



ISRAEL

What's happening in this economy

Israel has a technologically advanced market economy with substantial—though diminishing—government participation.

Israel's economy has been growing continuously for the past 15 years, averaging around 3.5 per cent GDP growth annually. During this time, Israel's GDP per capita has risen steadily. However the cost of living has also risen substantially, limiting advances in Israeli's standard of living.

Driven by deliberate government policy, Israel's innovation ecosystem is one of the most developed in the world, shaped by a sophisticated system of major global investors, start-ups, the Israeli military, the Israeli Innovation Authority and universities.

There are more than 350 multinational R&D centres in Israel, established by global companies such as Alcatel-Lucent, Apple, Facebook, GE, General Motors, Google, IBM, Intel, Microsoft, PayPal and Samsung. Apple opened its first R&D office outside the US in Israel. Israel also attracts about 20 per cent of the world's private investment in the cyber industry, and has the highest national expenditure on civilian R&D as a percentage of GDP in the world.

On the back of the rapid expansion of the hi-tech sector, services exports now account for 45 per cent of Israel's total exports.

Future growth in the hi-tech sector will depend on Israel's ability to meet labor capacity constraints. While venture capital investment is at an all-time high (USD 6.4 billion in 2018 in 623 deals), Israel does not have enough skilled labor to meet demand. Headline labor market indicators (unemployment at around 4 per cent) reflect Israel is at or close to full employment.

The discovery of two major gas fields off the Israeli coast in 2009 has the potential to transform Israel into a net exporter of energy. However geopolitical and regulatory issues have hindered progress to date.

Demographic change will create challenges for Israel's future growth and productivity. Implementing initiatives to better integrate Arab-Israelis and the ultra-Orthodox sector into Israel's economy will be critical for Israel's future growth.

Trade, investment, and commercial opportunities and activities

- Australia's commercial relationship with Israel is healthy but modest:
 - annual two-way trade officially stands at around AUD 1 billion, making Israel our 41st largest trading partner. However the real value of the trade relationship is estimated at closer to AUD 2 billion
 - service and defence equipment trade is not reflected in the public data, and a significant amount of trade is carried out through third parties such as the US and Singapore

Key facts and figures

- Population: 8.9 million
- GDP growth: 3.3% (2018)
- GDP per capita: USD 41,644 (2018)
- Political system: parliamentary democracy
- Two-way trade: AUD 1.39 billion (2018)
- Exports to Israel: AUD 289 million
- Imports to Australia: AUD 802 million
- Major Australian exports: live animals, plastics, pearls and gems, beef
- Two-way investment: AUD 1.29 billion (2018)



connecting Australian business to the world

- Australia’s live animal exports are the largest component of our exports to Israel, but are coming under increasing pressure from opponents of the trade within Israel, and
- other key exports are pearls and gems, and chilled and frozen beef.
- Despite the relatively low bilateral trade volumes, there is significant potential in the innovation and technology relationship. A number of high-impact developments have already taken place in this sector:
 - the conclusion of commercial R&D agreements (federal, NSW, Victoria) have provided additional opportunities for Australian groups looking to collaborate with Israeli entities. Funding is also available under the Australian Government’s Global Collaborations Fund and the Global Innovation Linkages Program
 - the Innovation Landing Pad in Tel Aviv—which serves as a bridge between the Australian and Israeli innovation eco-systems—offers Australian companies and entrepreneurs a platform to build linkages with both Israeli and multinational business partners. The Innovation Landing Pad has supported more than 70 Australian companies in three years through its programs. Most companies are in the agtech, cyber security and fintech sectors
 - there has been significant growth in visits to Israel by Australian business delegations seeking engagement with the Israeli innovation eco-system – more than 40 delegations in 2018
 - 20 Israeli companies are now listed on the Australian Securities Exchange (ASX), making Israel the third largest source of foreign company listings (behind NZ and US). Many of these companies have used Australia as a springboard into other markets
 - several top tier Australian corporates in the banking, insurance and telecom industries have established formal innovation scouting activities in Israel
 - Telstra has invested AUD 13 million in Zimperium, an Israeli mobile security technology company, and
 - significant Australian investment has been made into Israeli venture capital: more than 20 per cent of funds in the world’s largest online crowd-sourced VC fund, Our Crowd, are of Australian origin.
- A new Australia-Israel tax treaty signed in March 2019 will reduce tax impediments to bilateral trade and investment when it comes into effect. The treaty will alleviate double taxation by lowering withholding tax rates on cross border interest, dividend and royalty payments.
- Australian superannuation fund Sunsuper acquired about five per cent of the Tel Aviv Stock Exchange (TASE) after the Israeli Securities Authority approved the sale of TASE’s securities to non-Israeli parties in August 2018:
 - Australian-founded firm Manikay Partners also bought 19 per cent of TASE shares.
- Israeli investment in Australia is small in absolute dollar figures but potentially high impact in terms of its contribution to increasing Australian industrial productivity:
 - for example, software for emergency rooms, automated drones for mining supply chains, wrapping technology for protecting crops, and biotech industry services.
- Significant two-way investment opportunities exist in digital health, defence industries, space, fintech, AI, agtech / foodtech, smart cities / mobility and environmental technologies.



