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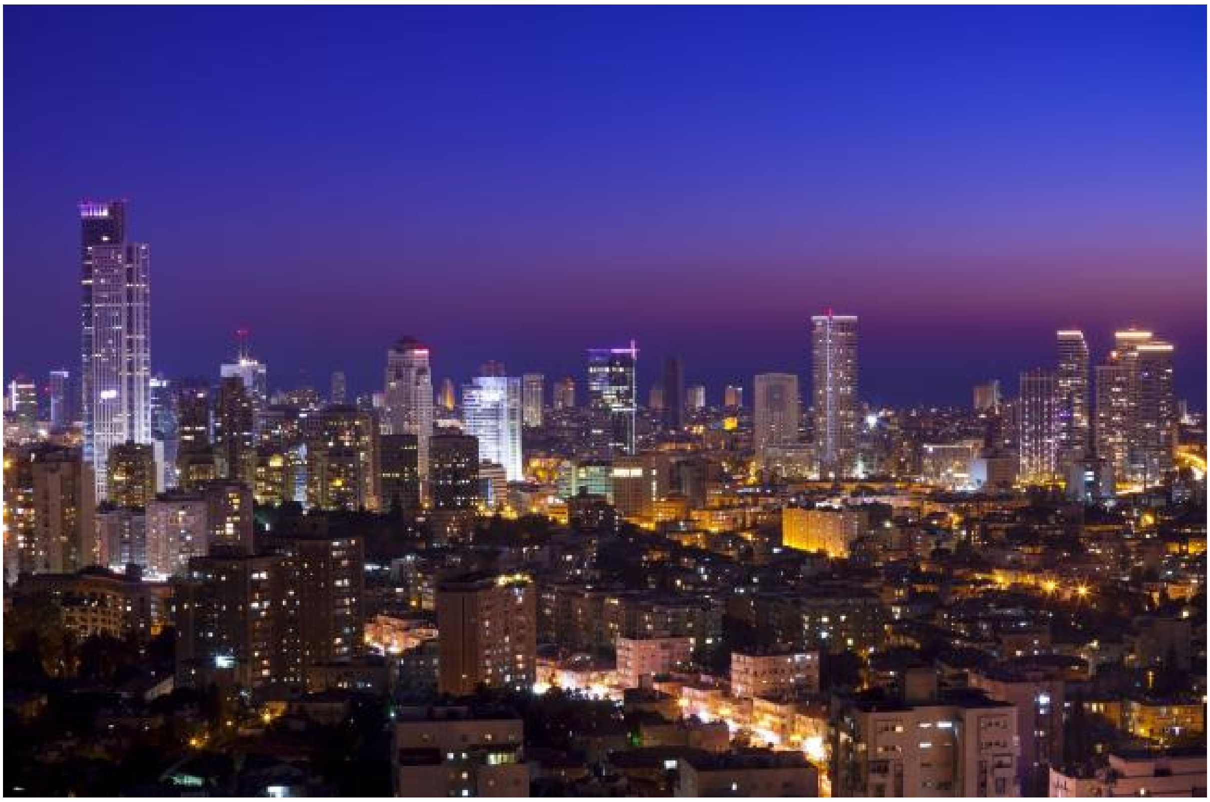
Trade and Economic Section



EU-ISRAEL TRADE BRIEFING

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GENERAL OVERVIEW

Israel is a small country with a population of 8.6 million inhabitants and with a relatively high GDP per capita of €34,300. The country has few natural resources (although a few years ago important amount of netural fas reserves were found in the Israeli waters) and is thus dependent on Trade. Israel's recent macroeconomic context represents a mix of good economic indicators and the pick-up in economic growth on the one hand and the growing economic and social disparities and weakening competitiveness on the other.

The 4% GDP growth, low unemployment rate (at 4.8% in 2016 down from 5.2% in 2015) ensuring practically fiull employment, decrease in the budget deficit and the fact that Israel managed to maintain its high credit rating, "A+/A1" with a stable forecast in November 2016, demonstrate stable economic fundamentals. At the same time the Israeli economy faces several challenges including the slowdown in investments, a decrease in exports of goods and services[1] reflecting a deteriorating competitive position pareticularly in the traditional food and manufacturing sectors, the increasing bottle-neck in high-skilled labour, the continued increase of housing and food prices[2] and the growing number of poor together with the high inequality in revenues. Besides the weakening competitive position, the strong Shekel constitutes an additional problem for Israel's exporters which the Bank of Israel (BOI) is attempting to combat by lowering the principal interest rate (currently 0.1%) as well as purchasing foreign currency (mainly US Dollars). Israel's fiscal situation is overall stable.

