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Accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
Taking stock of the European Neighbourhood Policy (ENP)**

Implementation of the European Neighbourhood Policy in 2009
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. An EU-Israel Association Agreement entered into force in 2000. It sets out in more detail the specific areas in which the relations can be developed bilaterally. On this basis, the EU-Israel ENP Action Plan was approved in April 2005, initially for a period of three years. The framework for regional co-operation is the Euro-Mediterranean Partnership, inaugurated in 1995 and reinforced in 2008 with the creation of the Union for the Mediterranean (UfM), which establishes a policy with ambitious and long-term objectives.

EU-Israel meetings took place at the level of the Association Council, the Association Committee and subcommittees, nine of which are activated. In addition, a wide range of contacts are maintained at all levels.

This document reports on progress made on the implementation of the EU-Israel ENP Action Plan between 1 January and 31 December 2009, although developments outside this period are also taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Israel. In addition, for information on regional and multilateral sector processes, please refer to the sectoral report.

EU-Israel bilateral relations remained strong in 2009. At the same time, deterioration in the overall political context, in particular as regards the Gaza conflict¹ (*see section on the situation in the Middle East*) in December 2008-January 2009 and a lack of progress in the Middle East Peace Process, negatively affected the process of upgrading bilateral relations between the EU and Israel. In December 2009 the Council concluded that the EU remained committed to a decision, taken in 2008, to upgrade relations with Israel within the framework of the European Neighbourhood Policy. However, the situation on the ground was not conducive to the resumption of the upgrading process. The 2005 ENP Action Plan remains the reference document of EU-Israel bilateral relations. Its validity has been extended by mutual consent until June 2010.

Israel remained an active partner in the framework of the ENP, as demonstrated by progress made in implementing a large number of priorities of the Action Plan. In November 2009 the EU and Israel signed an agreement on agricultural, processed agricultural and fish and fishery products, which entered into force in January 2010. An EU-Israel agreement on Conformity Assessment and Acceptance (ACAA) of Industrial Products was initialled in June 2009. More than 800 projects including at least one Israeli participant were selected under the Seventh Framework Programme. Four twinning projects are currently being implemented in areas covered by the Action Plan and selected by the Israeli authorities. International democracy indexes rank Israel at levels comparable to EU Member States. As regards human rights and fundamental freedoms, more efforts are needed to address the economic and social situation of the Arab minority and enhance their integration in Israeli society.

¹ Over 1,400 Palestinians, including more than 1,000 civilians, were killed and more than 5,000 were wounded. Thirteen Israelis were killed, including three civilians. Controversy exists over the precise number of casualties as well as the number of civilians within those figures, but UN and the Amnesty International give credit to the figures.

As regards the situation in the Middle East, Israel's occupation of the West Bank and of the Gaza Strip has continued to affect the situation of the Palestinians. Israeli military operations in Gaza have tarnished Israel's international standing, and have given rise to concerns as to international humanitarian law violations by all parties to the conflict. At the start of 2009 Israeli peace talks with the Palestinians and the Syrians both stalled. In late 2009, Israel announced a 10-month moratorium on settlement construction in the West Bank, of which the EU took positive note as a first step in the right direction. However, the moratorium excludes East Jerusalem, where settlement activity, house demolitions and evictions continued in the reporting period. Israel took steps to ease restrictions on movement in the West Bank. While these made a contribution to economic growth, further and sustained improvements are required. Israel needs to comply fully with its commitments under international humanitarian law.

After the Gaza conflict the EU continued to call for an immediate, sustained and unconditional opening of crossings for the flow of humanitarian aid, commercial goods and persons to and from Gaza. However, while in the course of 2009 a slightly wider range of materials was let in and permits were issued for the export of some goods, there was no significant overall improvement. While the Military Advocate General's office is reviewing cases that have been submitted since the Gaza conflict including of alleged human rights abuses, an independent investigation, as called for in the report of the UN fact finding mission on the Gaza conflict published in September 2009 (also referred to as the Goldstone Report), was not launched in 2009. The Israeli soldier abducted by Hamas, Gilad Shalit, remained in captivity. Rockets and mortars were also fired from Gaza into Israel since the end of military operations.

2. POLITICAL DIALOGUE AND CO-OPERATION

Shared values

Democracy, human rights and fundamental freedoms

Promotion of democracy, rule of law and respect for **human rights** and international humanitarian law were regularly raised with the Israeli authorities and thoroughly discussed during the meeting of the informal EU-Israel Informal Working Group on Human Rights in September 2009.

As regards rights of **minorities**, little progress was registered in the situation of the Arab minority. Arab citizens are still underrepresented in the civil service and in government offices, with a participation of only 6.7%, although the Law for Fair Representation of Arabs and Women in Governmental Offices sets a target of 10% by 2010. There were further decreases in budget allocations to the Arab sector. More sustained efforts are needed to further increase employment of Arab employees in the public sector, as well as regarding housing and planning schemes, economic development, investment in social infrastructure and justice (see also section on Employment and Social policy). With regard to the Bedouins, the Goldberg Commission, set up in 2008, recommended that the recognition of Bedouin villages takes place on a broad basis and following an accelerated schedule. The Government appointed an implementation team for that purpose in January 2009, but this team made little progress in its work. Its detailed implementation plan was due in July 2009 but had not been finalised by the end of 2009. 99 house demolitions took place in Bedouin communities in

2009 and at least 39 houses were demolished in the Negev after the reporting period, in early 2010.

