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‘Implementation of the European Neighbourhood Policy in 2007’

Progress Report Israel

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1. BACKGROUND AND OVERALL ASSESSMENT

Israel and the European Community first established contractual relations in 1975 by signing a Cooperation Agreement. The Euro-Mediterranean Partnership inaugurated at the 1995 Barcelona Conference established a policy with ambitious long-term objectives. The Association Agreement with Israel which entered into force in 2000 sets out in more detail the specific areas in which the objectives of the Euro-Mediterranean Partnership can be developed bilaterally. On this basis, the EU-Israel Action Plan was adopted in April 2005, for a period of three years. A first ENP progress report was adopted in December 2006.

Intense institutional cooperation through the EU–Israel Association Council, the EU–Israel Association committee and 10 sub-committees has enabled both sides to progress with the implementation of the Association Agreement and more recently the Action Plan. In the framework of the EU-Israel Reflection Group, work is ongoing to identify areas to upgrade the future of EU-Israel relations.

This document reports on overall progress made on the implementation of the EU – Israel Action Plan between 1 November 2006 and 31 December 2007, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Israel.

Israel has been an active partner in the framework of the ENP, as demonstrated by the progress made in implementing a large number of priorities of the Action Plan. Sound macroeconomic policies associated to a buoyant external demand have allowed the Israeli economy to expand for a fourth consecutive year.

The ENP has clearly enhanced the pace of cooperation between the EU and Israel in a large number of fields: from enhanced EU-Israel political dialogue to Israel's involvement in a number of European initiatives. Having agreed a framework protocol with the EC, Israel is the front-runner in making use of the new possibilities for ENP partner countries' participation in Community programmes. It has also sought closer cooperation with EC and EU agencies. In October 2007 Israel agreed to start bilateral negotiations on a Free Trade Agreement on the liberalisation of services and establishment, at the beginning of 2008.

On the domestic front, based on a 2003 Government Decision, key ministries are developing sustainable development implementation plans, several have been completed. Still, more efforts are needed to address the increasing poverty gap and to improve the situation of the Arab minority by adopting adequate measures, for instance, in the field of employment, education and public administration.

Any consideration of the bilateral EU-Israel relations in the context of the ENP Action Plan must take into account the persisting Israeli-Arab conflict and the overall political developments in the Middle East, in particular the Annapolis process launched in November 2007. The lack of progress on a certain number of commitments undertaken in the framework of the Action Plan (for example “facilitating the Palestinian trade”) has had a negative impact on the Palestinian economy, through the continuing restrictions on access and the movement of goods and persons.

2. POLITICAL DIALOGUE AND COOPERATION

Shared values

Democracy, human rights and fundamental freedoms

Objectives pursued in this area include: the promotion of democracy, rule of law and respect for human rights and international humanitarian law; explore the possibility of joining the optional protocols related to international conventions on human rights; protecting the rights of minorities, including enhancing political, economic, social and cultural opportunities for all citizens and lawful residents; evaluation and monitoring of policies from the perspective of gender equality and promoting dialogue on policies for the physically and mentally disabled.

In November 2007 a **gender** law passed its third reading in the Knesset. It states that any bill that passes a preliminary reading should be sent to the authority for the advancement of the status of women for their scrutiny. The authority will be in charge of examining the effects of the bill on gender equality.

In March 2007, Israel signed the UN Convention on the Rights of Persons with Disabilities.

Israel is currently a member of the UN Western European and Others Group (WEOG)'s New York activities, for voting purposes, and is striving for full membership, including consultation. Israel would also like to become a full member of the UN agencies Habitat and United Nations Environment Programme (UNEP). Israel intends to be part of those countries which contribute to peace keeping forces. An EU-Israel informal working group on human rights met in February 2007.

In October 2007, the Israeli Ministry of Housing and Construction established a public committee aiming at developing a proposal for a permanent solution to the conflict regarding the land of the Negev and the Bedouin community living in the area.

While restrictions affecting family reunifications of Palestinians living in the West Bank and their Israelis partners have not been eased, a positive step was the decision adopted by the Israeli authorities in October 2007 to grant resident status to 3 500 people seeking reunification with their families.

