

Chapter 1: Strategic Case

Introduction

The United Kingdom (UK) and Israel have agreed to start negotiating an ambitious new Free Trade Agreement (FTA) to strengthen our economies and deepen our friendship.

Our existing trading relationship with Israel is worth £5 billion. A new deal will build on the current UK-Israel Trade and Partnership Agreement, which replicates the scope of existing trade agreements between the EU and Israel. The trade agreement, which forms the basis of our current trading relationship, was originally signed in 1995, before smartphones, artificial intelligence and the internet transformed our economies. While it allows tariff-free trade on 99% of UK goods exports by value, it currently contains scant provision for the UK's thriving services and digital sectors.

We intend to change this by putting trade in services at the heart of a modern new FTA. As two of the most innovative and dynamic economies in the world – both in the top 15 of the Global Innovation Index – we know that the opportunities of the future will come from sectors in which we both excel, such as technology, research and development, digital and data.¹

Israel's economy is growing rapidly, with its service sector growing by 45% over the last 10 years². A new FTA will allow us to take advantage of this growth, generating ever more opportunities for UK firms to export their goods and services.

Upgrading our trade deal with Israel will help unlock a stronger, more advanced partnership. The new deal will play to our strengths, reflecting the realities of trading in the 21st century and allowing us to take advantage of future innovations.

An FTA with Israel must work for UK consumers, producers, and businesses. We remain committed to upholding our high environmental, labour, food safety, product safety, and animal welfare standards in our trade agreement with Israel. We will not accept any provisions that would increase the cost of medicines for the National Health Service (NHS). Protecting the NHS is a fundamental principle of our trade policy, and our commitment to this will not change during our negotiations with Israel.

An FTA with a strategic partner

The UK is proud of its deep and historic relationship with Israel. As open, innovative and thriving economies, the UK and Israel are close allies and strategic partners. Israel is one of the largest, most vibrant economies in the region, with which we already enjoy a strong trading relationship.

But there is scope to go further, and we have a golden opportunity to do just that through a new FTA. A new FTA could make it cheaper and easier for innovative UK services and tech companies to trade with Israel, benefiting sectors including finance, accountancy and legal.

As world-leaders in innovation we can build on and strengthen existing cooperation by agreeing new provisions to support innovation in our economies. Israel is the global leader in R&D expenditure as a proportion of national income, spending almost 5% of GDP on it.³ And more money than ever is flowing into UK tech - £29 billion in 2021.⁴ By the end of last year, the UK

¹ WIPO (2021), Global Innovation Index 2021: Tracking Innovation through the COVID-19 Crisis.

² World Bank: World Development Indicators (Accessed June 2022).

³ World Bank: World Development Indicators (Accessed April 2022).

⁴ DCMS (2021). Press release: UK tech sector achieves best year ever as success feeds cities outside London. Available at: <https://www.gov.uk/government/news/uk-tech-sector-achieves-best-year-ever-as-success-feeds-cities-outside-london>

boasted no fewer than 115 tech unicorns⁵, while Israel's 53 tech unicorns and start-ups secured £18.5 billion of new funding in 2021.⁶

Israel is a natural trading partner for the UK and a new FTA could lead to more trade between us. This will increase competition and drive innovation as companies in the UK and Israel adapt and evolve to emerging technologies.

The FTA will complement the new UK-Israel Bilateral Roadmap, which promises to transform our relationship in the years ahead. We have agreed to work together on a new strategic plan spanning many areas of mutual interest such as science, innovation, defence, health, development, and climate change.

We are confident that the UK and Israel can agree an ambitious deal that will benefit both our economies. Israel's imports of goods and services are projected to double by 2035;⁷ this FTA can build on our existing £5 billion trading relationship and unlock new opportunities for businesses across the UK.

The government also takes seriously its international obligations and commitments, including on human rights. The UK calls on all states to uphold international human rights obligations and will continue to speak frankly about these issues with Israel through Ministerial and diplomatic channels. An FTA will not impact on export controls in relation to arms exports.

