli Ministry of Foreign Affairs and in line ministries to follow and support implementation of the ENP Action Plan.

The ENP is perceived in Israel as a useful complement to the Barcelona process, with its tailor-made approach allowing a focus on areas which have not been at the centre of the regional process, and providing the option of moving at its own pace in those areas identified by the EU and Israel as priorities. Israel's level of ambition with regard to the ENP can therefore be considered as high.

In the trade field, in particular, much emphasis is put by Israel on the parallelism between the multilateral and the bilateral track. Given its high level of development, the character of its trade relations with the EU, and the significance of the high-tech sector, the Israeli economy faces challenges that are different in some respects from those of the other Euro-Mediterranean countries. The discussions on conformity assessment agreements are one example of this specificity which calls for a customised approach by the EU.

Moreover, Israel is one of only two non-EU countries that are fully associated to the EU's framework programmes for research and technological development.

Apart from trade and research and innovation, Israel has shown special interest on a wide spectrum of sectors, in particular in the area of justice, freedom and security, education, and networks.

ISRAEL'S OVERALL POLITICAL AND ECONOMIC SITUATION

Israel is a parliamentary democracy. It does not have a written constitution; instead the Declaration of Independence (1948), Supreme Court precedents and a series of Basic Laws provide the body of law. Israel declared itself a Jewish state, with its Declaration of Independence proclaiming equality for all citizens, irrespective of religion, race or sex.

Israel's overall political and economic situation is affected by the continuing conflict with the Palestinians and the state of relations with the Arab world in general. Israel has diplomatic relations with Egypt and Jordan following the conclusion of peace agreements in 1979 and 1994 respectively. The resurgence of suicide bombings since the beginning of the second Intifada in September 2000 is a matter of the highest security concern for Israel. Some of the measures taken by Israel in response to this situation have been criticised by the UN and the EU as disproportionate or incompatible with its obligations under international law, inter alia in the latter's recent General Affairs and External Relations Council conclusions. In the context of the Israeli-Palestinian conflict, concerns have also been expressed with regard to the human rights situation.

Israel is constructing a separation barrier whose purpose, according to the government, is to protect the Israeli population against terrorist attacks. The route of the barrier has been criticized by the EU, as it is built partially on occupied Palestinian land; Israel has made some adjustments to the route of the barrier in response to the High Court ruling that the barrier should take into account humanitarian needs of the Palestinians, the impact of which on the humanitarian situation has been limited.

Israel, once a traditional economy based on agriculture, light industry and labour-intensive production, evolved in the 1980s and 1990s into a knowledge-based economy, with internationally competitive services and industrial sector, investing 4,6% of GDP in Research & Development in 2004, making it one of the world's biggest investors in R&D in GDP terms.

The Israeli government continues to implement its "Economic Recovery Plan", which it started in 2003, reducing corporate and income taxes, reforming the capital market, promoting foreign investment in Israel, and preparing tax reform to improve the competitiveness of the Israeli system. It also continues to implement welfare reform. The reduction of social transfers as part of this reform was aimed at increasing participation in the labour market. It has however also contributed to Israel's position as one of the countries with the widest social gaps among developed countries.

The EU is Israel's largest trading partner. Israel is one of the EU's biggest trading partners in the Euromed area, with total trade amounting to almost €23 billion in 2005. The EU is the leading source of imports for Israel, and its second most important destination for exports. Excluding diamonds, total trade with the EU represented 35% of Israel's total trade. Israel's trade deficit with the EU amounts to 45% of its total trade deficit.

The EU and Israel have officially launched the negotiations on the liberalisation of trade in services, agricultural products and processed agricultural goods. The services sector represents 77% of Israel's GDP and already constitutes around one third of Israel's export. Similarly, services account for around three quarters of the EU's GDP. Trade in services is therefore instrumental in strengthening economic activity, attracting investment and enhancing the dynamics of the economy.