The promotion and protection of the Israeli Arab minority did not advance significantly during the reporting period, particularly in areas like land allocation, housing, planning, economic development, investment in social infrastructure and justice. A number of initiatives were launched in the field of justice and education but results were limited. The Arab education system continued to lag behind Jewish education. A clear strategy for land allocation to Israeli Arabs remains to be adopted. In March 2007, the UN Committee for the Elimination of Racial Discrimination (CERD) published a report on the situation of the Israeli Arab minority and asked the Israeli government to take significant measures to promote minority rights in the above-mentioned areas.

Combating anti-Semitism - Fight against racism and xenophobia, including Islamophobia

The EU and Israel pursued their cooperation in supporting initiatives tackling racism and xenophobia, notably in the UN fora.

In this respect, EU's support was instrumental in the adoption of two key resolutions: the United Nations General Assembly's resolution condemning Holocaust denial from January 2007 and the UNESCO General Conference's resolution adopted in October 2007 calling to promote awareness of Holocaust remembrance through education and to combat all forms of Holocaust denial.

Furthermore, as a concrete example of the cooperation, two *EC-Israel seminars on the fight against racism, xenophobia and anti-Semitism* were held, in December 2006 and January 2008. In both cases, European and Israeli participants exchanged views on legal matters, anti-Semitic propaganda in the media, best practices in the educational field, etc. The second seminar, focusing in particular on education related matters, was jointly organised with the Israeli Ministry of Foreign Affairs and the Yad Vashem Memorial and involved a number of experts from the European Commission and a large representation from EU Member States.

Regional and international issues

Co-operation under CFSP/ESDP, crisis management

The EU Police Mission in the occupied Palestinian Territory (EUPOL COPPS) re-engaged with the Palestinian civil police after June 2007, focusing its efforts on support to officers from the West Bank (Gaza being beyond reach during this period). The work of EUPOL COPPS contributes to building a modern, professional police force, and to strengthening law and order. In October 2007 EUPOL COPPS convened the first joint seminar of Israeli and Palestinian police officers aiming at discussing accident prevention and building mutual confidence. The mission acts in close cooperation with EC to support the Palestinian institution-building efforts, for example in the area of the judiciary and the rule of law. This work forms an important contribution to help the Palestinians meet their Roadmap obligations in the area of security. In December 2007, after repeated calls from the EU, Israel started to accredit the mission, which will facilitate the completion of its work.

During the first part of 2007 the European Union Border Assistance Mission at Rafah (EUBAM Rafah) enabled the operation of this crossing between Gaza and Egypt, albeit under a restricted opening regime. Its work was supported by EC institution building activities (customs training, infrastructure, equipment etc). Since June 2007, following the violent events in Gaza, EUBAM Rafah has remained on standby. The EU has made clear that it stands ready to redeploy the mission as soon as conditions so allow.

In November 2007, the work covered by both of these missions (state building work linked to security/ customs/ border control capacities) was highlighted in the EU Action Strategy for the MEPP, presented by Commissioner Ferrero-Waldner and HR Solana to EU Ministers in view of the Annapolis meeting.

In 2007 Israel was invited to align itself with the EU Common Foreign and Security Policy declarations on a case by case basis but has not yet taken up the offer.

Situation in the Middle East

The objectives in this area are limited to the strengthening of political dialogue and identifying areas for further cooperation. This document therefore only reports on those objectives.

The EU-Israel **political dialogue** was further strengthened during the reporting period. The dialogue was carried out in a number of fora (Association Council, Association Committee, subcommittees on political dialogue and cooperation, informal working groups on human rights and on international organisations and informal policy planning discussions) and at different levels (ministerial, senior officials, experts level).

Issues raised in the framework of the political dialogue included inter alia: the peace process, the situation in the Middle East, the situation of the Arab minority in Israel, restrictions of movement in West Bank and Gaza Strip, the construction of the separation barrier, administrative detentions, the dismantling of outposts, the envisaged expansion of certain Israeli settlements in East Jerusalem, more checkpoints. Little concrete progress has however been achieved on the issues as such. In 2007 the fatalities resulting from conflict-related incidents were 377 Palestinians (compared to 643 in 2006) and 13 Israelis (compared to 27 in 2006).