In view of the above, the government has committed to performing a comprehensive reform in order to liberalize the market both to improve competitiveness of the economy and to curb prices. However the process has so far been slow to implement these changes mainly due to strong vested interest both in the manufacturing and farming sectors mounting resistance to reforms. At the same time increasing public pressure to address the issue of the high cost of living and recent influential international recommendations on the economy seem to have reinforced the government's determination to continue and even accelerate the reform process. For instance the last OECD country survey of 2016 clearly noted Israel's falling competitiveness as one of the main shortfalls of the economy also leading to deteriorating export performance.

The Israeli Government has also made some attempts to diversify its trade from the EU and the U.S. mainly to Asian and South American countries (partially reflecting political intentions to be "less dependent on Europe"). However the EU is still and will for the foreseeable future remain Israel's largest trading partner for both goods and services.

	2013	2014	2015	2016

[1] Explained by the strong Shekel and the slowdown in Israel's main export markets
[2] According to the Knesset Research Center, food prices in Israel are 25% higher than in the EU

GDP Growth	3.2%	3.2%	2.5%	4%
Business GDP Growth	3.4%	3.1%	2.3%	4.2%
Private Consumption Growth	3.3%	4%	4.3%	6.3%
Public Consumption Growth	3.5%	4.2%	3.3%	3.8%
Inflation rate	1.8%	-0.2%	-1%	-0.2%
Unemployment rate	5.8%	5.6%	5.3%	4.8%

TRADE & INVESTMENTS FLOW

Trade in goods

Israeli trade in goods[3] has overall decreased in 2016 by 1.9% and the Israeli trade deficit increased by 14.4%, from €11.3 billion in 2015 to €12.9 billion in 2016. Israeli exports have decreased from €43billion in 2015 to €41.3billion (3.8% decrease) in 2016 while Israeli imports have increased from €51billion in 2015 to €54.2billion in 2016 (6.3% increase).

It should be noted that ten Israeli companies account for 51% of Israel's export. Changes in any of these company's export performance may have a substantial effect on Israel's total exports. This is especially evident with the recent upgrade of the Intel factory which temporarily limited its exports capacity or with the lower demand for pharmaceuticals in the UK (and in the EU in general) which hurts Teva's export. As a result, and also due to an increase of exports by other exporting (mainly high-tech) companies, the share in the export by the "Big Ten" companies decreased in 2016 to 47.3% and this lessening of the concentration signals a healthy structural shift in the Israeli economy.

Israel is one of the largest trading partners of the EU in the Southern Mediterranean area (globally Israel was the EU's 24th trade partner in 2016. It was ranked 26th among EU import partners and 19th among EU export partners)[4]. But with the most diversified bilateral structure of trade. The EU is Israel's first trading partner with total trade (export/import) amounting to €35.7billion in 2016, 12.5% more than in 2015 accounting for 37.3% of the share of Israeli foreign trade. In 2016, Israeli exports to the EU declined by 2% and Israeli imports from the EU increased by 22%. This represents a large increase in Israel's trade deficit with the EU due to a combination of factors including the weakening competitive position of some sectors, the exchange rate developments (strong Shekel) and the conjunctural decline in exports of chemicals. Exports to the US increased (mainly high-tech technologies and software products) and imports from the US decreased, while exports to Asia decreased and imports increased. Therefore and in spite of the impressive jump in the output of cutting-edge technologies (accounting yet for more than half of the countries export) overall these figures represent a further relative worsening of Israel's trade deficit for the third consecutive year already. But the increase in influx of venture capital and FDI mainly targeting the innovative local start-up sector largely largely compensate for this in the current account balance.

In 2016, import from the EU accounted for 43% of Israeli imports. Imports consisted mainly of machinery and equipment, vehicles, chemical products, precious stones and mineral products. Israeli exports to the EU accounted for 29.5% of Israeli exports. They were very diversified and consisted mainly of chemical products, machinery and equipment, precious stones, plastics and rubber, and optical and medical instruments.

[3] Trade data presented exclude trade in diamonds which are imported and exported from Israel mainly for processing and entail little economic benefit to the Israeli economy.
[4] Israel is the EU's 2nd largest trade partner among the Mediterranean countries with Algeria being the 19th largest trade partner in the Med region and Egypt, behind Israel, is the EU's 28th largest trade partner.

It is interesting to recall that the Ministry of Economy has few years ago forecasted that already in 2014 Asia would replace the U.S. as Israel's second export market after the EU, but this has actually occurred only in 2015. While in 2015, Asia was Israel's second export market with 24.5% of total exports, and the U.S. was third with 23.8%, in 2016 the U.S. became Israel's second export market with 27.9%, and Asia third with 22.3%.