connecting Australian business to the world

- Australia and Israel are increasing cooperation in medical research:
 - the Garvan Institute of Medical Research and Israel’s Weizmann Institute opened the Centre for Cellular Genomics in Sydney in August 2017—Australia’s only multidisciplinary centre in this field
 - Israeli biotech companies are discovering Australia’s cost-effectiveness as a tier one destination for clinical trials, which provides opportunities for Australian biotech companies to work with Israeli groups (for example, two Israeli biotech companies – Azura Ophthalmics and Bioforum – have established a physical presence in Australia to facilitate clinical trials), and
 - Israeli company Kadimastem and the Australian Foundation for Diabetes Research collaborate on research to overcome the need to administer insulin for people with type 1 diabetes.
- Agtech has also been a fertile area for increased collaboration:
 - Australia’s Blue River Group has established the argifood tech innovation Bridge Hub in Wagga Wagga for collaboration and technology validation between the Australian agriculture industry and Israeli counterparts.
- Australia is seen as a natural partner with strong credentials in Israel’s expanding oil and gas sector, although Australian interest has been limited.
- Opportunities in military technology collaboration continue to be explored:
 - this is a key focus of the Australia–Israel Joint Working Group on Defence Industry
 - in August 2018, Israel’s Rafael Advanced Defense Systems and Australia’s Varley signed an agreement that included setting-up joint production lines in Australia for Rafael’s Spike anti-tank missiles, and
 - Elbit Systems already employs more than 200 Australians in Victoria and Israel Aerospace Industries recently established a fully-owned subsidiary in Australia.
- Austrade’s recently-established Australian Trade & Defence Office in West Jerusalem is progressing collaboration opportunities in priority sectors including fintech, digital health and clinical trials, defence industries, and environmental technologies.
- The Department of Foreign Affairs and Trade is committed to addressing impediments to trade, including through DFAT’s Non-Tariff Barriers Action Plan. DFAT’s Non-Tariff Barriers Section <NTB@dfat.gov.au> and the Australian Embassy in Israel <telaviv.embassy@dfat.gov.au> would welcome information on any challenge Australian traders are facing.

Trade policy and negotiations

There is no free trade agreement between Australia and Israel. Israel has trade agreements with:

- Bulgaria
- Canada
- the Czech Republic
- Hungary
- Jordan



connecting Australian business to the world

- Mexico
- Poland
- Romania
- Slovakia
- Slovenia
- Turkey
- the United States
- the European Union
- EFTA (Iceland, Liechtenstein, Norway, and Switzerland), and
- MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay).
- Israel has also signed trade agreements with Colombia, Panama, South Korea, Ukraine and the United Kingdom (to come into force only if the UK exits the EU), but these are awaiting implementation.

Israel and Australia are both members of the WTO and Israel is part of three WTO groupings:

- the G-10
- Friends of A-D Negotiations (seeking more disciplines on the use of anti-dumping measures), and
- the Joint Proposal in Intellectual Property Group (proposing a voluntary IP database).

Israel's fifth WTO Trade Policy Review was held on 17 and 19 July 2018. Australia questioned Israel's continued intervention and high tariffs in its agricultural sector, and highlighted Israel's commitment to implementing the Nairobi Ministerial Decision to eliminate export subsidies. Israel ratified the WTO Trade Facilitation Agreement in 2017 and is participating in the WTO Ministerial Conference joint statement initiatives on e-commerce, MSMEs, and women and trade.

Disclaimer

The Department of Foreign Affairs and Trade (DFAT) has taken great care to ensure the information contained in this publication is correct and accurate.

DFAT does not guarantee, and accepts no legal liability arising from or connected to the accuracy, reliability, currency or completeness of any material contained in this publication.

Readers should exercise their own skill and care in using the material contained in this publication and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.