Non-proliferation of weapons of mass destruction and their means of delivery, including ballistic missiles

Consultations on non-proliferation of weapons of mass destruction continued in 2007. Topics discussed included inter alia the “universalisation” of non-proliferation treaties and instruments, Israel’s participation in export control regimes, multilateral nuclear fuel approaches, arms transfer to terrorists and an ad hoc meeting on weapons of mass destruction in the Mediterranean region in the context of the Barcelona process.

Illicit trafficking of military equipment

Legislative progress was made in the area of illicit trafficking of military equipment. A new law on the supervision of defence exports to arms dealers and security export companies was adopted in December 2007 and came into effect in January 2008. The law allows the relevant Israeli authorities to supervise the defence exports to arms dealers and security export companies.

Combating terrorism

The bilateral cooperation in this field has continued to progress. In addition to regular contacts among specialists from both sides, an ad hoc “Israel-EU troika ENP seminar on radicalisation and recruitment of terrorists – analysis and prevention” took place in June 2007 in Israel. This bilateral event, attended by Israeli, Member State and European Commission experts, gave the opportunity to exchange views, experience and best practices in countering radicalisation and recruitment.

The Israeli government continued to put considerable emphasis on terrorism as a challenge to security and political leadership. Israel expressed interest to deepen collaboration with the EU, drawing on Israeli expertise in the subject matter, notably in the areas of money laundering and financing terrorism as well as homeland security. A report by the UN Special Rapporteur for the promotion and protection of human rights and fundamental freedoms while

countering terrorism, found a number of incompatibilities between Israel's counter-terrorism laws and practices and the country's international human rights obligations.

International organisations

In line with the joint objective to promote effective multilateralism, the EU and Israel continued to develop regular contacts on a number of matters of common interest, notably in the framework of the United Nations. Discussions on UN-related matters were also addressed in the framework of the informal working group on "international organisations" which met in February 2007.

Regional cooperation

The European Commission proposed at the end of 2007 to both the Israeli and the Palestinian authorities to resume sub-regional technical cooperation in the field of transport, energy and trade as a means to contribute constructively to the reinitiated negotiations in the framework of the peace process.

3. ECONOMIC AND SOCIAL COOPERATION

Monetary, exchange rate and fiscal policies; functioning of the market economy

Israel's economy enjoyed high **growth** in 2007. Sound macroeconomic policies, high productivity, buoyant external demand and benign financial conditions allowed the economy to expand for the fourth consecutive year over 5 %. There was a more rapid expansion in the business sector than in the economy as a whole.

The current account surplus and the inflow of foreign capital, led to an appreciation of Israel's currency, and contributed to a decrease of inflationary pressures. In the second half of 2007, sharp increases in the prices of agricultural products, food, household expenses and transport and telecommunication, led to an annual inflation rate of 0.5 %.

With expenditure control and a sharp increase in revenues, Israel achieved a significant improvement in its fiscal position. The central government deficit is estimated to be close to balance in 2007, implying a general **government deficit** of about 1 % of GDP. Public debt was significantly reduced to around 81.4 % of GDP. Nevertheless, **public debt** still remains high constraining policy options in adverse economic scenarios.

Israel's **financial sector** is more diversified due to the reforms of the previous years and the country's economic growth. However, capital and solvency ratios remain lower than in many advanced economies, and regulators are moving to increase them in preparation for the application of international standards (Basel II, Solvency II) by 2009. It has been decided to introduce risk-based supervision approaches.

Social situation, employment, poverty reduction

The first sub-committee on **social affairs** took place in February 2007. In line with the provisions set up in the Action Plan, it initiated a substantive dialogue on social and employment issues.

The recent acceleration of the economic activity has contributed to the decline **unemployment**. In November 2007 it reached 6.6 % compared to 8.1 % in the corresponding period of the previous year. However, 15 to 20 % of the available jobs remained vacant for many months either as a result of relatively low salaries or due to the inadequacy of applicants' skills. Gender inequality needs to be addressed in response to employment creation. The share of residents in Arab towns and Jewish development towns in the total number of job-seekers was 41 %. Only 18 % of Israeli Arab women work. The government has taken steps to encourage employment of Israeli Arabs in Jerusalem and the periphery, with the aim of having 10 % of state employees from the Arab population. Other initiatives to date have had a limited impact. In this respect, the Knesset has set up a committee mandated to look into the reasons for the low representation of Israeli Arabs in the civil service.

