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## The Politics of Trade, Science and Technology: The Case of Israel and the European Union<sup>1</sup>

Israel's reputation as a leading player in science and technology (S&T) is well known. So is its success in developing creative solutions to cutting-edge technological problems through innovation and entrepreneurship. Less widely known is the extent to which Israel's impressive achievements in these areas have come to influence its political relationships with other nations and blocs. This is especially true of Israel's relationship with the European Union (EU), Israel's number one trade partner and closest collaborator in civilian S&T research. The desire of EU member states to cooperate with Israel in the broader science and technology spheres has meant that even those European countries politically committed to the Palestinian cause and highly critical of Israeli policies have been keen to deepen links with Israel. This has a number of implications, both political and economic, for the bilateral EU-Israeli relationship, not least for the EU's ongoing attempt to play a constructive role in contributing to a solution to the Israel-Palestine conflict.

Walter Hallstein, one of the European Community's founding fathers, once stated that "We are not only in business we are in politics."<sup>2</sup> Nowhere has this been more clearly seen than in the Community's involvement in the Israel-Palestine conflict. Though generations of EU politicians have shared Joschka Fischer's belief that "Solving the Middle East and developing a real vision of peace is the major, major challenge

<sup>1</sup> Parts of this essay appeared previously in "The PLO Factor in Euro-Israeli Relations, 1964–1992," *Israel Affairs*, Vol. 10, No.'s 1 & 2 (Autumn–Winter, 2004), 123–155, and in "Troubled Neighbours: The European Union and Israel," in *Israel's Strategic Environment* ed. Efraim Inbar (London/New York: Routledge, 2007), 29–51.

<sup>2</sup> "Hallstein Notes Political Goals of Common Market", *The Harvard Crimson*, 23 May 1961, last accessed, 21 February 2013, <http://www.the-crimson.com/article/1961/5/23/hallstein-notes-political-goals-of-common/>.



1 Cartoon published in *The Economist* magazine showing Catherine Ashton, the EU's top foreign policy official, attempting to get in between an old-fashioned gunfight between the leaders of Israel and Palestine.

for Europe,"<sup>3</sup> up until the present time the EU has rarely been able to impose its will on the participants to the conflict or even to make a constructive contribution to the politics of peace. Indeed, successive Israeli governments have been very clear that they have no interest in Europe attempting to embark on an independent policy in order to push the peace process forward on its own.

There are, however, two interrelated areas where bilateral ties between Israel and the EU have been consistently strong, even as political relations have been strained. These are the areas of bilateral trade and research cooperation in the S&T sectors. This is not simply a consequence of market forces but is also the result of a policy embraced by Israeli governments since the late 1960s to separate their political relations with the EU from their highly valued economic relationship. It has also been a consequence of the EU's growing belief in the benefits of developing trade ties and S&T cooperation despite political differences and pressure from the Arab world.

From the time of the establishment of the European Economic Community (EEC) in 1958, Israel's first prime minister, David Ben-Gurion, was of the view that the "closely knit community [...] would become a central force in world affairs,"<sup>4</sup> and that Israel needed to forge close ties with it. Accordingly, Israel became the third country after the United Kingdom and the Republic of Ireland to establish a diplomatic mission with full ambassadorial status in Brussels. By 1961 Israel's trade with the six founding members of the Community accounted for about 40 percent of her total exports. In 1964, despite considerable diplomatic pressure from the Arab world, the Community signed its first non-preferential trade agreement in the Middle East with Israel.

Though disappointed by the economic benefits of the 1964 agreement, Israel viewed the agreement itself positively. As

<sup>3</sup> Ian Black, "Europe must stifle anti-semitism," *The Guardian*, 20 February 2004.

<sup>4</sup> See Michael Brecher, *The Foreign Policy System of Israel: Setting, Images, Process* (London, Toronto: Oxford University Press, 1972), 348.

