



Recommendations to President Trump and the 115th Congress:

BUILDING A U.S.-ISRAEL STRATEGIC ECONOMIC PARTNERSHIP:

A framework to re-energize bilateral commercial relations

February 2017



U.S. CHAMBER OF COMMERCE
U.S.-Israel Business Initiative

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Israel and the United States have built an extraordinary economic partnership based on high-impact commerce, innovation, and trade. This world-leading collaboration is the result of the hard work and genius of U.S. and Israeli entrepreneurs and innovators – and has been supported significantly by pioneering policy decisions made decades ago by the two governments.

Yet the U.S.-Israel relationship is often viewed exclusively in terms of our security ties, as exemplified by the 10-year military Memorandum of Understanding signed in September 2016. The relationship, however, is becoming increasingly complex, multifaceted, and driven by shared interests in the economic domain.

To the great benefit of the United States and Israel, our bilateral business ties have never been deeper. Commercial ties are contributing to our economy, creating thousands of jobs in the United States, and driving game-changing innovation in water, energy, health care, cybersecurity, and beyond. These commercial ties bolster our shared national security goals.

Bilateral trade has grown significantly since the U.S.-Israel Free Trade Agreement went into force in 1985. Between 1985 and 2014, two-way trade in goods expanded more than eight-fold – from \$4.7B to \$38.1B. The U.S. and Israel also make significant investment in each other's economies. In 2013, cumulative U.S. investment in Israel was \$9.5B – the same value as Israel's cumulative investment in the United States. Bilateral innovation links have also been significantly intensified in recent years as well. More than 10 innovation MOUs between Israel and U.S. states have been signed, new cooperative dimensions and funds are supporting the Israel-U.S. Bilateral Research and Development Foundation (BIRD) in areas such as homeland security and energy.

But there is much more that can and should be done. The following paper proposes the creation of a **U.S.-Israel Strategic Economic Partnership**, a new policy framework that recommends deepening collaboration on innovation, establishing a High-Level Economic Dialogue, cooperating on regulatory issues and standards, and upgrading our trade ties. Taken together, these ideas can help boost our economic and commercial ties to new heights.

(1) President Trump and Prime Minister Netanyahu should jointly meet with business leaders

We applaud President Trump for inviting Prime Minister Netanyahu to the White House. A bilateral meeting in Washington within the first 100 days demonstrates the importance of the U.S.-Israel relationship. Building on this visit, we recommend that on his next trip to Washington, President Trump and Prime Minister Netanyahu meet jointly with business leaders to discuss the opportunities and challenges in the U.S.-Israel commercial relationship. This forum will create a visible platform in which to convene government and business and ensure a common purpose in elevating the commercial relationship as a pillar of our overarching strategic alliance.

(2) Create new institutional arrangements between the two governments on economic issues

The United States and Israel collaborate extensively on commerce and innovation. But, unlike many other trading partners, the two governments lack a permanent, high-level body charged with taking a holistic policy approach to key economic issues. Existing government-to-government dialogues don't cover the full spectrum of bilateral economic policy or include all the relevant government entities. These multiple and loosely coordinated arrangements make it difficult to realize the full potential of U.S.-Israel economic cooperation. This is especially true for complex, crosscutting, economic

challenges which require a comprehensive approach to issues of commercial, regulatory, trade, and innovation policy, as well as close coordination with the business sector.

Recommendations:

- **Establish a High-Level Economic Dialogue (HLED).** The HLED would provide a flexible, government-to-government platform to deal comprehensively with the full range of bilateral economic, trade and competitiveness issues. It would be led by senior officials at the White House and Office of the Prime Minister and include other agencies relevant to topical discussions. The HLED would consist of annual meetings, alternating between Jerusalem and Washington, led by the President and Prime Minister or their designees. By raising the level of bilateral economic cooperation, the HLED would broaden the scope of consultations and could help drive greater accountability among government participants. Existing bilateral trade and economic collaborations among expert groups will be coordinated under the HLED. This positive, comprehensive, and cooperative dialogue will be modeled after U.S. dialogues with countries like India and China and form a new framework for government-to-government interaction on a range of economic issues.
- **Launch an annual HLED business conference.** The HLED would sponsor—together with leading U.S. and Israeli business organizations—an annual HLED Business Conference. This bilateral business-to-government conference would take place in conjunction with the HLED’s annual meeting and would provide a structured and direct opportunity for business to provide detailed input and advice to the HLED and working groups.
- **Establish interparliamentary committee focused on innovation and commercial issues.** A Congressional-Knesset Committee in parallel to the High Level Economic Dialogue could also be formed to consider ways and means to enhance the commercial relationship. The bilateral relationship is heavily oriented toward strategic security issues but we should also be trying to draw more Congressional attention to the business matters that can help form a more diverse and, therefore, stronger bond. A U.S.-Israel Interparliamentary group was formed in 1998 and seems to have been re-energized with a national security focus in subsequent years. Given new opportunities in the relationship as described in the 2014 U.S.-Israel Strategic Partnership Act, a bilateral legislative committee would re-energize and re-focus policymaking with regard to U.S.-Israel commercial issues.

(3) Launch working groups to advance collaboration in key sectors

Under the auspices of the HLED, special working groups in a limited number of key areas could be created, including those outlined in the U.S.-Israel Strategic Partnership Act of 2014, such as cybersecurity, energy, water technology, and health care. Working groups will be managed by applicable departments, agencies, and ministries and report into the HLED.

Recommendations on scope of working groups:

- *Cybersecurity* – To promote bilateral cooperation on cybersecurity R&D and discuss standards and best practices for cyber protection, response, and resilience.

- *Energy* – To realize creation of a U.S.-Israel Energy and Water Center as authorized by Congress and to create a mechanism for collaboration between governments, academia, and the private sector on energy security issues, policy priorities in developing natural resources in Israel, best practices to secure cyber-energy infrastructure, energy and regional stability, and technical/environmental/regulatory considerations in managing deep water exploration.
- *Water*– To promote bilateral cooperation between the U.S. and Israel on water policy and technology to help the U.S. address water challenges in areas such as water infrastructure, agriculture, standards for digital water solutions, and cybersecurity for critical infrastructure.
- *Innovation policy*— To encourage, facilitate, and organize regular exchange of ideas on public policies that encourage innovation, including reviewing ways to deepen U.S.-Israel innovation ties.
- *Health*– To promote bilateral medical research, adoption of innovative health solutions and technologies in the U.S., and implementation of public policies that help improve public health.

(4) Advance U.S.-Israel trade relations

In 2015, the United States and Israel celebrated the 30th anniversary of the FTA—pioneering deals that drove significant trade expansion and is still a pillar of the countries’ impressive economic ties. But, after 30 years, the FTA is also showing its age.

Recommendations:

- **Commit both countries to negotiate new trade disciplines—beginning with modern rules for digital trade and technical barriers to trade—and additional targeted supplements to the FTA.** As global leaders in information technology and the digital economy, the United States and Israel should be international leaders in adopting pro-competitive, cutting-edge rules to promote e-commerce and open digital trade—including strong rules to assure cross-border data flows and to prohibit the “localization” of data storage and processing.
- **Eliminate current administrative, customs, and logistical barriers to trade.** For example, modernizing outdated customs rules—such as requirements for commercially printed hard copies of FTA Origin Certificates—could facilitate trade, especially for small U.S. and Israeli traders.
- **Expand joint efforts to foster trade in Israel’s region.** The Joint Committee—in close collaboration with the U.S. and Israeli business communities and other government entities—should develop concrete plans for increasing the utilization of the QIZ program in Israel’s region. Such plans could include expanding the program in Egypt and Jordan, extending similar initiatives to additional countries, such as Turkey, and encouraging new manufacturing sectors to utilize QIZs.

(5) Intensify collaboration on innovation

Israel and the United States have jointly built an extraordinary, world-leading innovation ecosystem that supports the rapid and effective commercialization of cutting-edge technologies. To maintain their

technology leadership and expand economic opportunities, the two governments must advance new approaches to supporting entrepreneurs and innovators. In doing so, they must address two sets of challenges.

First, it is vital that policymakers “do no harm” to the bilateral innovation ecosystem. The U.S.-Israel technology ecosystem succeeds in significant part because of government policies that strongly support commercial R&D, while also taking a “low-touch” approach to regulation. The two governments must maintain this supportive philosophy while working diligently to assure that regulatory, tax, and other policies not create impediments to commercial innovation.