(€[5] millions, 2016)	Export	Import	Trade Deficit
EU	12215	23568	-11353
USA	11562	6897	4665
Asia	9237	13980	-4743
Total (excl. diamonds)	**41378**	**54315**	**-12937**

While compared to other countries, particularly in the region in part, EU exporters may face less market access barriers in Israel the fact remains that the trading conditions have somewhat deteriorated in the past few years (as well illustrated by the fall in Israeli position in the *Doing Business* ranking from 30th place in 2008 to 52th place in 2016), and the traditional red tape issues in the form of, for instance, arbitrary standard setting and cumbersome import procedures, continue to persist. Aware of this the government approved in 2014 the recomendations of an interministerial committee, for further opening the domestic market by adopting international, mainly EU, best practices in the field of standards and import procedures as part of the overall reform process. The purpose was to boost the competitiveness of the Israeli economy and to urb prices. But clearly this market opening would over time also provide new opportunities for exporters to Israel. The EU is therefore actively involved in supporting this process through granting technical assistance and sharing best practices with the Israeli government in the form of TAIEX seminars and in the future possible TWINNING projects. A more ambitious plan to adopt a post market surveillance system modelling the EU practice did not materialize so far due to opposition by the local industry. A positive step in this respect was the governmnet's decision of December 2016 to gradually allow also private laboratories to perform quality and standard approval for imported goods, and to ensure a better balance between local producers, importers and the public, in the composition of standardization committees who traditionally have the tendency to set standards also with a view of to protecting their vested interest on the domestic market.

As for the trade figues it should be noted that large discrepancies continue to occur between trade data provided by the Israeli Central Bureau of Statistics and EUROSTAT. The matter was raised in the trade and service sub-committee meeting of December 2016 and there is and there is a commong understanding that common efforts should be made to resolve this issue.

[5] Figures in USD as in the original Israeli data, conversion to € is inaccurate due to exchange rate differences

Trade in services

In 2015[6] **EU exports of services** to Israel amounted to €7.3 billion and **EU imports of services** from Israel amounted to €4.6 billion. Israel was the EU 20th largest client in export of services globally, with a huge growth potential given the rapid development in the local services industry and in particular in the IT sectors. Israel's total service exports were 18% higher than in 2014[7] with the Israeli deficit leaping from €9.7 billion to €10.9 billion. The main sectors include transportation, travel, financial and ICT services.

[6] Data on trade in services is delayed both on EU and Israeli levels, 2015 is the latest data available
[7] DG Trade data

Foreign Direct Investments

The complete situation of foreign direct investments (FDI) in Israel is hard to determine as methodological differentiation exist between information sources. Despite this, a general trend can be identified whereby the EU is the lead target destination for Israeli stock investments abroad and is one of the major sources of FDI in Israel. However the position of EU FDI in Israel and investments through other mechanisms, such as venture capital (VC) or mergers & acquisitions (M&A), is lagging behind other partners, notably the US. This is particularly striking in the high-tech/start up part of the Israeli economy, adding that in the past two years or so a surge in EU operators' involvement can be observed and some EU Member States are actively encouraging this trend.

FDI Flows[8]

On FDI flows there is no consistent image either on volume or on partner country. EUROSTAT and IMF figures show fluctuations every year and no trend can be identified. Despite the lack of consistency, it can be seen that FDI flows between the US and Israel exceed those between the EU and Israel. This can be explained by the substantial presence of American Multi National Corporations (MNC) and Venture Capital in Israel and their high stake in Israeli companies through direct investments.

(€ millions)	2010	2011	2012	2013	2014
FDI Inflow	631	570	757	4612	1582
FDI Outflow	4402	926	2559	1576	2761
Balance	**-3771**	**-356**	**-1802**	**3036**	**-1179**

FDI Stocks[9]

FDI in stock flows in and out of Israel have been growing continuously since 2001 through 2015. According to EUROSTAT and IMF data, the EU accounts for a substantial 40% of all outgoing Israeli investments followed by the US with 20%. For incoming investments into Israel, the share of the EU is 20%, similar to that of the US. The Israeli deficit with the EU has slightly decreased in 2015 after being stable in 2010-13 and increasing in 2014.

(€ millions)	2010	2011	2012	2013	2014	2015
FDI Inward	7117	8408	10749	11100	13800	16500
FDI Outward	25782	26809	27982	32200	43400	45200
Balance	**18665**	**18401**	**17233**	**-21000**	**-29600**	**28700**

[8] EUROSTAT data
[9] EUROSTAT data

FRAMEWORK FOR EU TRADE RELATIONS WITH ISRAEL

Association Agreement (AA)

The legal basis for the bilateral relations is the EU-Israel Association Agreement (AA), which entered into force in June 2000. The AA is, first of all, a comprehensive FTA. On top, it aims to provide an appropriate framework for political dialogue, allowing the development of close political relations and others forms of cooperation between the Parties.