Amiel Najar, Israel's ambassador in Brussels, explained, the real value of the agreement was that it provided Israel with "standing" in Europe that would pave the way for more valuable links in the future.<sup>5</sup> Senior Israeli figures, including Yigal Allon, Abba Eban, Shimon Peres and Levi Eshkol, all favored building on the agreement as a matter of priority. By January 1967, the Israeli delegation in Brussels was expressing its interest in a customs union in the industrial sector.

There is no doubt that the Israeli occupation, during the June 1967 war, of Palestinian territories previously controlled by Jordan (the West Bank) and Egypt (the Gaza Strip) fundamentally shifted international opinion away from Israel, eventually causing the Jewish state to lose the sympathy of European governments. In the immediate term, however, the war actually appeared to help Israel in its major objective of replacing its 1964 economic agreement (which was due to expire in June 1967) with an association agreement. As the Dutch Foreign Ministry noted, the war had created "a wave of sympathy for Israel [and] is likely to help considerably the conclusion of some form of agreement of association."<sup>6</sup>

On 7 June 1967 the European Commission adopted its report to the Council of Ministers containing suggestions for the new phase of negotiations between Israel and the Community. This report included a recommendation calling for the negotiation of a preferential agreement with Israel on the basis of Article 111 of the treaty. This was viewed in the press as both "politically provocative [and] a major innovation in the Community's foreign policy."<sup>7</sup> However, on 27 June, though noting this proposal, the Council decided not to enter into a new round of substantive negotiations at this time of uncertainty. Instead, the original 1964 trade agreement would be extended until 30 June 1968. In December 1967, as the longer-term ramifications of the war began to coalesce, the European Council debated EEC-Israeli trade relations. The Commission restated its support for a preferential agreement with Israel which might in the future extend to association. This was supported by West Ger-

<sup>5</sup> See Ambassador Sean Morrissey to the Secretary, Department of External Affairs, 5 December 1966, National Archives of Ireland (hereafter, NAI), 98/3/337.

<sup>6</sup> Lennon, Irish Ambassador, The Hague to Secretary, Department of External Affairs, 8 June 1967, NAI, 98/3/337.

<sup>7</sup> *Financial Times*, 12 June 1967.

many, The Netherlands, Belgium and Luxembourg. Italy, a direct competitor of Israel's in several agricultural product areas, was prepared to consider a preferential agreement, provided that the context of negotiations with Israel focused not on the Mediterranean alone, but on general enlargement. However, France, the leading European critic of Israel in the wake of the 1967 war, opposed improved economic ties with Israel on the grounds that a preferential agreement that abolished customs duties was out of proportion with Israel's economic importance to the Community. It even adopted the Italian call for expansion northwards as a way of avoiding progress with Israel.<sup>8</sup>

It was only in late 1969 that France agreed to withdraw its veto on an agreement with Israel, paving the way for the Israel-EEC agreement of June 1970, which extended preferential treatment to industrial commodities and granted the most significant staged-tariff reductions on Israeli industrial exports up to that point.

The entry into the Community in 1973 of the United Kingdom, Israel's third largest trading partner and an important market for Israeli agricultural produce, meant that by 1974 trade with the Community accounted for half of Israel's imports (ca. US\$2 billion) and a third of its exports (ca. US\$700 million). Not surprisingly, Yitzhak Rabin, who succeeded Golda Meir in 1974, assured the Knesset in his first speech as prime minister that "increased co-operation between us and ... the Common market in particular will now be one of the central objectives of the new government."<sup>9</sup>

The May 1975 EEC-Israel trade agreement, signed in 1976, was the culmination of almost three years of negotiations. It was the first agreement of its type between the Community and a non-member Mediterranean state. Foreign Minister Yigal Allon characterized it as a "great and even spectacular" opportunity for future relations with a European trading bloc that occupied "pride of place in Israel's foreign trade."<sup>10</sup> Coming just one month prior to the first Euro-Arab Dialogue (EAD) meeting in Cairo, the EEC-Israel trade agreement made the Arab world furious with the Community. The Arab side argued that the agree-

<sup>8</sup> Europe Agency Reports, 12 December 1967.