Second, to maintain their technological leadership—in a world where countless competitors are seeking to create the next Silicon Valley—the United States and Israel must intensify their collaboration on innovation. Among other things, this will require expanding collaboration in new and emerging technical fields, and deepening relationships among the array of players—including entrepreneurs, business, innovators, government, and academia—that are vital for successful commercial innovation.

Recommendations:

- **Require bilateral consultations on the “innovation impact” of laws and regulations.** The HLED process should specifically include regular consultations on proposed or current policies, laws, or regulations in either country that could have a significant impact on the bilateral innovation ecosystem.
- **Commit the United States and Israel to increasing resources available to support joint commercial R&D.** This commitment should include efforts to better leverage existing government resources (BIRD grants, federal laboratories, state innovation programs) to support U.S.-Israel commercial R&D in a range of sectors, prioritizing and expediting MOUs between the U.S. and Israel under the pending bilateral Science and Technology Agreement, and increased funding for successful collaborations in areas like the Israel-U.S. Binational Industrial R&D Foundation (BIRD), U.S.-Israel Binational Agricultural Research & Development Fund, and U.S.-Israel Binational Science Foundation.
- **Commit the two countries to an ongoing initiative to improve the bilateral business environment.** This initiative would, among other things, examine the feasibility of pro-business updates to the countries 1990-era double taxation treaty and the impact of recent tax proposals, consider concrete steps to enhance the business environment for investors, and explore bureaucracy-busting initiatives, such as single regulatory windows.

(6) Enhance U.S.-Israel regulatory cooperation

Regulations and standards—which were not addressed in the 1985 FTA—also pose significant barriers to U.S.-Israel trade and economic cooperation. Israel, for example, has historically aligned its technical standards with EU requirements, which can complicate trade in goods based on U.S.-oriented international standards developed in U.S.-domiciled development organizations. U.S. government and business officials have also repeatedly noted that the regulatory process in Israel can lack coherence, coordination, and transparency.

Israel readily recognizes the need for greater coherence, transparency and stakeholder participation in its regulatory system, and has recently taken ambitious steps to reduce regulatory burdens, require conformance with international standards, and mandate advance notice of regulatory plans. But more is required to assure that the benefits of these and other regulatory reforms are extended fully to U.S.-Israel trade and commerce. As noted above, the Framework would mandate negotiation of a modern and comprehensive technical trade barriers supplement to the FTA.

Recommendations:

- **Under the auspice of the HLED, initiate a high-level crosscutting collaboration on U.S.-Israel regulatory cooperation.** This effort would be led by regulatory policy experts and would include experts from relevant Departments and Ministries. It would support Israel's ongoing regulatory reform process, share best practices, share current information on other regulatory cooperation and coherence efforts and assure that regulatory reform efforts fully support the bilateral economic relationship. Like similar U.S. regulatory cooperation initiatives with other trade partners, this effort would also target an agenda of specific regulatory challenges in both countries, and would offer high-level input and advice on key proposed rules of bilateral interest.
- **Boost cooperation on standards.** The HLED would commit the United States and Israel to a timetable for progressively reducing standards-related trade barriers, beginning with the most commercially meaningful standards barriers. The two countries would also explore avenues to apply the results of U.S.-EU private sector standards cooperation in the TTIP context for the benefit of U.S.-Israel trade.
- **Expand the coverage of Mutual Recognition Agreements.** The HLED would build on the landmark 2012 U.S.-Israel Mutual Recognition Agreement (requiring the mutual recognition of telecommunications testing laboratories and the mutual acceptance of test results) by encouraging additional MRAs (or other cooperative mechanisms) for other commercially important products of bilateral interest.



U.S.–ISRAEL BUSINESS INITIATIVE

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The U.S. Chamber of Commerce's U.S.-Israel Business Initiative (USIBI) is the premier vehicle advancing the bilateral commercial relationship between the United States and Israel. USIBI pursues policy and organizes activities to deepen our strategic alliance through greater trade and investment. The U.S. Chamber of Commerce is the world's largest business organization representing the interests of more than 3 million businesses of all sizes, sectors, and regions. www.usisraelbusiness.com



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