Despite the relatively rapid economic growth, **poverty** remains however a major concern, particularly among the groups of the population outside the booming business sector. Up to a quarter of households are below the poverty line. This mainly affects the Arab and ultra-Orthodox communities which constitute 60 % of the poor in Israel. Poverty is combined with a rising inequality in income. Around 40 % of the employed in Israel do not pay income tax at all, due to their low salaries. In April 2007 the government launched an anti-poverty plan aiming at reducing the number of poor families to 17.2 % by 2010. This target will be achieved notably by encouraging labour productivity, better integration of the communities - including women - into the labour market and the introduction of an obligatory pension. It is estimated that almost 50 % of the employed do not have any pension insurance. This should become compulsory as of 2008. The legislation for the introduction in 2008 of a negative income tax was approved in December 2007. The Knesset has approved a 50 % reduction of electricity prices to 300 000 poor citizens.

Based on a 2003 Government Decision, key ministries are developing **sustainable development** implementation plans. Several of these plans have been completed. Following on from this, government ministries are now working together to promote some areas of common interest, and to formulate a common 'vision' on sustainable development.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

In 2006, the EU was the first **trading** partner for Israel, with imports representing 38.2 % and exports 28.3 %, and with an increase, respectively, of 1.6 and 2.6 %. Data for the first quarter of 2007 show an increase respectively of 7.2 and 3.0 % compared to the same period of 2006.

Negotiations on the further liberalisation of trade in agricultural, processed agricultural and fishery products are proceeding. Work is ongoing towards the adoption of a "dispute settlement mechanism" establishing a more effective and streamlined mechanism specifically applicable to trade in the framework of the agreement.

The European Commission expressed its willingness to re-launch, as soon as the political circumstances allow so, the discussions in the framework of the trilateral working group on trade established between the European Commission, Israel and the Palestinian Authority with the objective of increasing technical cooperation between Israel and the PA.

In the area of **customs** cooperation and mutual assistance, the European Commission shared with the Israeli authorities the AFIS software (OLAF's Anti Fraud Information System containing the modules "AFIS mail", "YACHTINFO" and "MARINFO") allowing Israel to

be connected to AFIS. AFIS enables customs services to exchange and disseminate information on smuggling activities and requests for action. The information system offers immediate access to the relevant customs information without communication barriers.

Israel is in an advanced phase of implementing the World Customs Organisation's Framework of Standards to Secure and Facilitate Global Trade. With a view to striking a balance between security and trade facilitation, the EU and Israel agreed to continue exchanging information on these subjects and in particular on the developments of current and future legislation and advantages of the concept of Authorised Economic Operator (AEO).

On **free movement of goods and technical regulations**, Israel made progress in the preparatory work to negotiate an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). Several amendments to the standards law were adopted. Concerning market surveillance, an amendment to the standards law allows the improvement of its enforcement in the market place. As a result of the reform of customs procedures, many products can be released from customs on the basis of a self declaration of conformity. Adequate infrastructure in the fields of standardisation, accreditation, conformity assessment and metrology is in place in Israel. It has started to transpose the sectoral legislation in the priority sectors: the alignment of the pharmaceuticals legislation is ongoing and once finalised, an on-site assessment of the Israeli good manufacturing practices inspection system will be performed by an EU expert. Israel has progressed in adopting EN standards in the areas of pressure equipment and medical devices. As of January 2008, Israel is an affiliate member of the European standards bodies CEN and CENELEC.

Israel adopted a new law in the field **consumer protection** aiming at avoiding double banking charging. This law entered into force in January 2008. Further progress can also be reported to protect consumers in cases of distance selling.

Israel is increasingly interested in convergence with certain Community **sanitary and phyto-sanitary** rules. In this context, Israeli experts conducted a TAIEX study visit to the United Kingdom. Israel strengthened, in line with Community demands, controls and certification of plant products. The government submitted a draft phyto-sanitary law to the Knesset. Israel presented satisfactory residue monitoring plans for 2007 concerning poultry, eggs, aquaculture, milk and honey, for which exports to the EU are allowed. Since December 2007 Israel managed satisfactorily a small scale avian influenza outbreak.