<sup>9</sup> Address to Knesset by Prime Minister Rabin on the presentation of his government, 3 June 1974, Israel Documents, Vol. 3 (Jerusalem, 1978), 7.

<sup>10</sup> Statement by Foreign Minister Allon to Knesset on EEC Israel Trade Agreement, 26 May 1975, Israel Documents, Vol. 2, 218.

ment was “not in accord” with past promises, that it contradicted the Community’s November 1973 Middle East declaration in support of Palestinian rights, and that it “endangered” the success of the EAD.<sup>11</sup> Though acknowledging that the timing was unfortunate, the Community rejected these Arab criticisms. It explained that the agreement with Israel was not of political, but of technical nature, simply replacing an earlier bilateral document. Moreover, it was pointed out that the agreement was balanced by the Community’s economic cooperation with the Arabs under the EAD framework.

The 1975 agreement between the EU and Israel concentrated on the development of a free trade area for industrial goods, making explicit reference to a gradual move towards this goal by 1989. This suited Israel perfectly. Mindful of the fact that GNP per capita was highest in countries where technology, chemicals, and machines made up a large percentage of exports, by the early 1970s Israel realized the prioritizing “high-tech, high skill, science based industry” would be key to long term economic success.<sup>12</sup> This turn to S&T especially suited Israel, with its tiny domestic market, regional isolation, lack of natural resources, and need to make long-term, risky investments in military technology in the face of relentless conflicts and arms embargos.

This decision by Israeli policymakers to focus on S&T as the only area of potential comparative advantage has brought significant rewards, contributing to the 60-fold growth of Israel’s economy between 1948 and 2010, the year that Israel’s formal classification in world financial markets was promoted from “emerging” to “developed.”

As Israel’s economy grew, so did its economic relationship with the EU. In 1981, Israel exported US\$5.6 billion to the EU (35.8 percent of its total exports). By 1992, on the eve of the Oslo peace process, Israeli exports to the Community had risen to US\$11.5 billion (35 percent of its total exports). This was an impressive achievement given that oil and arms tended to influence European purchasing decisions across the region, and that throughout this period, Israel, unlike the Arab world, had



2 This stamp, published in 1956, of Technion, Israel’s world-renowned Institute of Technology, underlines the long-standing importance of scientific and technological research in Israel society.

<sup>11</sup> See *al-Moudjahid*, 13 May 1975.

<sup>12</sup> Howard M. Sachar, *Israel and Europe: An Appraisal in History* (New York: Knopf, 1999), 19.

no oil to sell and bought almost no weapons from the Community (there was a French embargo on the sale of military goods between 1967 and 1992 and a British embargo from 1982 to 1994). Moreover, political differences with Europe were greatly exacerbated by Israel's 1982 invasion of Lebanon and the outbreak of the first intifada in late 1987.

In response to the Lebanon invasion, the Community decided to postpone the signing of an economic agreement relating to trade credits to be provided to Israel over the next several years and also froze certain joint activities. (Greece also used its veto to halt the resumption of economic aid to Israel in the wake of the war.) In addition, following the start of the first intifada in 1987, the European Parliament postponed final ratification and approval of the trade protocols attached to the 1986 Israeli-EEC trade agreement until Israel allowed Palestinian Arab citrus growers to market their goods directly to the Community via Israeli ports without processing by Israel or a change in certificates of origin.<sup>13</sup> On neither occasion was there any broad consensus within the Community regarding economic sanctions against Israel.