In the area of **freedom of expression and assembly** some large demonstrations and rallies were held peacefully during the Gaza conflict, but arrests of non-violent protesters, including minors, did occur, also in relation to peace protests in East Jerusalem. Throughout 2009 - especially in the wake of the publication of the Goldstone report - government, media and public condemnation of human rights organisations as actors that purportedly contribute to the delegitimisation of Israel has increased. The working environment for NGOs in Israel was overall worsening during the reporting period.

In this context, a draft law regarding "Recipients of monetary support from a foreign political entity for the purpose of funding political activities in Israel", currently debated in the Knesset, defines "political activity" as any activity that aims to influence public opinion in Israel. It imposes very stringent transparency requirements and recalls the tax-exempt status these organisations currently enjoy. If adopted in this form, the draft law could seriously curtail **freedom of association** and other fundamental rights.

Israel continues to arrest and hold hundreds of Palestinians in **administrative detention** without formal charges. However, over the year the number of administrative detainees decreased, from 564 in January 2009 to 278 in December 2009. Some 8% have been detained for two to five years. Arrests and administrative detention of human rights defenders were increasingly used particularly towards the end of 2009.

Allegations of **torture and ill-treatment** are investigated by the Inspector for Complaints against Internal Security Agency (ISA). However, the Inspector is itself an organ of the ISA. In May 2009, the UN Committee against Torture recommended Israel to create a "fully independent and impartial mechanism outside ISA". The Government has one year to address these recommendations. In the past three years, there has been an overall decreasing pattern as concerns the number of complaints filed with the Inspector of Complaints.

As regards **gender equality**, the participation rate of women in the labour market grew steadily. However, the rate of participation of Jewish women is 55.7 %, three times the participation rate of Arab women, which is 18.5 %. Furthermore, wage inequalities between women and men overall narrowed only moderately and were still relatively high in all sectors of the market. The average monthly gross salary for women is only 64% of what men earn. After the entry into force of the January 2009 amendment of the Statistics Ordinance, accessibility to information pertaining to women had vastly improved. This law binds public agencies to refer to gender when conducting and publishing statistic operations relating to individuals.

With regard to the situation of **children's** rights in January 2010 there were no children in administrative detention. At the end of February 2010 there were 41 Palestinian children detained under the age of 16. Also, several cases of night incursions in Palestinian homes in East Jerusalem have been reported during which children were arrested on minor charges and subsequently released. The newly-established Military Court for Juveniles has yet to prove its capacity for improving the treatment of minors.

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

The EU and Israel pursued their cooperation in supporting initiatives tackling anti-Semitism, racism and xenophobia, which included joint seminars on the subject. In June 2009, a joint European-Israeli declaration was signed, committing to fighting anti-Semitism, to promoting Holocaust education and to the restoration of stolen property. A new European Institute, the European Shoah Legacy Institute, was established in Terezin (Czech Republic) to help fulfil the goals of the declaration. The EU's Fundamental Rights Agency published a new report on Anti-Semitism in the EU in April 2010.

Regional and international issues

Co-operation under CFSP/ESDP, crisis management

The Council of the European Union extended the mandate of the EU Border Assistance Mission in Rafah (EUBAM Rafah) until May 2010. The mission maintains its operational capability and remains prepared to redeploy its personnel at the crossing-point as soon as conditions permit.

Situation in the Middle East

Events in 2009 were influenced by the Gaza conflict and by the coming into power of a new Israeli Government and a new US administration. Peace talks stalled and little progress was made towards a comprehensive settlement of the Israeli-Palestinian conflict. The EU confirmed its position on a range of issues linked to the situation in the Middle East, both through private contacts with the parties and through public statements. The EU continued to work with its Quartet partners on a re-launch of peace talks aimed at a deal within an agreed timeframe.

The new Israeli Government at first resisted demands from the international community to freeze settlements activity in line with Israel's Roadmap obligations and the commitments taken by Israel at the 2007 Annapolis conference. Subsequently, in November 2009, the Government approved a temporary 10-month moratorium on settlement construction in the West Bank. The freeze excludes East Jerusalem. The EU took positive note of the decision as a first step in the right direction, but continued to express concerns about the situation in East Jerusalem. House demolitions and evictions of Palestinians from homes in East Jerusalem and other areas of the West Bank continued. No progress was made in curtailing settlement activity in East Jerusalem. The total settler population is now approaching 500,000 of which around 200,000 are in East Jerusalem. Plans to build hundreds of housing units in settlements in Jerusalem neighbourhoods located beyond the 1967 Green Line were announced several times during the reporting period.

During 2009, the EU repeatedly called on Israel to open the Gaza crossings for the flow of aid, trade and persons to and from Gaza. While towards the end of 2009 Israel granted permission for glass and a limited range of other products to be imported into the Gaza strip and a limited range of agricultural products to be exported, including strawberries and cut flowers, there was no significant improvement as regards access to Gaza. Only minimum access was granted to allow the delivery of humanitarian assistance. This undermines the ability of Palestinians to meet basic needs such as protection, shelter, food, water, and healthcare. Restrictions on the import of construction material also have a negative impact on the population, 90% of whom are aid-dependent.

The Israeli Security Agency in several instances denied authorisation, citing security concerns, to medical patients attempting to exit the Gaza Strip in order to access medical treatment. NGOs protested about human rights workers being prevented from entering Gaza. Co-operation continued with Israel on securing the exit from Gaza of students with EU scholarships. As a result, 37 students left Gaza in 2009 through the Erez crossing.