Under the current UK-Israel agreement (rolled over from the EU), goods imported from illegal settlements are not entitled to the benefits from trade preferences in our existing trade agreement with Israel. Palestinian goods imported from the Occupied Palestinian Territories benefit from the trade preferences in the bilateral agreement negotiated between the UK and the Palestinian Authority. The UK is clear that it does not recognise the Occupied Palestinian Territories as part of Israel, including the settlements. The UK is clear that Israeli settlements in the Occupied Palestinian Territories are illegal under international law. As set out in FCDO guidance on overseas business risk, there are clear risks related to economic and financial activities in the settlements.

An FTA Fit for the Future

The UK and Israel have a shared culture of producing entrepreneurial, tech-savvy and innovative businesses. Our countries have deep cultural links, and a fresh FTA could boost opportunities for the services sector. We are determined to negotiate an FTA that is fit for the future.

We are also committed to ensuring that our trade policy supports environment and climate objectives, both now and in the future. We will maintain our high levels of environmental protection and seek opportunities to strengthen cooperation to help tackle shared environmental challenges, including climate change.

The fact is the UK and Israel are largely services-based economies. In 2020 services accounted for 80% of the UK's economic activity, and 78% of Israel's.⁸ In addition, 81% of UK workers are employed in the services sector, which compares with 82% in Israel.⁹ However, just 36% of total trade between us is rooted in services, suggesting opportunities for firms in our powerhouse services sectors are being missed.¹⁰

⁵ A unicorn is a privately held start-up firm that is valued in excess of \$1 billion.

⁶ Start-Up Nation Central (2022). Available at: <https://startupnationcentral.org/news/start-up-nation-central-summarizes-2021-a-record-breaking-year-for-israeli-tech-25-billion-raised-and-an-unprecedented-number#:~:text=%E2%80%932021%20saw%2033%20privately%20held,raising%20an%20accumulated%20244%20billion>

⁷ DIT analysis based on methods outlined in the Global Trade Outlook published by DIT in 2021.

⁸ OECD (2020), Value added by activity. Accessed June 2022. Available at: <https://data.oecd.org/natincome/value-added-by-activity.htm>

⁹ World Bank (2019), World Development Indicators. Accessed March 2022.

¹⁰ ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2021 edition.

The deal will create new opportunities for UK services providers, help Brits and Israelis travel to each other's countries, and make it easier to invest in each other's economies. Our two countries are proud of our status as innovators, boasting highly educated, highly skilled workforces, with strong research and development sectors and rich start-up ecosystems. That is why we will place innovation at the heart of this new FTA. This deal will unlock real potential for UK and Israeli businesses and their customers, boosting both UK service exports and imports by as much as 9% in the process.

An FTA for the entire UK

A deeper and bolder FTA would allow British and Israeli firms to benefit from greater market access and reduce trading costs. It could boost UK services exports to Israel by up to £78 million, with wider tech and innovation intensive sectors potentially in line to gain as well.

Around 6,600 businesses from all four corners of the UK exported their goods to Israel in 2020. Of these firms, 5,600 were Small and Medium Sized Enterprises.¹¹ The UK's SMEs could be among the biggest winners from an FTA with Israel, as we seek to make it easier to do business and focus on trade barriers that may have deterred them from entering this exciting marketplace in the past.

With fewer barriers, we can expect more Israeli businesses to see Britain as a good place to set up shop. In 2020, Israeli-owned businesses operating in the UK employed more than 7,000 people across the country.

Over 1.7 million people are employed by British companies that export to Israel. In the North West alone, over 1300 businesses exported goods to Israel, with regional exports of goods totalling £125 million in 2021. London, the UK's services hub, exported goods worth £265 million to Israel in the same year, while Scotland, Wales and Northern Ireland had exports of £92 million, £66 million and £24 million respectively.

And there could be new opportunities for UK companies to collaborate with Israel on infrastructure projects too, such as the Tel Aviv Metro Project, which has seen companies like Crossrail International already play an important role in sharing UK expertise and knowledge.

There could be new opportunities for British companies and institutions wishing to invest in Israel's growing economy, building on the £1 billion that has been invested in Israel by UK firms.¹² In the decade between 2011 and 2021, 116 Israeli FDI projects were started in the UK, 75% of which were in ICT and electronics, professional services, life sciences, and the creative industries sectors.¹³

Conclusion

Our FTA programme is firmly establishing our nation as a truly Global Britain. As we continue this journey, we will build ever stronger and deeper relationships with friends and partners like Israel, breaking down barriers to trade, fighting protectionism and promoting free trade around the world.