One important explanation as to why Israel's economic relationship with EU member states has thrived despite major political differences is that as Israel became richer over this period (between 1980 and 1995 Israeli GNP rose from US\$17 billion to US\$68 billion), it became an increasingly valuable market for the EU. By 1990, Israel was importing US\$7.5 billion worth of goods annually from the EU, making it the biggest market for EU imports in the region after Turkey, which imported goods valued at US\$9 billion. Egypt, the largest Arab market for EU imports, only purchased US\$2.5 billion worth of EU goods in the same year. More importantly, Israel's trade deficit *vis-à-vis* the EU has developed, in the words of the European Commission, into "a constant feature" of EU-Israel bilateral trade. This made the relationship highly lucrative for EU member states. By the beginning of the Oslo era the EU had a surplus of US\$5.6 billion in its balance of trade with Israel.<sup>14</sup>

<sup>13</sup> Ilan Greilsammer, "The Non-Ratification of the EEC - Israeli Protocols by the European Parliament (1988)," *Middle Eastern Studies*, Vol. 27, No. 2 (April 1991), 303-321.

<sup>14</sup> Europa Press Release on EU-Israel relations, MEMO/95/127, 28 September 1995, last accessed 21 February 2013, [http://europa.eu/rapid/press-release\\_MEMO-95-127\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-95-127_en.htm?locale=en).

In 1992, Israel entered into negotiations with the EU over joining the European Economic Area, a move that was consolidated following the commencement of the Oslo process in 1993. Indeed, the EU member states were clear that developing trade with Israel would be one of a number of key contributions they would make to the nascent peace process (along with funds for the Palestinian economy, the promotion of regional development, and increased purchases of goods from areas controlled by the Palestinian Authority). This commitment culminated in November 1995 with the signing of an association agreement between Israel and the EU.<sup>15</sup>

Another key, if overlapping, explanation relates to the fact that Israel is a key player in the global S&T sectors. In 1974 and 1977 Israel signed protocols with the EU under D-G-12 (the Community's Directorate for Research and Science). Since that time, bilateral S&T research and development (R&D) projects with the EU and its member states have flourished. In particular, following the start of the global high-technology boom in the early 1990s, Israel's successful domestic program of investment in R&D and funding technology incubators to nurture high-tech talent became a model for EU member states, which in turn made Israel an increasingly attractive economic partner, even as political relations deteriorated.

Following the freeze in the Oslo process after Benjamin Netanyahu's accession to the premiership in 1996, the European Commission urged member states to delay ratification of the 1995 EU–Israel association agreement unless Israel made concessions to the Palestinians. However, only France and Belgium actually delayed ratification. In the same year, Israel became the only non-EU member state invited to participate in the EU's Fourth Framework Technology Programme.<sup>16</sup>

Again, despite the fact that EU member states argued vehemently that Israel's policy of sealing off the West Bank and Gaza Strip in response to terror attacks made a "mockery of the economics of peace,"<sup>17</sup> the evolving ties between the EU and Israel in the S&T sphere continued to develop as Europe

<sup>15</sup> Israeli Ministry of Foreign Affairs statement on Israel-EU Trade Agreement, 20 November 1995, last accessed 21 February 2013, [http://www.mfa.gov.il/MFA/MFAArchive/1990\\_1999/1995/11/Israel-EU%20Trade%20Agreement%20-%20November%201995](http://www.mfa.gov.il/MFA/MFAArchive/1990_1999/1995/11/Israel-EU%20Trade%20Agreement%20-%20November%201995).

<sup>16</sup> "Science & Technology: The Way to Europe," *Ha'arets Special Report* (November 2006), 31.

<sup>17</sup> *The Jerusalem Report*, 27 November 1997, 8.

