ISRAEL

Business Conditions Snapshot

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

• Before the onset of COVID-19, Israel’s economy had grown continuously for the previous 15 years, averaging around 3.5 per cent GDP growth annually. During this time, Israel’s GDP per capita rose steadily. However, the cost of living has also risen substantially, limiting advances in Israel’s living standards. COVID-19 pushed Israel’s unemployment rate above 20 per cent in 2020 (including those on leave without pay). In November 2020, The Economist projected that Israel’s real GDP growth rate would be -5.2 per cent in 2020 and 2.9 per cent in 2021.

• 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 attracted about 20 per cent of the world’s private investment in the cyber industry in 2018, 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 almost 50 per cent of Israel’s total exports.

• Future growth in the hi-tech sector will depend on Israel’s ability to meet labour-capacity constraints. While venture capital investment is at an all-time high despite the challenges posed by COVID-19 (Israeli tech companies raised a record US$8.8 billion in the first 10 months of 2020), Israel does not have enough skilled labour to meet demand.

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

- 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.

**Trade and Investment Opportunities**

- Australia’s commercial relationship with Israel is healthy but modest.
  - Annual two-way trade officially stands at around A$1.52 billion. However, the real value of the trade relationship is estimated at closer to A$2 billion.
  - Service and defence equipment trade are not reflected in the public data, and a substantial amount of trade is carried out through third parties such as the US and Singapore.
  - 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.
  - Other key exports are pearls and gems, and chilled and frozen beef.

- Despite the relatively low bilateral trade volumes and the challenges posed by COVID-19, there is major 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 ecosystems, offers Australian companies and entrepreneurs a platform to build linkages with both Israeli and multinational business partners. The Innovation Landing Pad has serviced more than 90 Australian companies in its first four years. Most companies are in the agtech, cyber security or fintech sectors.
  - Since the onset of COVID-19, the Landing Pad has delivered virtual bootcamps, workshops and mentorship programs to support start-ups and scale-ups build their capability to go global during the pandemic. This includes delivering:
    » A four-day bootcamp for agtech start-ups from Western Australia in collaboration with the Western Australian Department of Primary Industries and Regional Development.
    » An intensive "COVID-19 First Aid Kit for Australian Start-ups" business development workshop.
A seminar for Australian start-ups featuring Australia’s Square Peg Capital partners.

Before the COVID-19 pandemic, there was substantial growth in visits to Israel by Australian business delegations seeking engagement with the Israeli innovation eco-system. Over 40 senior business delegations visited Israel in 2019 alone.

Twenty-one Israeli companies are now listed on the Australian Securities Exchange (ASX), making Israel the third largest source of foreign company listings (behind New Zealand and the US). Many of these companies have used Australia as a springboard into other markets. In August 2020, the ASX added the Tel Aviv Stock Exchange as an acceptable listing venue for foreign exempt listings, reducing compliance burdens.

DFAT and Austrade assisted West Australia’s Bis and Israel Aerospace Industries in their successful efforts to establish the Auto-mate JV, focused on mining automation technology.

Several top-tier Australian corporates in the banking, insurance and telecom industries have established formal innovation scouting activities in Israel.

Telstra has invested A$13 million in Zimperium, an Israeli mobile security technology company.

Substantial Australian investment has been made into Israeli venture capital: in 2009 about 20 per cent of funds in the world’s largest online crowd-sourced VC fund, Our Crowd, were of Australian origin.

The new Australia-Israel tax treaty entered into force on 6 December 2019. The treaty increases certainty and reduces 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 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 19.9 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.

Two-way investment opportunities exist in digital health, defence industries, space, fintech, AI, agtech and foodtech, smart cities and mobility and environmental technologies.
• Israeli investment into Australia could grow in the coming years, with Israeli companies increasingly discovering Australia as an appealing investment destination. Israeli companies are attracted by Australia’s network of FTAs with the big Asian economies, our transparent regulatory environment, our highly-educated multicultural workforce, our tendency to be early adopters of technology, and arguably the world’s best quality of life.

• DFAT has actively reassured stakeholders that Australia remains open to and welcoming of foreign investment, particularly in the context of recently-announced proposed changes to Australia’s foreign investment framework.

• Australia and Israel are increasing cooperation in medical research.
  – 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.
  – 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.
  – The NSW–Israel Research and Development and Technological Innovation Program provided matched funding of up to A$250,000 for enterprises to work with Israeli partners in 2020. This is providing access to new markets and a wider network of expertise and venture capital, with a focus on solutions in medicine and cyber security.
  – Israeli company Kadimastem and the Australian Foundation for Diabetes Research have been collaborating on research to overcome the need to administer insulin for people with type-1 diabetes.