Progress can be reported regarding the **business environment**. The inauguration of the new EU-Israel Chamber of Commerce and Industry took place in June 2007. No single major European investment took place in Israel during the reporting period. Israel has continued to take measures to improve the investment climate, particularly by accelerating privatisation and encouraging the development and liberalisation of capital markets.

Some progress can be reported in the field of **company law** with the obligation for all Israeli companies to adopt the international standards IFRS as of 2008. This will not, however, apply to banks which use other accounting standards. Following the publication of the recommendations of an expert group, work is progressing on the adoption of a code of corporate governance.

In October 2007 Israel agreed to start bilateral negotiations on a Free Trade Agreement on the liberalisation of **services** and establishment, at the beginning of 2008. In the field of financial

services, the Israel Securities Authority (ISA) has proposed key amendments to Israel's legislation, inter alia on marketing and portfolio managements, to the regulation and supervision of secondary markets as well as to the regulation of new financial instruments. On investment advice and portfolio management, several amendments to the laws and regulations have been or are in the process of being drafted, one of these pertaining to the opening of access to the Israeli market to foreign services providers. Moreover, the ISA has drafted amendments to the securities law which will broaden the category of "qualified investors" as well as a major amendment regarding the regulation of securities exchanges, brokerage services and alternative trading platforms.

Israel and the European Commission continued to exchange information and experience, in the context of the relevant subcommittee, in the area of **taxation**. Discussions on the principles of the code of conduct for business taxation were pursued. Israel concluded a treaty on avoidance of double-taxation with Slovenia in January 2007. Since November 2007 import of sparkling wine is not subject to the T'AMA system which regulates import of spirits in Israel.

With regard to **competition policy**, no progress can be reported in the field of state aids.

No progress can be reported in the area of **intellectual property rights**. The Israeli legislation providing inadequate protection against unfair commercial use of test data submitted by innovative pharmaceutical companies and making patent term extension more difficult, is still in force. This goes against the provisions of the ENP Action Plan and the requirements of the OECD that Israel intends to join.

Israel developed a fully electronic **public procurement** system. The government is developing a wide training programme on administrative capacity, "the race for knowledge" which aims to improve the skills of employees operating in the field of public procurement.

Israel participates actively in the MEDSTAT II activities oriented towards improving the **national statistical system** and enhancing staff qualification. Israel, together with Jordan, the Palestinian Authority, and Egypt decided to form a common working group in order to tackle challenges related to the production of trade statistics (mirror exercises etc.).

On enterprise policy, Israel has continued the implementation of the Euro-Mediterranean Charter for Enterprise. In this context, a meeting involving all stakeholders, public and private, was organised with the European Commission in 2007. Israel agreed to participate, together with other Mediterranean partner countries, in a pilot project aiming at assessing progress achieved in the ten sectors covered by the Charter. This project is coordinated by the European Commission in cooperation with the OECD, the European Training Foundation and the European Investment Bank. Moreover, a first meeting of the EU-Israel business dialogue took place in Tel Aviv on November 2007, with the participation of relevant Israeli ministries, the European Commission and leading businesspeople from Europe and Israel. It has set a tentative calendar for sectoral meetings in 2008 and agreed on a general meeting in Berlin in June 2008.

Israel is also the first ENP partner country to participate in the Competitiveness and Innovation Programme (CIP) under which the European Commission promotes innovation, entrepreneurship and growth of small and medium-sized enterprises. Israel formally applied

for all three “pillars” under the CIP: the Entrepreneurship and Innovation programme; the Information and Communications Technologies Policy Support Programme; and the Intelligent Energy-Europe Programme.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In the area of **migration**, the government started an initiative to grant permanent resident status to the children of migrant workers. Since they are not automatically granted Israeli citizenship at birth, a great number of them are effectively stateless. Israel also instituted a new policy to instantly deport illegal migrants regardless of their status. According to the UNHCR, though the number of refugees and asylum seekers has traditionally been relatively small, the government's recent efforts to reduce the number of illegal workers in the country led to an increase in the number of asylum applications. Traditionally, Israel viewed asylum as a humanitarian gesture appropriate only in certain isolated instances. Asylum seekers are generally kept detained while their asylum claim is processed. In the last year there were significant incidents as regards Sudanese and Eritrean refugees and asylum seekers in Israel. In most of the cases these persons were sent back to Egypt.

As regards **terrorism**, first exchanges of views in the area of protection of critical infrastructure took place (*see also section 2*).