Unilateral ceasefires were implemented by the *de facto* government in the Gaza Strip and by Israel. However, since the end of the Gaza conflict, rockets and mortar shells were fired from Gaza, and arms smuggling continued. Palestinian sources reported attacks by the Israeli Defence Forces on Gaza. The Israeli soldier abducted by Hamas, Gilad Shalit, remained in captivity. The EU called for a complete halt to violence and for the release of the soldier.

The 2009 Report of the United Nations Fact Finding mission on the Gaza conflict was widely debated. Israel's Ministry of Foreign Affairs rejected the content and methodology of the Report. In November 2009, the Military Advocate General's office was reportedly reviewing 140 different cases that had been submitted since the Gaza conflict, including most of the allegations raised in the Report. 28 such cases are being investigated by the Military Police. No independent investigation into the alleged human rights violations was launched, though the Report requested both sides to the conflict to do so.

During 2009, Israel took steps to ease restrictions on movement in the West Bank. In October 2009, there were 578 obstacles to movement in the West Bank, including 69 permanently staffed check points, down from 632 monitored in May 2009. In July 2009 the Israeli authorities decided to expand the Allenby Border Terminal's opening hours for Palestinian goods. The Jalama crossing connecting the Gilboa region in Israel with the Palestinian city of Jenin was opened to vehicles in November 2009 for the first time in eight years. While these decisions made a contribution to economic growth and on improving the economic and social conditions of the Palestinian population in the West Bank, further and sustained efforts are still required, as the framework for such improvements remains severely constrained.

Violence perpetrated by Israeli settlers against Palestinians and their property continued in 2009, with a monthly average of about 29 such incidents. In December 2009, a mosque in the West Bank village of Yasuf was torched, allegedly at the hand of settlers angry about the settlement freeze announced by the Government. The authorities arrested suspects in January 2010. Several NGOs urged the Israeli Government to take measures in order to provide Palestinian residents of the West Bank with full protection.

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

With regards to the EU-Israel Informal dialogue on non-proliferation of weapons of mass destruction, the EU continued its efforts to make progress in the implementation of the 1995 NPT Resolution on the Middle East. In the reporting period, it announced the intention to organise a follow-up event to the seminar "Middle East Security, WMD Non-Proliferation and Disarmament", which took place in 2008.

Combating terrorism

The Israeli Government continued to put considerable emphasis on terrorism as a challenge to security and political leadership. Israel expressed interest in deepening collaboration with the EU in this area, in the form of specialised working groups on various anti-terrorism issues.

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. This included discussions on UN-related matters, such as human rights, climate change, the International Criminal Court, UN peacekeeping, and the UN reform process – System-wide Coherence. Good progress was made in relation to Israel's accession to the OECD.

Israel is party to most international human rights instruments but not to their optional protocols. It has four overdue reports of UN Treaty Bodies and it has not extended an open invitation to all thematic special procedures. During the reporting period Israel did not cooperate with the Special Rapporteur on the situation of Human Rights in the Palestinian Territories occupied by Israel, accusing the Rapporteur of political bias in favour of the Palestinian side. Israel has not responded to requests for a visit by five UN Special Rapporteurs.

Regional cooperation

Trilateral cooperation (involving Israel, the Palestinian Authority and the European Commission and covering trade, transport and energy) has considerable potential but has stalled.

3. ECONOMIC AND SOCIAL COOPERATION

Despite its high integration with the US and European economies, the export-oriented economy of Israel was one of the least affected by the global economic and financial crisis and among the earliest to stage a recovery. Several factors – the export and import structure, the absence of a housing bubble or a bank credit boom, high household savings rates and the specific policy responses – helped Israel to minimise the impact of the crisis, so the economy was technically out of the recession as from the second quarter of 2009.

The reduction of the public debt and the structural reforms of recent years as well as the decisive easing of fiscal and monetary policy shielded GDP growth in 2009 which recorded an increase of around 0.5% compared to 4.1% in 2008.

Fiscal policy was expansionary during 2009, in part reflecting the financial cost of the Gaza conflict, the set up of an inclusive (0.7% of GDP) economic stimulus plan and the use of automatic stabilisers. The earlier well-established framework of fiscal rules – comprising ceilings on deficits and on the growth of real spending – was set aside while the Government adopted a two-year 2010-2011 budget, implementing the fiscal stimulus. Thus, despite that tax revenues were stabilised at the end of 2009, the public deficit was expected to rise to around 5% of GDP in 2009 while public debt was expected to approach 79% of GDP.

Monetary policy was eased decisively by the Bank of Israel which reduced interest rates (from 2.5% in summer 2008 to 0.5% in April 2009), resorted to quantitative easing and intervened in the foreign exchange market through programmed purchases of USD which were replaced later by discretionary purchases. In August 2009, the Central Bank of Israel responded to higher than expected inflation (3.3%) and became the first developed-economy central bank to raise its interest rate (to 0.75%) since the onset of the global financial crisis. In December 2009 and January 2010, it continued to tighten monetary policy by raising its key discount rate by 25 basis points (to reach 1 %). Inflation for 2009 remained above the upper

limit of the Bank of Israel's 1-3% price stability range. However, stripping out seasonal factors and taxes and surcharges, the annual rate of inflation was 2.6%.