3 Israel's Benjamin Netanyahu and the EU's José Manuel Barroso President of the European Commission at the signing ceremony of one of a number EU-Israel science and technology cooperation agreements.



looked to benefit from Israel's position (in the words of *Newsweek* magazine) as the "only serious rival" to California's silicon valley in the high-tech sphere.<sup>18</sup>

The EU's science, research, and technology frameworks are the most important EU programs for the implementation of the joint policy on science and technology. They aim to support pioneering research by junior and established researchers from EU member states and other nations invited to participate in the frameworks. In 1999, Israel joined the Community's fifth framework program. In March 2000 Israel gained "co-operating state" status in the COST research program and in June 2000 Israel was a member of the EUREKA research network. In December 2002 the EU and Israel signed a landmark agreement that enabled Israel to participate in the EU's flagship sixth framework program on scientific and technical cooperation. This came just months after Israel clashed publicly with a number of EU member states over the (false) allegation that the IDF had committed a massacre of civilians in the Palestinian town of Jenin during the most violent period of the al-Aqsa intifada.<sup>19</sup>

Though Israel's economy has problems, notably disparities in wealth, some structural weaknesses and a lack of balance between private sector independence and government intervention, it is also a highly successful example of the long-term economic benefits of robust investment and a research environment that leads to cutting-edge technological innovation

<sup>18</sup> *Newsweek Magazine*, 8 April 1996.

<sup>19</sup> *Jerusalem Post*, 11 April 2002; *Financial Times*, 11 April 2002. By mid-July 2003 both international aid and human rights organisations and Palestinian sources had acknowledged that the actual death toll in Jenin was 52, at least 34 of whom had been armed. See *Jerusalem Post*, 14 July 2003.



and world-class entrepreneurship. Michael Porter's diamond model predicts a nation's competitiveness through a number of important factors. One factor is a nation's capacity for creatively overcoming deficiencies and compensating through innovation.<sup>20</sup> Israel has always been very good when it comes to overcoming "deficiencies" through innovation.

This has been noted by the EU member states. Despite the fact that political relations between Israel and the EU reached an all-time low in the early 2000s, in the same period Israel was party to the most progressive trade and cooperation agreements with the EU of any non-member Mediterranean state. By 2005, cooperation between the EU and Israel in the R&D and technology sphere had (in the words of the European Commission) "increased significantly."<sup>21</sup>

This was even true of member states like Ireland, which has been politically hostile to Israel and openly supportive of the Palestinian cause inside the EU. During the 1970s and 1980s Ireland's economic involvement in the Middle East was dominated by trade with the oil producing, meat importing Arab and Muslim states. Between 1981 and the end of 1994, Irish exports to Israel increased six-fold (from IR£6 million to IR£40 million). When the technology boom began, this changed considerably. In the first half of 1995, Irish exports to Israel increased by 83 percent compared to the same period in the previous year.<sup>22</sup>

From the mid-1990s, the Irish government viewed upgrading relations with Israel as a "massive contribution" to the development of its own S&T sector. In October 1999, the then Irish minister for science, technology, and commerce put it this way: "[I]t is natural that we should seek to co-operate because our two countries have much in common in terms of our geographical and population size; our dependence on exports; our evolution into modern economies with a technology led industrial base ... Ireland has deepened its relations with Israel and

<sup>20</sup> Michael Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

<sup>21</sup> "EU-Israel Trade," Delegation of the European Union to Israel, last accessed 21 February 2013, [http://ec.europa.eu/delegations/israel/eu\\_israel/trade\\_relation/index\\_en.htm](http://ec.europa.eu/delegations/israel/eu_israel/trade_relation/index_en.htm).

<sup>22</sup> "New Israel-EU Trade Agreement to give Boost to Ireland-Israel Trade," *Ireland-Israel Economic and Business Association Newsletter*, Vol. 3, No's 7-8 (July-August 1995), 1.

this has allowed economic relations between our two countries to grow."<sup>23</sup>

During the same month, Ireland and Israel signed a framework co-operation agreement in industrial scientific research and technological development, through which both countries would focus on developing co-operative research partnerships under the auspices of EU-funded programs. Speaking at the time, Ireland's minister for enterprise explained the attraction that Israel's S&T prowess offered to Ireland: "Israel has achieved an international reputation for a combination of strong academic infrastructure along with prudent government support for research and development. Ireland has clearly earmarked further investment in this area as a key priority in the context of the national development plan (2000–2006) so co-operation with Israel provides an opportunity to facilitate an international aspect to the development of these objectives."<sup>24</sup>