OVERVIEW OF PAST AND ONGOING EC COOPERATION (EXPERIENCE AND LESSONS LEARNT)

To date, Israel has not received bilateral assistance owing to its high level of economic development.² Consequently, EC/EU cooperation with Israel has been limited to:

- programmes in support of civil society, mainly in the context of the EU Partnership for Peace programme and the European Initiative for Democracy and Human Rights
- regional programmes under MEDA.

Given that Israel has not previously benefited from EU support, it does not have experience in the management of EU funding.

Participation in regional activities has frequently proved difficult for Israeli representatives in the absence of bilateral diplomatic relations between Israel and some Euromed partner countries.

With the creation of the ENPI, a limited bilateral financial allocation for Israel has been set aside for the first time to support the implementation of the ENP Action Plan. Given the scope of the allocation, the most appropriate approach seems to be to concentrate on targeted support activities for the implementation of the Action Plan priorities, mainly institutional cooperation through Twinning/Twinning light.

² Israel has received and continues to receive substantial bilateral assistance from the United States. The United States Congress approved aid for 2006 of \$3.16 bn. It is made up of \$2.28 bn of military aid, (mainly buy-back), \$600 m for joint defence projects and \$280 m for civilian aid

EC RESPONSE STRATEGY

The principal objective of cooperation between the EU and Israel is to develop an increasingly close relationship, going beyond past levels of cooperation towards gradual economic integration and deeper political cooperation, including on the Middle East peace process and on human rights issues.

Against the background of the high level of economic development, the maturity of Israeli public institutions, and the limited scope of the bilateral allocation, EU cooperation with Israel places the emphasis on support measures for the implementation of the ENP Action Plan. The identification of priorities will be guided by the policy objectives defined in the jointly agreed EU-Israel Action Plan and will focus on those areas which are in the **EU's strategic interest** and consistent with Israel's priorities.

Priorities for EC support will be identified on an annual basis in close consultation with the Israeli authorities.

The focus of the EC's activities should be to support regulatory approximation of Israeli legislation to EU legislation with a view to facilitating and improving cooperation. Possible areas for cooperation might include justice, freedom and security, networks, and people-to-people contacts and exchanges (including in the context of the Tempus and Youth in Action as well as the Erasmus Mundus programme). These areas were among those discussed and identified as priorities by both sides in the relevant subcommittee meetings.

EC support under the bilateral allocation will be complemented by regional and interregional allocations and EIB activities, in particular in the areas of transport, energy and environment. It will also add to possible sub-regional activities. Support under the bilateral allocation in this context will aim to accompany and underpin EIB lending activities in particular to facilitate work on convergence of technical and legal frameworks. The volume of EIB loans currently envisaged in these sectors is around €500 millions.

At the Barcelona Euro-Mediterranean Summit in November 2005, partners collectively committed to "endorse a feasible timetable to depollute the Mediterranean Sea by 2020."³ The EC response strategy for Israel could support national and regional measures that contribute to attaining the goals of Horizon 2020, which are to tackle all the major sources of pollution including industrial emissions, municipal waste and particularly urban waste water.

³ Successful achievement of the goal to reduce pollution levels will require a combination of both regional and national actions with the support of all actors in the Mediterranean. In addition to regulatory convergence and general reform of environmental administrations, investment projects financed by the International Financial Institutions can be encouraged through targeted investment preparation and support (such as interest rate subsidies).

NATIONAL INDICATIVE PROGRAMME 2007-2010
Budget and Phasing of the Programme

Priority	2007	2008	2009	2010	Total NIP	% Budget
<p>Support to the implementation of the joint priorities agreed in the EU-Israel Action Plan. This includes:</p> <ul style="list-style-type: none"> ➤ Support to activities in the field of higher education on priority areas of common interest, in particular with a view to approximation of education and training policies in a global knowledge-based economy, including workshops, exchanges, and academic cooperation ➤ Support to acquis-related activities in key Israeli ministries, including through Twinning/Twinning light, based on mutually agreed priorities, in areas such as justice, freedom and security, issues related to the internal market, networks, environment, and people-to-people contacts ➤ Support to events for the exchange and dissemination of information on acquis- and Action Plan-related issues 	2	2	2	2	8	<i>100%</i>
Total	2	2	2	2	8	<i>100%</i>