Both exports and imports fell since the beginning of 2009. Export value of goods and services dropped by 20.1% and 7.5% respectively compared to 2008, while import value of goods and services decreased by 28.1% and 12.1% with respect to the previous year. This fall was due to the economic crisis, but came also as a result of the improvement in the terms of trade and real depreciation of the *shekel* during the year. The decline in total exports of goods and services (16.4%) was more moderate than that in total imports of goods and services (24.3%). The most notable fall in imports was in investment goods (producer durables) in the first semester; this trend reversed when the recovery of the economy began. Export activity was mainly based on services and electronic components while exports of goods excluding diamonds and electronic components remained sluggish particularly in the first quarters of 2009. As a result, the balance of trade recorded a surplus of around 2.1% of GDP in 2009 while the current account surplus widened to around 3.5% of GDP in 2009.

The banking sector remained solid and the various emergency financial sector support initiatives remained in place at the end of 2009, even though their use by the banks was limited. However, the authorities launched procedures for taking actions to strengthen the content of supervision (*see chapter 4, section on financial services*).

Employment and social policy

Poverty and inequality remain widespread in Israel. Over 20% of households are below the poverty line compared to the OECD average of 11%. Poverty is concentrated among the 20% of the population belonging to the Arab minority (of which 50% are below the poverty line) and the estimated 8% who are ultra-orthodox Jews (of which 60% are below the poverty line). The Bedouin community suffers from a very high poverty rate estimated at 80% among the unrecognized villages. In November 2009, Israel celebrated for the first time the International day for the eradication of poverty. On this occasion, the Knesset reported on the inability of the Government to address social and education gaps.

The **unemployment** rate stopped declining and was at 7.4% in November 2009. The highest rate of unemployment, 11.3%, was in the south of the country and the lowest rates were in Jerusalem and Tel Aviv with some 4%. The Ministry of Industry, Trade and Labour prepared in May 2009 an Emergency Plan for Unemployment aimed at combating rising unemployment caused by the economic crisis. Some minority groups reportedly face specific difficulties in accessing the labour market. Labour force data reflect serious gaps in labour force participation for Arabs and Haredim, with only 23% of Arab women in the labour force and one in four Haredi men engaged in paid work.

In the area of **social inclusion**, the Knesset approved in June 2009 regulations enabling savers in pension funds to manage their portfolio themselves with some limits. It also approved in January 2009 a comprehensive social assistance system (a "safety net") for people over 57 years old under certain conditions. The safety net will be activated in 2011.

As regards **social dialogue**, the Government agreed in July 2009 to enact 15 laws that would secure employees' rights in the work place.

Israel continued to promote **women's participation** in social, economic and political life. For the first time, in 2009, a female Deputy Minister for the Advancement of Young People,

Students and Women was appointed. Women's organisations hope that this constitutes a step towards appointing a (female) minister charged with women's affairs. However, there is pronounced inequality in women's participation in the political system in Israel. The percentage of women represented in the Knesset (elected in 2009) is 19%. Women are continuously under-represented in the Knesset in comparison to other countries.

The second phase of establishing **sustainable development** indicators was finalised and the indicators were published in August 2009 by the Ministry of Environmental Protection, the Environmental Policy Centre of the Jerusalem Institute for Israel Studies and the Central Bureau of Statistics.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

In the reporting period, the EU remained the first **trading** partner for Israel, with imports (excluding diamonds) representing 37% and exports (excluding diamonds) 29%. Bilateral trade was however reduced by 20% year-on-year reflecting the impact of the global crisis. During the 2008-2009 reporting period, EU imports from Israel fell by over 20% and EU exports contracted by 18%. Some market access problems remain, but progress was made in tackling trade irritants at the end of 2009 and in early 2010.

As regards the liberalisation of **trade in agricultural products, processed agricultural, fish and fishery products**, the European Commission and Israel signed in November 2009 a new agreement that entered into force in January 2010.

In 2009 the Israeli **customs** worked on a pilot phase of the TRACK (Trade related authorities and customs keystones) system, which allows operators and customs agents to lodge requests to the competent authorities and to follow up the procedure on line. The system transmits electronic authorisations to the customs authorities.

On **free movement of goods and technical regulations**, the European Commission and Israel initialled in June 2009 a framework Agreement on Conformity Assessment and Acceptance (ACAA) of Industrial Products, which includes an annex on good manufacturing practices for pharmaceutical products. This agreement awaits ratification. Other priority sectors include pressure vessels and medical devices. In the field of medical devices, the draft law passed the first reading in the Knesset already in 2008 and the preparations of second and third reading started in the relevant committees after the 2009 elections. The way forward with pressure vessels is under discussion with stakeholders. Israel is also considering its possible interest in machinery as another potential priority sector.

Some progress can be reported on **consumer protection** as the Knesset Economic Committee approved in November 2009 an amendment to the law which improves customers' ability to withdraw from ongoing distance selling deals. Accordingly, the customer would be able to cancel the ongoing deal, while paying only for the time he actually used the service. The amendment has still to be approved in second and third readings. The new commissioner for consumer protection and fair trade was appointed just after the reporting period, in early January 2010.

Regarding **sanitary and phyto-sanitary** (SPS) matters, in March 2009 the new phyto-sanitary law for import of plants and plant products entered into force. Israel also adopted new sanitary rules for meat imports. In late 2009, the Food and Veterinary Office (FVO) carried

out several missions to Israel on poultry, fishery products and milk products, respectively, which confirmed the high level of protection enforced by competent authorities.