The story goes that it was during a 1999 visit to the Weizmann Institute and the Israel Science Foundation that Ireland's then science minister got the idea for the launch of the Science Foundation Ireland, which was founded in 2001. Even after the collapse of the Oslo process, as Ireland consolidated its position as one of the champions of the Palestinian cause inside the EU, the Irish media was describing Israel as the country's "most dynamic trade partner."<sup>25</sup> In the decade since, political relations have improved little, but Ireland still looks to learn lessons from Israel in the S&T sectors. In late 2012, following discussions on the issue during a visit to Israel earlier in the year, Ireland's foreign minister announced that the government would guarantee 75 percent of loans to small and medium-sized companies in order to create an indigenous S&T research culture.<sup>26</sup> This is a key part of Israel's economic strategy.

Similarly, in 1984, at a time when France and Israel were clashing politically over Israel's invasion and occupation of Le-

<sup>23</sup> See Department of Enterprise, Trade and Employment press release, last accessed 27 October 1999, <http://www.enterprise.gov.ie>. The website has been renovated and the press release section does not go back to 1999. Instead, see "Ireland and Israel: A Tale of Two Economies," *Bank Hapoalim, Economic Report*, Issue 121, Tel Aviv, 25 October 1999.

<sup>24</sup> *Ibid.*

<sup>25</sup> David McWilliams, "Big Ideas for a Small Country," *The Sunday Business Post Online*, 17 June 2001.

<sup>26</sup> *Irish Times*, 18 October 2012.

banon, French Prime Minister Laurent Fabius acknowledged that the S&T sector was a vital part of his government's economic strategy and that Israel would be a key partner in this area going forward.

There is no doubt that the thriving trade and S&T relationship has had some influence in limiting the EU's willingness to support calls for economic boycotts of, divestment from, and sanctions against Israel. In 2004, at a time that senior French politicians were developing a reputation as some of the most outspoken critics of Israeli policy, they were promoting not economic sanctions, but the establishment of a new, Paris-based joint French-Israeli high scientific authority.

But it is also true that this thriving relationship has not in any substantive way neutralized, bridged or diluted political differences between Israel and Europe. Following the signing of the Israel-EU 1975 trade agreement, then Israeli foreign minister Yigal Allon cautioned against presuming that rising trade ties would result in a change in the EU's political attitude. The prescience of this observation has become very apparent since the late 1990s. To take one example, the fact that the EU had a trade surplus with Israel of US\$6 billion in 1997 did not prevent it from adopting an outspokenly critical position on what was viewed as the Netanyahu government's anti-peace policies.<sup>27</sup>

Israel cannot neutralize the EU's political hostility through trade ties and S&T cooperation, but it can take comfort in the fact that its trade and S&T ties with EU member states have proved resilient in the face of major political differences. For its part, the EU has been both unwilling and unable to leverage its unrivalled trade and S&T relationship to force Israel to make political concessions. This failure is preventing the EU from achieving its long-held goal of transforming its impressive economic power into political influence in the Middle East.

#### PHOTO CREDITS

- 1 Peter Schrank, <http://www.schrankcartoons.com>.
- 2 Wikimedia, [http://commons.wikimedia.org/wiki/File:Technion\\_stamp\\_1956.jpg?uselang=de](http://commons.wikimedia.org/wiki/File:Technion_stamp_1956.jpg?uselang=de).
- 3 Europe in Israel Online, Newsletter of the Delegation of the European Union to the State of Israel, Edition no. 12, 13 August 2012.

<sup>27</sup> See, for example, *Irish Times*, 28 May 1996 and 30 May 1996. See also *Irish Independent*, 31 May 1996. "EU Commitment to Middle East Peace," *Ireland 1996: Presidency of the European Union Bulletin*, No. 7 (November 1996), 2.