Israel ratified in December 2006 the UN Convention on Trans-National **Organised Crime** and is in the final stage of the ratification process of the optional First Protocol on the Trafficking in Persons, especially women and children.

Israel remains one of the main world destinations for trafficked women and while significant efforts were made to eliminate **trafficking** through a series of criminal convictions and the launch of a national plan, more attention needs to be paid to rehabilitation of victims including housing and medical service support. The Israeli government decided in 2007 to implement a national plan to combat trafficking in human beings (including temporary housing solutions, rehabilitative shelters and medical services) and allocated NIS 4.2 million to this end. Israel expressed an interest in joining the European Expert Group on Trafficking in Human Beings and also participated in the EU Anti-Trafficking Day.

In addition, discussions continue on the organisation of a tri-lateral seminar on human trafficking with the EU and the Republic of Moldova under TAIEX. Work is continuing on ratification of the Second Protocol to the UN Convention on Trans-national Organised Crime which Israel signed in November 2006. An exchange of information took place with respect to measures to combat cyber crime and Israel indicated willingness to accede to the European Cyber Crime Convention.

In 2007, Israel intensified its fight against **drug** abuse, the level of which was roughly equivalent to that of Europe and North America. A special Knesset committee on drug and alcohol abuse continued supervision of authorities dealing with drug abuse and its consequences. As the problem of new drugs not listed as illegal persisted, the Knesset discussed introducing analogy drug ordinances including all possible chemical variations on existing illegal drugs. A comprehensive set of measures was implemented to improve law enforcement. The police instituted a pilot programme for juvenile offenders under which first-time drug users with small quantities would no longer be arrested but merely registered. In 2007, the police arrested more than 16 000 people for possession and more than 8 000 for the selling of drugs.

In conjunction with exchange of information on supervision and monitoring methods to combat **financial and economic crime**, Israel expressed an interest in becoming an observer in the Financial Action Task Force (FATF). Supported by the European Commission, Israel has obtained observer status in Council of Europe's Moneyval group and expressed interest in becoming a full member.

In the area of police and judicial cooperation, Israel expressed an interest in enhancing cooperation with Eurojust and in this context a study visit on extradition under TAIEX is expected to take place soon.

Work on negotiating an operational agreement with Europol continued and Europol will soon perform its data protection audit visit to Israel.

Israel expressed an interest to cooperate on the training of judges and lawyers under TAIEX. A twinning project was launched in December 2007 on data protection for cooperation with the Law, Information and Technology Authority (ILITA) aiming to ensure the effective enforcement of national legislation on privacy in line with European standards and raise public awareness of personal data protection. It should also be recalled that Israel has requested the Commission to activate the procedure aimed at declaring, in accordance with Directive 95/46/EC, that Israel ensures an adequate level of protection with regard to the personal data transferred from the EU.

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT, SCIENCE AND TECHNOLOGY

The emphasis of the Israeli **transport** policy objectives has moved to the development of integrated transport systems, with a particular focus on issues of transport safety, an increase of the share of public transport as well as an increased involvement of the private sector through PPP projects. As regards infrastructure planning, Israel is in the process of preparing an integrated planning programme for land transport. Infrastructure planning will move from regional to national level in a process that will take several years. There are plans to step up infrastructure investment significantly until 2011, whereby the main projects are aimed at increasing public transport use. Rail transport will play a prominent part in an integrated transport system. The overall objective is to promote financially sustainable, integrated multi-modal transit networks in urban regions in Israel.

The establishment of necessary procedures, standards and requirements to manage sustainable public transport is an area of cooperation with the EU. The importance Israel attaches to the issue of road safety is reflected both in the impressive budget increase allocated in 2007 to the National Safety Authority as well as in new legislation establishing a data base for drivers whose driving licenses have been suspended or revoked. Road safety and telematics are areas where the EU and Israel cooperate actively.