On the **business climate**, the Government approved in June 2009 an amendment to the trust funds law that would enable foreign funds to offer their products in Israel. No progress can be reported as regards **company law**. During the reporting period, Israel started work on amendments to the regulation requiring companies to submit documents to the Companies Registrar not only in Hebrew but also in English. The Act on corporate governance is still under consideration in the Knesset.

In the area of **audit and accounting**, the Ministry of Justice and the Securities Authority started working towards the establishment of an independent institution to supervise accountants in public companies.

The bilateral negotiations for the liberalisation of **services** and establishment continued in 2009, focussing mainly on telecommunication and financial services.

In the field of **financial services**, the new Bank of Israel (BoI) law was approved by the Cabinet in July 2009 and then submitted to the inter-ministerial committee. The draft law will increase the independence of the central bank, establish a committee with power to set monetary policies, and a separate management committee to manage the bank's administration. In June 2009, the Government approved an amendment prepared by Israel's Securities Authority to the trust funds law that would enable foreign funds to offer their products in Israel. The amendment still needs to be submitted to the Parliament.

Other key areas

A new OECD-compatible agreement on double **taxation** between Israel and Germany was initialled in June 2009. The Israeli tax authority proposed a new version of its proposal for a reform of the taxation of alcoholic beverages. The new tax regime would put an immediate end to the discrimination between imports of whisky and of other alcoholic beverages and would eliminate the *ad valorem* uplift in price on imported spirits (TAMA) by 2014. The final version of the reform is subject to Knesset approval. In order to strengthen its administrative capacity to fight fictitious invoices which cause a considerable loss of revenue for the Israeli treasury, the Israeli tax authority set up a new system for the online VAT reporting of sales and inputs. In November 2009, the Knesset approved the 'green' car tax reform.

With regard to **competition policy**, the Israeli Anti-Trust Authority (IAA) issued decisions in the banking and air transport sectors in 2009. No progress can be reported in the field of state aid.

Significant progress was made during Israel's accession process to the OECD in addressing the EU's long-standing concerns in the area of **intellectual property rights**, especially for pharmaceuticals. However, the IPR legislation needs to be further aligned with EU requirements to ensure full market access and fair competition on the world markets.

Concerning **public procurement**, the "Blue & White" plan was launched in August 2009 to promote locally manufactured goods. The objective is to create awareness among government institutions, public bodies and final consumers to buy locally manufactured goods in order to boost the Israeli economy, create new jobs and save existing ones. The plan does not, however, impose any legal obligations to buy local products. A group of Members of Knesset

submitted in August 2009 a draft law granting preferences to local textile companies over foreign bidders in government textile procurements. The draft notes that it would be relevant only to cases which do not contradict Israel's international economic obligations.

In the area of **statistics**, Israel cooperated fully over the reporting period in the regional working group bringing together representatives of the statistical offices of Egypt, Jordan, the Palestinian Authority and Israel which aims in particular at defining a work programme to reduce asymmetries in the future.

On **enterprise policy**, Israel continued to implement the Euro-Mediterranean Charter for Enterprise. A Small Business Act, which would combine all mechanisms of support to Small and Medium Sized Enterprises (SMEs), is under preparation and is expected to be finalised by 2011. The Ministry of Industry, Trade and Labour also plans a new model for an executive agency for small businesses. The Chamber of Commerce signed an agreement on the pensions for proprietors of small businesses and the self-employed in December 2009 and it is hoped that it will pass in the parliament soon. Late payment to companies was eliminated in government ministries. Small Business Development Centres (MATI) continued training, fund raising from foundations and banks, and coaching of new businesses. There are 25 MATI organisations all over Israel. The third annual meeting of the EU-Israel Business Dialogue took place in October 2009. This business-led dialogue provides a platform for European and Israeli businesses to network and to identify regulatory issues of common concern. The Israeli Industry Centre for Research and Development, a fully fledged member of the Europe Enterprise Network (EEN) since 2008, participated actively in the EEN activities. In 2009, the Israel-EU Chamber of Commerce organised a seminar on the economic crisis and a public discussion on the environment and renewable energy in close cooperation with EU partners.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In 2009, bilateral cooperation in the field of **migration** focused on exchange of best practices between Israel and EU Member States, both being destinations for immigration. Israeli authorities, guided by a rising awareness that the country is increasingly becoming attractive for non-Jewish immigrants, invited experts from EU Member States to a seminar in December 2009 with a view to sharing experience and policy options. In recent years Israel has become a destination country for African **asylum-seekers**, mainly from Sudan and Eritrea.

With regard to the fight against **organised crime**, Israel did not proceed with the ratification of the remaining Protocols to the 2003 United Nations Convention on Trans-National Organised Crime on the Illicit Manufacturing of and Trafficking in Firearms, Their Parts, Components and Ammunition.

In the context of the fight against **trafficking of human beings**, the Ministry of Foreign Affairs organised a workshop on human trafficking in May 2009 in cooperation with the IOM, to promote international cooperation and raise awareness of sanctions, protection and prevention measures. Israel also supported the implementation of an EU-funded project to build capacity to manage migration pressures including trafficking, in cooperation with civil society groups. Israeli officials participated in a study visit to Austria and Belgium in April 2009 on the identification of victims of trafficking for forced labour and the operation of victim support services. Israel remains a key destination for persons trafficked for sexual exploitation. While law enforcement agencies continue working against human trafficking, their actions fell short of minimum international standards. A successful conviction against

employers and recruitment agencies for labour trafficking has yet to emerge. As was the case in 2008, attention needs to be paid to rehabilitation of victims including housing and medical service support in the context of the implementation of the national plan to combat human trafficking.