European Neighbourhood Policy (ENP) Action Plan

In 2005, the EU and Israel signed an Action Plan in the ENP framework. The ENP's objective is to gradually integrate Israel into EU policies and programmes. Each step taken is determined by both sides and the Action Plan reflects the priorities and interests of the Parties.

In 2009 the EU suspended the decision of upgrading relations (i.e. negotiating a more ambitious Action Plan) following operation Cast Lead in Gaza and the stalemate of the peace process[10]. As a result, the validity of the EU-Israel Action Plan, which technically expired in 2008, has been extended regularly ever since (lastly, until end-2016). In the context of the "non-upgrade", bilateral relations continue on the basis of the 2000 Association Agreement and the 2005 Action Plan. At the 2012 Association Committee the parties agreed on further work on over 60 specific cooperation initiatives, some of which in trade and internal market related areas, that were included in the 2005 ENP Action Plan but were not implemented. Launching over 20 new potential areas for future cooperation remains conditioned on progress in Middle East Peace Process.

According to the FAC conclusions on the Middle East Peace Process (MEPP) of 16 December 2013 which were reaffirmed on 18 January 2016, the EU will provide an unprecedented package of European political, economic and security support to both parties in the context of a final status agreement. In the event of a final peace agreement the European Union will offer Israel and the future state of Palestine a Special Privileged Partnership including increased access to the European markets, closer cultural and scientific links, facilitation of trade and investments as well as promotion of business to business relations. Enhanced political dialogue and security cooperation will also be offered to both states. The exact features of this Special Privileged Partnership are still to be defined. The reaction by Israel to this offer so far was rather reserved as they are reluctant to accept the direct link between the development of bilateral relations and progress in the MEPP.

The recent (November 2015) ENP review has opened the process of setting new priorities for cooperation between the EU and Southern Neighbourhood Countries including Israel. These priorities are to be discussed first at the highest level, in Israel's case, at the yet unschedualed next EU-Israel Association Council meeting.

[10] A statement of the Association Council of 2009 referring to the FAC conclusions of 2008 reads as follows: "That upgrade must be based on the shared values of both parties, and particularly on democracy and respect for human rights, the rule of law and fundamental freedoms, good governance and international humanitarian law. The upgrade needs also to be, and to be seen, in the context of the broad range of our common interests and objectives. These notably include the resolution of the Israel-Palestinian conflict through the implementation of the two-state solution, the promotion of peace, prosperity and stability in the Middle East and the search for joint answers to challenges which could threaten these goals".

Agreement on Good Laboratory Practice (GLP)

The EU and Israel have signed an Agreement on Good Laboratory Practices (GLP) which came into force on 5 May 2000. The agreement aims to ensure the high quality, validity and reliability of health and environmental data generated during the testing of cosmetics, industrial chemicals, pharmaceuticals, food additives, animal feed additives, pesticides by means of mutual recognition of OECD principles of good laboratory practice(GLP) and compliance monitoring programmes.

ACAA

On **free movement of goods and technical regulations**, the EU and Israel signed in December 2009 an **Agreement on Conformity Assessment and Acceptance of Industrial Products** in Good Manufacturing Practice (GMP) for pharmaceuticals, which was one of the priority sectors defined by Israel in the Action Plan. The Agreement, which entered into force in January 2013, **constitutes an important step towards Israel's integration in the Single Market** by allowing pharmaceutical products attested as compliant with EU procedures to be placed on the Israeli market without any further approvals, and vice versa. This was the first ACAA in the Euromed region and can hopefully serve as an example on how this opportunity can be used by our trading partners in the Neighbourhood.

During the Trade and Services sub-committee meeting in December 2016, the Ministry of Economy and Industry expressed again Israel's interest in expanding the GMP annex by adding medicinal products derived from human blood and plasma. EU indicated that it would first need more detailed information based on the EU's questionnaire sent earlier before holding an expert meeting to explore the feasibility of such request. As for ACAA on **pressure equipment and medical devices, i**nternal discussions were reportedly ongoing in Israel on the first one being more advanced. Israel is supposed provide additional information on the state of play of the different legislations. While the ACCA on pharmaceuticals did not necessitate adopting the horizontal quality infrastructure and market surveillance system, further sectors will need deeper reforms. An official request on these sectors is pending internal regulatory processes.

EU-Israel Open Skies Agreement

The EU and Israel have signed on 10 June 2013 a **Euro-Mediterranean Aviation Agreement**. The agreement allows all EU airlines to operate direct flights to Israel from anywhere in the EU and Israeli carriers will be able to operate flights to all airports throughout the EU. The EU-Israel air transport market will be opened gradually so that by 2018 the market will be fully open with no restrictions on the number of flights.