In the area of aviation the European Commission and the Israeli authorities are in the process of finalising a horizontal air transport agreement which should be signed in 2008. The European Commission has requested negotiating directives from the Council for a comprehensive EU-Israel Euro-Mediterranean aviation agreement providing for gradual market opening and a high level of regulatory convergence in the areas of aviation safety, security, air traffic management, competition, state aid, environmental and consumer

protection and research. Israel has welcomed the EC's intention to open comprehensive aviation negotiations, in particular in light of its decision to pursue a more open market policy and strive for more active liberalisation. At sub-regional level, transport constitutes a topic of strategic importance in Israeli–Palestinian cooperation, in particular in light of plans to set up a Joint Transport Office (JTO) to promote transport cooperation. Implementation of this initiative has not been resumed yet.

Israel and the EU enhanced **energy** cooperation on a range of issues. At a regional level, Euro-Mediterranean ministers strengthened energy cooperation through the endorsement of a priority action plan for 2008-2013. The plan includes, inter alia, a list of priority interconnection and infrastructure projects of joint interest. Israel participated in the EU-Africa-Middle East Ministerial Energy Conference, which identified the common interest to promote clean energy technologies and to develop a green energy market.

Israel is updating its energy master plan and has developed a fuel master plan. The selling of the Haifa refinery, in February 2007, completed the privatisation process in this sector. Israel adopted a key policy paper for electricity sector reform, aiming at gradual market opening until 2013. Specific plans include the unbundling of the vertically integrated Israeli Electric Corporation into separate companies, a measure of privatisation and the gradual introduction of cost reflective prices.

Israel continued to assess options for opening the gas market. It pursued its policy to increase gas use in its economy, notably for power generation. Israel continued the construction of domestic gas pipelines and advanced the construction of the Egypt–Israel undersea gas pipe. A feasibility study for an LNG terminal was completed. Israel and Turkey have launched a study on a Haifa-Ceyhan inter-connection for oil, gas, electricity and water. In this context imports from Russia and the Caspian region are assessed. Israel remains interested in off-shore Gaza gas supplies. Further to Hamas takeover of the Gaza Strip, the construction of an electricity line to Gaza was frozen.

Israel pursued the strong emphasis on energy efficiency and the use of renewable energy. For example, the construction of a solar-thermal plant in the Negev desert is in preparation. Israel aims, by 2020, at 20 % energy savings and at a 10 % share of renewable energy sources in electricity generation. It plans to introduce EU bio-fuels standards and it continued to apply for certain domestic appliances, labelling schemes similar to those in force in the EU. Israel shared, through TAIEX, EU experience in the area of energy efficiency and renewable energy sources.

The European Commission stands ready to revive an EC supported Israeli-Palestinian energy cooperation programme including the establishment of a joint energy office. It is also ready to facilitate the joint Israeli-Palestinian “Solar for Peace” initiative launched in 2007, which aims to enhance the use of solar energy to the benefit of both parties. In this context, trilateral exchanges have already been held.

Key **environment** issues concern threats related to climate change, air quality, water resources and water quality, waste management, marine and coastal pollution, nature protection and industrial pollution. Israel made further progress on climate change. A greenhouse gas inventory is under preparation and altogether 31 Clean Development

Mechanism (CDM) projects have been prepared, of which 10 have so far been registered at the UN level.

Israel participates in the Euro-Mediterranean Horizon 2020 Initiative on environmental measures in the Mediterranean area, including the identification of key environment infrastructure issues in the fields of municipal waste, urban waste water and industrial pollution as well as appropriate financing sources and mechanisms. Nine of the 43 so far identified projects with an apparent chance to be bankable are Israeli¹. All interested parties still need to agree on how to prioritise, prepare and finance pollution reduction projects in these sites. Israel also participates in activities under the EU Water Initiative.

Work is ongoing to implement existing strategies and plans, where continued attention is required. Overall, framework legislation and sectoral legislation is in place in most areas. Latest legislation includes laws on landfill tax and regulations on diesel emissions. Israel now draws inspiration from the *acquis* in formulating its legislation.

While administrative structures on environment continue to be in place, they still need to be strengthened. There are several ongoing efforts to integrate environment considerations into other policy sectors such as the development of sustainable development strategies by key ministries. Israel publishes environmental information on a regular basis, and carries out activities to inform and involve the public.

Israel has ratified relevant international and regional conventions and protocols, except the Land Based Sources, Dumping, New Emergency and Specially Protected Areas and Biodiversity Protocols of the Barcelona Convention. In January 2008, it signed the Convention's new Integrated Coastal Zone Management Protocol. Israel continues to participate in the Mediterranean Action Plan. The European Commission and Israel have enhanced cooperation and information exchange, including on the European Environment Agency, air quality, biodiversity and environmental risks by financial institutions. Other topics, including integrated pollution prevention and control have been identified for possible closer cooperation.