With regard to the fight against **drugs**, legislative measures were taken to include new substances into the Dangerous Drugs Ordinance. Israel cooperated with the work of the Mini Dublin Group in June 2009 which noted the need for intensified international and regional cooperation. Recommendations included the establishment of a central anti-drug unit within the Israeli police as well as accurate information exchange with neighbouring countries on precursors. Drug trafficking and its links with national and international organised crime networks remains an issue of concern. Israeli law enforcement officials participated in the EU-sponsored regional Lex Pro (Law Enforcement Exchange) programme including workshops on drug interdiction at seaports and strengthening border controls against smuggling, in March and April 2009 respectively. In addition, Israeli Anti-Drug Authority officials participated in a regional coordination meeting hosted by UNODC in Cairo in June 2009 alongside representatives from Egypt, Jordan, Morocco and the occupied Palestinian territory.. Israel participated actively in the regional Euro-Med Police II programme on drug cooperation and the annual meeting of the UN Commission on Narcotic Drugs (CND-ECOSOC) in March 2009 as well as the UN meeting of Heads of National Drug Law Enforcement in June.

With regard to the fight against **money laundering**, the relevant supervision authorities continued implementing of the national control regime based upon the 40 plus 9 Special Recommendations of the Financial Action Task Force (FATF) while due diligence, KYC ('know your customer') and KYB ('know your business') practices continued to be implemented within financial institutions and the financial services industry in line with statutory obligations.

In the area of **police and judicial cooperation**, work continued as in 2008, on the negotiation of operational agreements with Europol and Eurojust. It is a precondition for the conclusion of such agreements that Israel ensure an adequate level of protection of personal data. In this regard, implementation of a twinning project on data protection started in June 2009. The project aims to ensure the effective enforcement of national legislation on privacy in line with European standards as set out in EU Directive 95/46/EC and to raise public awareness among the Israeli administration, personal data controllers and the public on personal data protection. In December 2009, the Working Party established under Article 29 of the latter Directive, delivered a favourable opinion on the level of adequacy as regards protection of personal data. As regards civil judicial cooperation, Israel expressed interest in acceding to the Lugano Convention on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial matters.

In 2009, Israel ratified the UN Convention against **Corruption**. In international surveys on corruption perception Israel ranks similarly to EU Member States. Investigations were opened during the year against high-ranking Israeli politicians on grounds of corruption.

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

Israel cooperates with the EU in order to promote financially sustainable, integrated multi-modal transit networks in urban regions in Israel. The cooperation entails the establishment of necessary procedures, standards and requirements to manage sustainable public transport and extends to the creation of a core national transit authority to oversee the provision of public **transport** at national level.

There were a number of delays in the construction of major railway and road infrastructures as well as in the development of the first light rail lines in metropolitan Tel Aviv and an underground railway station in Jerusalem.

Negotiations on a comprehensive EU-Israel Euro-Mediterranean aviation agreement continued in 2009. The agreement should provide for gradual market opening combined with a high-level of regulatory convergence. As regards aviation safety, Israel needs to further increase resources in order to ensure efficient safety oversight of air carriers.

Cooperation continued to progress in the Global Navigation Satellite Systems (GNSS) field. Israeli Representatives took part in an FP7 event, called Growing Galileo, in January 2009 in Brussels. The first interim review of projects was carried out by the European GNSS Supervisory Authority. Four new projects were selected for funding for a total of EUR 1.9 million. The setting up of the European Geostationary Navigation Overlay Service (EGNOS) ranging and integrity monitoring stations on Israeli territory is ongoing.

As regards the maritime sector, in May 2009 the Israel Ports Company (IPC) completed the construction of the new Carmel container terminal and turned it over to the Haifa Port Company for operations. It is expected that the terminal's infrastructure will facilitate more efficient service for importers and exporters and benefit the Israeli economy. The IPC has already begun design work on the next stage container terminals that will be needed during the coming decade. In September 2009 the ministerial committee for privatization approved the sale of 15% of the government's holdings in the Haifa and Ashdod port companies in 2010. A Maritime Rescue and Coordination Centre (MRCC) was established as of June 2009 by the Israeli Maritime Administration on its premises and under its direct supervision.

Within the regional MEDAMOS I (MEDA Motorways of the Sea) programme, the axis Haifa /Trieste (Italy) was selected as one of the four pilot projects and received additional technical assistance.

Since March 2009 a twinning project with the Ministry of transport and road safety aims to promote financially sustainable, integrated multimodal public transport networks in urban regions, and to develop the capacity of the Ministry.

In the field of **energy**, Israel took steps towards the private production of electricity. Israel continued the construction of internal gas pipelines and further prepared the future construction of LNG facilities. With a view to future gas supplies, Israel confirmed its interest in importing Caspian energy resources.

Israel pursued the implementation of its objectives to reach, by 2020, 20 % energy savings and a 10 % share of renewable energy sources in electricity generation. In November 2009, the Government launched a new energy efficiency plan and media campaign. Israel adopted a

strategy to advance renewable energies particularly in the Negev and the Arava valley, established a Clean Energy Forum of stakeholders and announced a tender for the establishment of a renewable energies centre. It also launched various projects for new wind farms, solar thermal and photovoltaic power plants. Israel furthermore started preparations for a master plan for the development of renewable energies. These actions are of particular relevance in the context of the development of a Mediterranean Solar Plan.