The agreement is definitely a great success. A report by the Israeli Civil Aviation Authority in early 2017 noted that 3.1 million more passengers flying between the EU and Israel since 2012 (+44 %); an increase in number of city-pairs; high penetration of low cost air carriers

(Rynair, Wizzair, EasyJet) and marked decrease in prices. The strongest growth in traffic is concentrated in in someof the emerging destinations such as Cyprus, Romania, Bulgaria, Czech Republic and Greece, while the main EU destinations remain Paris, London (Luton) and Rome

It should be noted that initial fears by El-Al, Israel's national airline, that it will lose market share once the agreement came into force did not materialize. Recent information from the Israeli Civil Aviation Authority (ICAA) indicates that actually the opposite has occurred and El-Al has strengthened its position by both improving efficiency and introducing a low-cost brand to compete with the new actors on the market.

In June 2016 Israel joined EUROCONTROL the European body for the coordination and and security of civil aviation in order to better integrate into the European aviation system and to ensure the efficient management of this increased traffic.

Agriculture

Since the entry into force of the EU-Israel Association Agreement in 2000, the parties signed two agreements which have further liberalized trade in agricultural products, notably processed agricultural products and fish and fishery products. The last agreement entered into force in 2010. The Agreement contains a review clause for the end of 2012. However, during the 8th EU-Israel subcommittee meeting on Agriculture and Fisheries in November 2013, Israel expressed its preference to further open up the markets for only a very limited number of products rather than go for full liberalisation. This position was reaffirmed at the subcommittee meeting of December 2015. The EU clarified that such a "pick-and-choose" approach is not accepted and the launch of further negotiations will be only possible on a comprehensive basis involving products of interest for both sides.

In recent years, and mainly following the 2011 public protest against the high cost of living, the Israeli government decided to review and reform government policies conducive to high prices. An important part is devoted to increasing competition in the agriculture sector. The last OECD country survey also stressed the need to take action, recommending the government to replace quotas, guaranteed prices and customs tariffs with direct payments for farmers. In the 1st quarter of 2016, the government announced a major reform reflecting some of the OECD recommendations. The planned reform, which was supposed to be implemented in 2017, covered all agricultural goods – fruits, vegetables, fish, meat, eggs, dairy products and frozen vegetables.

The EU has been trying to actively encourage the ongoing reform process mainly through sharing our best practices, as requested by the government. In 2016 an ENPARD seminar took place in the Ministry of Agriculture with EU experts to share EU best practices including on subsidization of agricultural production to the Israeli government, farmers and other stakeholders. The evolution of the CAP, which went through a similar shift from farmers' price support to direct payments, was the model discussed.

In this context it is also worth noting that in 2016 the government has occasionally increased duty free quotas on imports of meat, fish, fruits, vegetables and eggs, although those were seen as temporary measures, until a "Grand Plan" of a comprehensive reform is adopted.

However, from mid-2016 onwards, the agricultural sector has started to mount increasing resistance against these reforms and has exerted heavy pressures on the Government and the Knesset. At the moment of completing this report (May 2017), it seems that the farmers had the upper hand for the time being almost all the planned measures have been postponed. The Ministry of Agriculture has nevertheless invited ENPARD experts to a seminar in June 2017 and the government is also seeking advice in Brussels concerning regulatory reforms in the field of agriculte. This may indicate that the policy preparations continue in the expectations that the political context will evolve.

Customs and Trade Facilitation

In the area of **customs,** Israel completed an Authorized Economic Operator (AEO) pilot project. Direct benefits of the AEO status include less probability of checks, paperless procedure including electronic signature, direct contact point at customs office and customs clearance before the goods have arrived. Israel has for the time being 24 certified operators and 30 applicants. An ambitious ongoing project, titled “Sha’ar Olami” (Global Gate), will realize a single window information system for managing Israel’s foreign trade. The system will make customs clearance processes more efficient, simpler and cheaper, while contributing to improved enforcement. The first implementation phase has been completed in 2014 and the system is currently in its pilot phase where both the old and new systems work in parallel. At the last meeting of the joint Subcommittee on customs and Taxation the Commission took note of Israel’s reiterated interest to conclude a Mutual Recognition Agreement (MRA) with the EU. In Israel, there is only one type of authorization combining both security/safety and customs simplifications aspects. Benefits for Israeli AEOs include reduced controls (with a preference for documentary examination), a direct contact point at the customs, paperless procedures, pre-clearance and pre-arrival processes and mutual recognition of other AEO programs.

MARKET ACCESS & TRADE IRRITANTS

In its attempt to reduce cost of living in Israel, there seems to be an overall effort by Israel to move closer towards international, notably EU standards and best practices and to open up its economy to more competition. This seems to contribute in certain areas to removing earlier trade irritants for EU operators.