As regards the **Information Society** sector, Israel has not yet established a regulatory authority for electronic communications. However Israel is in the process of reformulating the approach to some aspects of the regulatory framework in active cooperation with the EU. The introduction of a system of systematic market reviews to assess the need for regulatory intervention based on concepts of competition law is being considered. Furthermore Israel is developing the regulatory framework, based on the report of a Government committee in 2007, which sets policy guidelines for electronic communications, in particular for cable-TV liberalisation and local loop unbundling. Following a study of the mobile market in Israel, the Ministry is preparing a roadmap for licensing mobile virtual network operators.

In the area of science and technology, Israel has negotiated an agreement with the EC on its association to the FP7 (2007-2013). The participation of Israel in the FP7 makes the EC Israel's second largest source of public research funding after the Israel Science Foundation.

¹ wastewater: Greater Tel Aviv, Ashdod; sludge: Greater Tel Aviv; waste: Ashkelon, Rishon LeZion, Haifa, Ramat Gan, Netanya Town; rehabilitation of Kishon River

Israel plays a key role particularly in the fields of ICT and life sciences. An example of its research excellence is provided by the rate of success of Israeli companies and institutions in participating in FP-related projects. With an average rate of around 19 %, Israel's performance resembles that of countries like the UK and France. The results of the most recent calls for proposals confirm this trend.

EU partners appreciate Israeli technological excellence in key scientific and technological domains. Technical cooperation opens the way for future business collaboration. Surveys conducted by the Israeli government agency responsible for the implementation of the FP6 in Israel have shown that participation in the FP6 was seen as very positive by the university and industry research community.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

In the area of higher **education**, Israel established a national office in order to actively promote its participation in the Tempus IV programme. Israeli students, scholars and institutions used scholarship and other opportunities offered by Erasmus Mundus, contributing further to the promotion of international academic cooperation and excellence. Two Israeli universities actively participated in the Erasmus Mundus External Cooperation Window programme contributing to a further increase in student and academic mobility. Policy dialogue on other areas covered under the Action Plan has yet to emerge.

Israel participates actively in the **Euro-Med Youth III Programme** through the Ministry of Education by providing support for the development of informal education, enhanced youth exchanges and intercultural dialogue. At the same time, Israeli young people, youth workers and organisations can benefit from the opportunities offered by the Youth in Action programme.

Cultural cooperation included the promotion of an international women's film festival and the support for local and regional cultural activities through a call for proposals. Israel participated in regional projects in the framework of Euro-Med Audiovisual II and Euro-Med Heritage III. A "Month of tolerance and shared society" took place in November 2007 in cooperation with UNESCO and local civil society actors. Israel has chosen not to ratify the 2005 UNESCO Convention on the Promotion and Protection of the Diversity of Cultural Expressions.

Active cooperation between Israeli and European **civil society** organisations took place outside the ENP framework with a focus on contributing to resolution of the Arab-Israeli conflict.

Israel and the EU strengthened **health** dialogue. In December 2007, Israel participated in the Euro-Mediterranean workshop on communicable diseases and health systems, which prepares for a Ministerial Conference. It furthermore participated in the EU Network of competent authorities in health information and knowledge as well as in the "EpiSouth" network for EU, Mediterranean and Balkan countries on communicable diseases. It also took part in the TAIEX supported seminar "Health in all policies" jointly organised by the European Commission, the WHO and the European Health Observatory.

8. FINANCIAL COOPERATION – 2007 KEY FACTS AND FIGURES

The budgetary allocations for Israel reflect its status as a developed economy. A small envelope (€ 8 million under the 2007-2010 National Indicative Programme) was allocated to support the implementation of *acquis*-related activities through twinning.

In 2007, two twinning projects have been identified: one in the field of data protection and a second one on sustainable public transport in urban areas. Under TAIEX, 9 seminars and missions were organised in Israel in 2007.

Israel is also eligible for cooperation activities, financed under the European Neighbourhood and Partnership Instrument (ENPI) multi-country and regional programmes and the ENPI Cross Border cooperation component.