The trilateral energy cooperation between Israel, the Palestinian Authority and the European Commission, which was re-launched in 2008, stalled in the context of the Gaza conflict. The aim remains the establishment of a joint energy office and the facilitation of projects of common interest, such as the joint Israeli-Palestinian “Solar for Peace” initiative. In 2009, an EU funded study to support the “Solar for Peace” project was completed. The European Commission encouraged partners to fully re-activate the trilateral cooperation.

In the field of **climate change**, work continued on greenhouse gas emission inventories and Israel started preparing its Second National Communication to the UN Framework Convention on Climate Change. A Ministerial Committee on Environmental Protection and Climate Change was set up. Sectoral committees started preparing a national action plan on mitigation issues. Work teams were appointed to prepare a recommendation for a national plan relating to preparedness for and adaptation to climate change in the fields of energy demand for heating and cooling, water resources, agriculture, construction, public health, coastal infrastructure, drainage and erosion, economy and insurance, geo-strategic aspects, biological diversity and natural habitats and tourism. Israel took steps to prepare and approve further Clean Development Mechanism (CDM) Projects. Three new such projects were registered at UN level, bringing the overall number of registered CDM projects to 16. Israel associated itself with the Copenhagen Accord and provided information on targets and actions that it will implement.

The Ministry of **Environmental** Protection announced its main priorities for 2010, including waste management, air pollution, climate change, environment education, strengthened enforcement and promoting a sustainable lifestyle. The Government decided to make government ministries more environmentally efficient through setting quantitative, measurable targets *inter alia* for the reduction of electricity, water and paper consumption and the reduction of waste.

New or amended regulations on freedom of information, air quality, waste, hazardous substances, nature protection, protection of the coastal environment and non-ionizing radiation were adopted. Preparations continued with regard to new or amended legislation on asbestos, packaging waste, the marine environment, enforcement, wildlife protection and non-ionizing radiation as well as new or amended regulations on air quality, marine pollution, non-ionizing radiation, noise and the landscape protection fund.

Israel took steps to prepare a packaging and packaging waste policy. “Green taxation” was introduced to promote the purchase of less polluting private vehicles. A strategy on sustainable household consumption and sustainable consumption processes in industry is under preparation, as well as a strategy on industry and the environment. Work continued to implement existing strategies and plans, where continued attention is required.

Steps were taken to strengthen administrative capacity, *inter alia* the establishment of a unit under the nature and parks authority to identify and accompany enforcement of waste offences. New local environment units were set up in some municipalities. Action was taken

towards the establishment of uniform, shorter and consistent administrative enforcement procedures. Overall, the administrative structures still need to be strengthened. Steps were taken to integrate environment considerations in other policy areas, such as transport and agriculture. Some steps were taken to promote integrated permitting, notably in Haifa Bay. Technical guidelines for the industry on integrated permitting were prepared.

Israel continued to publish environmental information on a regular basis, and carried out activities to inform and involve the public. Steps were taken to prepare a set of environmental indicators to reflect the state of the environment in recent years. Preparatory actions continued on a pollutant release and transfer register, including a draft list of its scope, preparations for a pilot study and examination of required legislative, administrative and organisational adjustments.

There were no significant developments in the reporting period concerning ratification of the remaining Protocols to the Barcelona Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean². Israel continued to participate in the Horizon 2020 Initiative, in the preparation of a strategy for water in the Mediterranean (which failed to get approval at the recent ministerial meeting of the Union for the Mediterranean), in the Mediterranean Action Plan and in the EU Water Initiative. Cooperation and information exchange took place between the European Commission and Israel, including on water, pollution reduction in the Mediterranean region and environmental reporting.

In the field of **civil protection**, Israel took part in the a new phase of activities of the Euro-Mediterranean Programme for the Prevention, Preparedness and Response to Natural and Man-Made Disasters that started in 2009, continuing the process of strengthening civil protection activities in the region, enhancing capacities at regional, national and local levels, and promoting institutional cooperation. Hereby, further steps were taken to bring Israel closer to the European Civil Protection Mechanism, contributing at the same time to the development in the region of a civil protection culture based on an integrated approach covering disaster prevention, preparedness and response.

As regards regulatory developments in the **information society** sector, in 2009 the Ministry of Communications only partially implemented the recommendations set out in the report of the Committee for Promotion of Competition in the Telecommunication Industry in Israel (the Gronau Committee). The communications market in Israel is still not effectively liberalized. The Ministry of Communications launched a public consultation on the adjustment of the regulatory regime for cellular Internet services to the market environment, as regards cellular broadband service tariffs, quality, and variety.

In October 2009, Israel's leading electronic communications provider announced the sale of approximately 30% of the company's share capital. The Ministry of Communications in charge of promoting competition in the sector, is closely examining the implications of such a transaction for the development of competition and for the growth of the telecom sector. The same month the leading provider also announced the deployment of the most advanced communications network in Israel, while speeds on existing networks already reach around 10 MB. In addition, they announced a number of advanced services such as a new standard

² Israel has signed but not ratified the Barcelona Convention's New Emergency Protocol, nor the protocols on Specially Protected Areas and Biodiversity and Integrated Coastal Zone Management (signed in January 2008). It has not ratified the amendments to the Dumping protocol.

wireless router, a storage portal on the network, High Definition telephony, self-service services for telephone line management through the internet, and internet telephony.