Imports of Kosher Meat

Israel bans the imports of non-kosher meat (with a limited exception for some non-kosher meat products of around 1,200 tons annually) while it allows the domestic production and marketing of non-kosher meat. According to the law, all meat imported to Israel must be certified as Kosher solely by Israel's Chief Rabbinate, ehich insists that the slaughtering must be performed and supervised by its representatives from Israel. As part of the effort to curb food prices, Israel has recently expressed interest to import more meat from the EU, provided they fulfil the Kosher requirements and are supervised by the Chief Rabbinate. Indeed, in September 2015, large quantities of fresh meat were exported for the first time from Poland. The EU asked the Chief Rabbinate for recognition of kosher slaughtering done by Rabbis in Europe, with the purpose of reducing the cost of the Rabbinate's supervision, but it seems that the government is not in a position to move on this issue due to internal political considerations (the Orthodox parties are part of the governing coalition). An information session for potential Israeli importers and European exporters, co-organized by the Chambers of Commerce, the Imposrt Division of the Ministry of Economy and the Delegation, was held in November 2016, in order to encourage imports of meet from the EU. One of the main obstacles which was widely referred to by the participants was the high cost of kosher slaughtering.

Goose Liver and Furs

The Israeli Government approved in 2013 a draft bill imposing a ban on commercial imports of foie gras. Since then, no progress has been made and the legislation was not promoted further. The Delegation is in contact with the EU MS Embassies most concerned to monitor the situation and continue putting pressure on the Israeli authorities to prevent such a ban from entering into force.

Similarly, several draft bills have been circulating in recent years aiming to ban trade in fur products. Due to pressure exerted by the industry, the Delegation and relevant MS, also referring to doubts regarding the WTO compatibility of the proposed legislation and from the Orthodox parties within the coalition (fur is used for the Orthodox men's hats), the legislative process has been frozen. From time to time private draft laws are submitted (the last one was on February 2017), but did not receive the approval of the government. Also, no progress in the legislative process of the government draft bill has taken place since 2013.

Medical Devices Imports from Post 2004 MS

A market access issue has been repeatedly raised by some post 2004 EU MS concerning the imports of Medical Devices. The matter was most recently discussed at the December 2016 EU-Israeli Subcommittee on Trade and Services. Basically there is an alleged discrimination among EU MS in the import authorization procedures by the Israeli authorities (Ministry of Health) as apparently they refuse to initiate such a procedures if the EU medical device producer has a certificate of conformity issued by a notified body in one of the post 2004 EU MS (and Luxemburg). Basically the Israeli authorities have established a list of "recognized countries" from where such certificates are accepted. And this list apparently excludes half of the EU membership. In addition recently indication was received from an EU medical device producer based in an "old MS" that their products which fulfill EU norms as well as approved national standards are either not authorized to enter the Israeli market or only for restricted sale. The EU side is stepping up efforts to address this issue and is in regular contact with the relevant governmental authorities in coordination with EU MS.

Biological Medicines

Biological medicines – which development and production requires long term investment - constitute an increasingly important sector for the EU pharmaceutiacal industry. In Israel (unlike for traditional chemical drugs where they have accepted obligations upon acceding to the OECD) there is a lack of formal data exclusivity (IPR) protection for biological medicines. In the EU the length of such protection is 11 years (in the US 12). As the current situation is detrimental for the long-term economic interest of EU pharma companies based or exporting to Israel the EU. Thus in April 2017 the EU Ambassador has sent a letter to the Doirector General of the Ministry of Health (with the Ministries of Economy and Finance in copy) outlining the EU clearly stressing the need for duly protecting data for biological medicines. This issue was also raised by the EU Ambassador in a meeting with the Minister of Economy and Industry in mid May 2017. The Israeli government has initiated and inter-governmental process to assess the way forward in this context.

Nutrition Labelling

In March 2017 the Ministry of Health published a new regulation that will compel food manufacturers to include clearly visible nutritional profiling on food labels on the front side of the package, in order "to encourage increased health awareness". The new regulation will forsee a red symbol for certain unwanted ingredients such as trans fats, excess salt and sugar. A green symbol will signal a recommended item in the hope of encouraging shoppers to opt for more healthy food shopping. The implementation of the new regulation will be gradual from now to 2020, but at the current stage the Ministry of Health is still asking for the public's comments. According to several indication including a letter by the President of the Israeli Federation of Chambers of Commerce addressed to the EU Ambassador the importers strongly oppose this proposed regulation. Their main comment are that the regulation is based on a specific model partially introduced in Chile, which is not in line with European and U.S. regulations. And global food producers will not change the design of the packaging for a small market like Israel, and the importers will have to put the new labels on each product before releasing them to the market. This will inevitably lead to increased costs and is against the government policy to reduce bureaucratic requirements discouraging import and therby also increasing the cost of living. Local producers claim, that if importers will be exempted from implementing the new regulation, they will fight in order to be exempted as well. In April 2017 the Israeli authorities had submitted a formal notification to the WTO TBT Committee. As some EU MS have already flagged concerns with the planned measure the EU side is closely assessing whether it is in line with Israel's international obligations uner the WTO TBT Agreement.