• Agtech and watertech have also been fertile areas for increased collaboration.
  – Australia’s Blue River Group established the agrifood tech innovation Bridge Hub in Wagga Wagga for collaboration and technology validation between the Australian agricultural industry and Israeli counterparts.
  – Food and agtech accelerator SparkLabs Cultiv8 selected four Israel companies to join its 2020 accelerator program and to help revolutionise the global agriculture industry.
  – New South Wales, Queensland and South Australia have signed memorandums of understanding on water cooperation with Israel.
  – Israel’s Arugga AI Farming is testing its artificial intelligence-powered pollinating robot on tomatoes being grown at a greenhouse facility in New South Wales.

• 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 Defence Industry Working Group.
- A number of medium and large Israeli companies are currently providing components and standalone capabilities to Australian defence programs.
- Elbit Systems employs more than 260 Australians in Victoria, including at a C4I Development Centre in Port Melbourne established at the end of 2019.
- Israel Aerospace Industries established a fully-owned subsidiary in Australia, and created a joint venture with Western Australia’s Bis Industries in September 2020. This is to develop and commercialise autonomous technologies for application to mining vehicles, as well as plan, implement and manage autonomous mine sites.
- 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.

The Australian Trade and Defence Office in West Jerusalem—operated by Austrade—is progressing trade, investment and collaboration opportunities in priority sectors including defence industries, digital technologies (including AI, fintech), medical technologies (including digital health and clinical trials), and environmental technologies.

Austrade has also been assisting Australian corporates seeking a foothold in niche Israeli market opportunities, including a provider of synthetic chemistry and medicinal chemistry services, an Australian energy storage company interested in the renewable energy and electric vehicle market, an Australian consultancy providing leadership capability for corporate senior executives, and an Australian group specialising in commercial solar auction services.

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
  - Mexico
  - Panama
- Poland
- Romania
- Slovakia
- Slovenia
- Turkey
- The United States
- The European Union

- EFTA (Iceland, Liechtenstein, Norway, and Switzerland)
- MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay)
- Israel has also concluded trade negotiations with Colombia, South Korea and Ukraine, but these are awaiting implementation.
- In February 2019 Israel and the UK signed an agreement to provide continuity in trade relations following the UK's EU departure. It is in negotiations with China, India and Vietnam.
  - Israel and Australia are both members of the WTO and Israel is part of three WTO groupings.
    - The G-10, which is lobbying for agriculture to be treated as diverse and special because of non-trade concerns.
    - Friends of A-D Negotiations, which is seeking more disciplines on the use of anti-dumping measures.
    - The Joint Proposal in Intellectual Property Group, which is 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 participated in the WTO Ministerial Conference joint statement initiatives on e-commerce, MSMEs, and women and trade.
  - In engagement with Israeli authorities, DFAT continues to advocate for a global rules-based trade system.

- Addressing trade barriers and market access issues is an important part of the Australian Government’s work.
- DFAT, Austrade and the Department of Agriculture, Water and the Environment (DAWE) have created new export opportunities for Australian businesses by
engaging Israel’s Health Ministry on a number of certification challenges faced by Australian exporters, including manufacturing certificates for cosmetics products.

- We have helped Australian traders and Israeli distributors seeking to increase agricultural exports to Israel, and have enquired on Australian access to lower in-quota tariff rates for kosher meat imports enjoyed by Israel’s FTA partners.
- We have also sought information about Israel’s ban on non-kosher meat imports and the process for approving non-kosher slaughter establishments in Australia.
  - As a result, Israel has agreed to approve non-kosher meat establishments in Australia once DAWE has certified that it complies with Israel’s standards.
  - While a complete lifting of Israel’s ban on non-kosher meat imports seems unlikely, Israel’s approval of Australian slaughter establishments sets the groundwork for a future exemption application.
- Australia also secured Israeli and Palestinian agreement on a reciprocal arrangement for accepting electronic copies of export certificates for the clearance of animal products, and to prevent disruption to the meat trade during COVID-19.

- DFAT is addressing impediments to trade, including through DFAT’s Non-Tariff Barriers (NTB) Action Plan. DFAT’s Non-Tariff Barriers Section <NTB@dfat.gov.au> and the Australian Embassy in Israel <telaviv.embassy@dfat.gov.au> welcome information on any challenges Australian traders are facing.
- You can also explore DFAT’s FTA Portal ftaportal.dfat.gov.au and the Trade Barrier Gateway at tradebarriers.gov.au.

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Insight current as at December 2020.