The Ministry of Communications granted a Voice Over Broadband (VOB) licence to a company owned by the leading provider. The licence will enable the company to deliver VOB services to private customers and business clients.

In December 2009, the Ministry of Education and the Ministry of Communications decided to carry out an extensive programme to increase Internet safety awareness among children and teenagers. The programme will cover unsafe usage, such as network bullying or exposure to violent or illegal contents.

Exchanges of views on cultural and **audiovisual** policy took place in various frameworks such as European Film Festivals and training workshops.

In the area of **science and technology**, the already extensive cooperation between the EU and Israel was further developed. Israel has been associated to the 7th Framework Programme for Research and Development (FP7) since its inception. By November 2009 nearly 700 Israeli research entities had been selected for funding, particularly in the Ideas programme and in the Information and Communication Technologies (ICT) and the Health themes. The performance of Israeli universities and research institutes was particularly strong, with these organisations receiving some 63% of the overall funding of EUR 243 million in grants going to Israeli participants up to November 2009.

In November 2009, Israel and the EU organised their fifth Joint Research Committee meeting at which both sides expressed satisfaction with the development of S&T cooperation. Beyond the Israeli participation in FP7 the parties also discussed the participation opportunities for EU researchers in Israeli research programmes and projects.

The Scientific Council of the European Research Council (implementing the Ideas programme of FP7 in frontier research) met in Israel in December 2009. On that occasion, an information day on the Ideas programme, aimed mainly at Israel's research universities was held.

Eleven Israeli research organisations are collaborating with European Commission the Joint Research Centre of the in 14 competitive activities (FP6 projects) (food safety and quality, nanotechnology, photovoltaics, health, environment, chemicals and energy).

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

In May 2009, a first senior officials meeting on implementation of the Joint Declaration with the European Commission on cooperation and dialogue on **education** and training took place in Brussels with an exchange of views on approaches to lifelong learning, recognition of study credits and utilization of information and communication technologies in education. The Ministry of Education published plans to develop of school education in peripheral areas by providing financial incentives for teachers and to increase the number of high schools entitled to Government aid by some 100 schools. However, investment in education per capita remains far below comparable international indicators at all systemic levels including salary levels and pupil-teacher ratio.

In October 2009 the Israeli Council for Higher Education presented the Knesset with data showing that Israel has the highest rate of brain drain in the world, warning against continued erosion of **higher education** and the status of academics. However, inadequate funding of higher education continues to be an area of concern alongside academic freedom and movement of people including Palestinian students and academics.

Israel participated actively in the second Call for Proposals for Tempus IV benefiting from one project, on quality assurance at regional level for the academic year 2009-10. In addition, Israeli students and scholars benefited from Erasmus Mundus scholarships, including 69 mobility grants. Israeli universities are encouraged to continue submitting high-level applications for projects under the Jean Monnet programme.

In the field of **culture**, nine projects were selected under a call for proposals for local and regional cultural activities including Arab-Israeli intercultural cooperation. At regional level, Israel participated actively in the new Euro-Med Heritage IV programme.

As Israel is not a party to the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, a dialogue and exchange of views on cultural and audiovisual policy did not emerge. On the same grounds, Israeli cultural organisations could not participate in the Call for Proposals for the 2009 ENP Special Action under the Culture Programme.

Extensive contacts continue between the EU Delegation and representatives of Israeli **civil society**. A seminar for European, Israeli and Palestinian NGOs was organised in Ireland in February 2009 to learn from peace-building experience before and during the Irish Peace Process. A successful means of developing links between Israeli and EU civil society within the ENP framework remains to be formulated.

Israel and the EU sustained **health** sector dialogue. Israel took measures to combat influenza A (H1N1) including through vaccination and an awareness campaign. In October 2009, Israel participated in the newly established EU enlarged health information committee. Israel pursued participation in the 'Episouth' network on communicable diseases for the EU, Mediterranean and Balkan countries.

8. FINANCIAL COOPERATION – 2009 KEY FACTS AND FIGURES

The European Neighbourhood and Partnership Instrument (ENPI) envelope for Israel under the National Indicative Programme 2007-2010 is EUR 8 million, initially divided into four yearly EUR 2 million tranches. The proposal was slightly reduced in 2009 to EUR 1.5 million.

As a developed country, Israel is not a typical beneficiary of ENPI assistance. Instead, the programme is geared towards supporting the achievement of key policy objectives as outlined in the EU-Israel ENP Action Plan and pursues the approximation of Israeli norms and standards to those of the EU.

Currently, implementation of the measures covered by the 2007 Annual Action Programme is still underway with two twinning projects in the field of data protection and transport. A third twinning project will start in March 2010 with the overall objective of strengthening the capacity of the Equal Employment Opportunity Commission in Israel. A call for proposals to

select the twinning Member State counterpart is ongoing in the field of veterinary standards. Identification of projects from the 2009 allocation is still in progress.

An indicative financial envelope of EUR 6 million will be available to support co-operation activities in Israel in period 2011-2013, based on a European Commission decision of March 2010.

In addition to the bilateral allocation, Israel also benefited from cooperation activities financed under the ENPI multi-country and regional programmes, as well as horizontal thematic programmes, such as the "Partnership for Peace" Programme for civil society organisations, the European Instrument for Democracy and Human Rights (EIDHR) and the Non-State Actors and Local Authorities in Development (NSA/LA) programme.

Israel also participates in the Cross-Border Cooperation (CBC) Mediterranean Sea Basin programme (EUR 173.6 million for the whole programme in the period 2007-13).