Other Potential Irritants

A) Frozen meat – According to the Embassy of the Netherlands, the shelf life requirements of frozen meat in Israel are much shorter than in the EU the issue is under inspection of the EU Delegation.

B) Food supplements - According to the Embassy of Denmark, a Danish company faces many difficulties in obtaining the Ministry of Health's requirements regarding market stability test for the imports of Ginseng.

C) Procurement – Under the Government Procurement Agreement of the WTO (and as per its last revision of 2014) Israel is ganted derogation to the commitment not to set local content requirements (off-set, buy-back obligations) when awarding a public procurement contract to foreign operators but without forcing them to accept economically non-viable commitments. Thus currently the Israeli has free hands and using this possibility (through the so called called Investment Promotion and Industrial Cooperation Agency) to strongly encourage foreign contractors to buy and produce locally. And in spite of the fact under the derogation there is a gradual phase-out of the arrangement forseen starting as of 2019 in the recent period they seem to reinforce the implementation of these obligations vis-à-vis foreign firms.

D) Cars – European car manufacturers have complained that the new law that puts on the official importers the obligation to adhere to the warranty, service and recall cars even if the cars came into Israel through paralle importers. The law has the potential to hurt their revenues and ability to properly service their clients. It should be noted that concerned EU MS have refused in the past to write an EU-led demarche to the Israeli authorities.

E) The Delegation received complaints regarding measures imposed on imports of veterinary medicines into Israel. All medicines shall be shipped in a temperature controlled environment, monitored by temperature loggers. This procedure also applies to veterinary medicines that are not temperature sensitive and applies also to internal shipments.

Israel is apparently the only country that requires temperature data loggers for medicines that are not temperature sensitive although the Ministry of Health claims that all pharmaceuticals are to a certain degree temperature sensitive. A joint VC as well as exchange of information took place to discuss this issue between the Ministries of Health and of Economy on the one hand, and DG TRADE and DG SANTE on the other. Israel agreed to allow the use of other control measures, and to publish a notification in this respect for importers. This has not been done yet. The delegation is following the matter.

F) **New AD investigation against an EU operator** – Israel initianted an AD investigation on 27/9/2016 following an AD complaint alleging that Cocoa Spread is being imported to Israel at dumped prices. Israeli Ministry of Economy and Industry (Import Administration) received The EU COM has requested to be registered as an interested party in the procedure. In April 2017, Israel's AD authorities decided not to impose provisional measures in this case, and in May they decided to prolong the day for final decision to the end of September 2017.

SETTLEMENT PRODUCTS

The EU's longstanding policy regarding Israeli settlements in occupied territories is to consider them illegal under international law; they constitute obstacle for peace and gradually render a two state solution impossible. The EU position on settlements products has been reiterated and supported in several instances (i) the Brita judgement of the ECJ, (ii) the FAC conclusions of 14 May 2012, which state that: "The EU and its Member States reaffirm their commitment to fully and effectively implement existing EU legislation and the bilateral arrangements applicable to settlement products. The Council underlines the importance of the work being carried out together with the Commission in this regard." and (iii) the FAC conclusions of 10 December 2012, which state that: "the European Union and its Member States reiterate their commitment to ensure continued, full and effective implementation of existing European Union legislation and bilateral arrangements applicable to settlement products."

There are four related issues regarding the imports of settlement products into the EU:

1. Ensuring non-preferential tariff treatment under EU rules of origin
2. Labelling of settlement goods
3. Certification of organic agricultural products exported from settlements
4. Certification by the Veterinary Service of products of animal origin exported from settlements

Non-Preferential Treatment

On the basis of the EU-Israel Association Agreement, all manufactured goods and nearly all agricultural goods are imported into the EU from Israel free of customs duties. However, customs duties need to be paid for goods produced in areas under Israeli control beyond the Green Line.

Since 2004, a Technical Arrangement between the EU and Israel has been in place which clarifies, by means of postcodes of the place of production, those localities from which products may not benefit of preferential duty rates. At that time a list of "non-eligible" postcodes was internally distributed to the customs authorities of the EU Member States in order to assist them in ensuring implementation of this arrangement.

In order to create greater transparency and legal certainty for EU importers, the European Commission published, in August 2012, a notice for EU importers with an updated list of these postcodes. The list has been updated further as of 1 February 2013, as Israel moved to a 7 digit postal code system from the earlier 5 digit system. On February, May and July 2015, an updated list has been implemented by DG TAXUD, containing new postal codes. For a reduced number of codes covering both sides, operators will have to consult the customs services in their respective country and the EU Delegation in Tel Aviv will provide advice in cooperation with the Israeli Customs. Since August 2012, this happened only twice, due to a repeated mistake by the exporter when declaring the postal code. The Israeli customs cooperated with the Delegation to verify the exact location of the production.

Due to the new 7-digits system, it became almost impossible for the Delegation to follow the expansion of settlements including in Jerusalem and to update the list accordingly. As agreed with the Headquarters and since the update is crucial to the functioning of the 2004 arrangement, in August 2015 the Delegation raised the possibility to enter into negotiations with the Israeli Authorities (MFA, Customs and Ministry of Economy and Industry) on an arrangement by which the Israeli Customs would agree to stop certifying preferential origin by means of certificate of origin (EUR1 / EUROMED) for products originating from territories brought under Israeli administration since June 1967 or by granting the status of approved exporters for producers exporting products originating from those territories. As no progress was made, the Delegation has officially put on the table in December 2015 a proposal for changing the reliance on the zip-code system to official numbers of localities in Israel and beyond the Green Line. These numbers are easy to follow and no update is necessary. The Ministry of Economy's response was to suggest that in the current political atmosphere (reference to the tension over the EU measure to label products originating from Israeli settlements – see under next section) between Israel and the EU this is not feasible and offered the Delegation to purchase zip-code updates provided by the Israel Postal Company. The issue is currently looked at by HQ.

Labelling

In the conclusions of the FAC of May 2012, the EU and its Member States reaffirmed their commitment to fully and effectively implement existing EU legislation applicable to settlement products. This includes labelling the products originating in Israeli settlements in the occupied territories. This is in line with a long-standing and consistent EU policy with regard to the issue of the occupied territories.

Labelling of goods is also an essential part of the EU's consumer policy. Within this policy, the general principle is the voluntary character of indication of the place of origin on products, with the possibility for mandatory rules in certain specific cases, such as fresh fruits and vegetables, wine, etc. It is up to the national enforcement authorities to verify the correct application of this rule, in order not to mislead consumers. The U.K. has implemented labelling on settlements products since 2009.

In April 2015, foreign ministers from 16 EU countries have signed a letter to the HRVP Mogherini, requesting she expedite moves to ensure the clear labelling of goods produced in illegal Israeli settlements and sold in the EU. At that time, labelling was required only by the U.K., Denmark and Belgium.

On 11 November 2015, The EC adopted an interpretive notice on the indication of origin of goods from the territories occupied by Israel since June 1967. The interpretative notice clarifies certain elements linked to the interpretation and the effective implementation of existing EU legislation. The EU legislation on indication of origin is very clear: "Made in Israel" used for the products coming from Israeli settlements misleads the consumer and therefore is inconsistent with existing EU legislation. The interpretative notice provides some examples of indications of origin which could be used instead. The implementation of these rules remains in the hands of national enforcement authorities.

As expected, the Israeli Authorities strongly criticized the EU's note and any plan of labelling Israeli settlement products. The media and the public opinion of the note were mostly negative. By early 2016 the uproar has subdued but seems to have left a lasting impact on the EU's perception in Israel but this pressure subdued later in the year.

Certification of Agricultural Products

The EU's position on exports from settlements is reflected also in this field.

Conformity Certificates

Imports of fruit and vegetables from third countries should conform with the marketing standards or with standards equivalent to them to prove that they are of sound, fair and marketable quality. Israel is a third country for which the conformity checks have been approved under Article 15 of Implementing Regulation (EU) No 543/2011. Israel may therefore issue conformity certificates. The Commission clarified in its implementing regulation No 594/2013 of 21 June 2013 that the territorial coverage of the certificates is limited to the territory of the State of Israel excluding the territories under Israeli administration since June 1967, namely the Golan Heights, the Gaza Strip, East Jerusalem and settlements in the West Bank.

Organic Certifications

In accordance with the specifications set out in Annex III of Regulation (EC) No 1235/2008, Israel is recognised for the purpose of equivalence as far as certification of organic products exported to the EU.

Following an EU request, following an FVO mission, as of 1.2.2014, Israel has stopped certifying organic products that are grown, packed or processed in the territories beyond its pre-1967 borders.

Certification of Products of Animal Origin

Milk and Dairy Products

Israel is among a few third countries which are allowed to export certain dairy products to the EU according to article 4 of Regulation 605/2010 laying down animal and public health and veterinary certification conditions for the introduction into the European Union of raw milk and dairy products intended for human consumption.

Following an EU request, following an FVO mission, as of 31.12.2014, Israel stopped exporting to the EU milk and dairy products from the settlements or incorporating raw material from the settlements.

Poultry

Following an EU request, as of 1 January 2015, Israel stopped certifying exports of poultry from settlements to the EU.

Eggs and Fish

Following the EU's request, the Israeli Ministry of Agriculture stopped exporting eggs and fish from the settlements as of 1.11.2014.

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