Striking an ambitious new FTA with Israel is a top priority for the UK, it will boost innovation, grow our world class services sector, and build a closer partnership with one of the world's most high-tech countries.

Our approach to these negotiations has been informed by a wide-ranging call for input on trade with Israel, which received a good level of response from the UK public, businesses and civil society. Chapter 2 sets out our response to the call for input and Chapter 3 sets out our outline

¹¹ HMRC (2021), UK trade in goods by business characteristics: 2020

¹² ONS (2022), Foreign Direct Investment (FDI) totals for inward and outward flows, positions and earnings: 2019 & 2020. Accessed February 2022.

¹³ FDI markets, Online database of cross border greenfield investments (accessed April 2022).

approach to these negotiations, and Chapter 4 contains our Scoping Analysis of the economic impacts of a new FTA with Israel.

Chapter 2: Response to the Call for Input on Trade Negotiations with Israel

The Department for International Trade opened a call for input on 1 February 2022 to give businesses, business associations, civil society and members of the public the opportunity to inform the UK's negotiating objectives.

The call for input ran for 8 weeks, closing on 30th March. In this period, we spoke to a range of stakeholders from business and civil society across the UK. We would like to thank all who engaged with the process and submitted responses.

Overview of the Response

In total, we received 162 responses to the consultation. Respondents were given the option of replying either through our online questionnaire, hosted by the Qualtrics platform, or to a dedicated inbox monitored by the Department for International Trade.

The questions that were included on the online platform were available to respondents in a PDF form to facilitate review and distribution. The division between the number of responses can be seen below:

- Online questionnaire responses: 141
- Emails: 21

Respondents were categorised into one of the following five groups:

- An individual – Responding with personal views, rather than as an official representative of a business, business association or another organisation.
- Business – Responding in an official capacity, representing the views of an individual business.
- Business association – Responding in an official capacity, representing the views of a business representative organisation or trade association.
- Non-governmental organisation (NGO) – Responding in an official capacity as the representative of a non-governmental organisation, trade union, academic institution or another organisation.
- Public sector body (PSB) – Responding in an official capacity as a representative of a local government organisation, public service provider, or another public sector body in the UK or elsewhere.

A breakdown of responses by respondent group can be seen below:

Respondent group	Responses (portal)	Responses (email)
Individual	72	1
NGO	25	2

Business	27	5
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Business association	16	12
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PSB	1	1
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TOTAL	141	21

Policy Response

This section contains the government's explanation of its policy in relation to the comments raised by the respondents in the call for input on trade negotiations with Israel.

Individual policy areas that were raised in the consultation are summarised, including specific key asks. A short response has been provided here, whilst more detail about how we will approach each of these areas in the negotiations can be found in the accompanying outline approach in Chapter Three.

The policy areas are:

- Tariffs
- Rules of origin
- Customs procedures
- Services
- Digital
- Product standards, regulation and certification
- Sanitary and phytosanitary (SPS) measures
- Competition, state-owned enterprises and subsidies
- Government procurement
- Intellectual property
- Investment
- Innovation
- Environment and Climate change
- Trade remedies
- Dispute settlement
- Small and medium-sized enterprises (SME) policy
- Labour standards

- Other (Gender Equality and Women's economic empowerment, Anti-corruption, Development, Human Rights)

A number of respondents opposed the UK entering into a new FTA with Israel and some called for the UK to focus on improving its trading relationship with the Occupied Palestinian Territories.

The UK's position is that Israeli settlements in the Occupied Palestinian Territories are illegal under international law. While the focus of this agreement is trade with Israel, the UK will continue to build upon its commercial links with the Occupied Palestinian Territories under the UK-Palestinian Authority interim political, trade and partnership agreement which came into force on 1 January 2021. The UK is also crystal clear that we are firmly opposed to boycotts. Open, honest conversations best support peace efforts.

Trade in goods

Respondents highlighted where certain Israeli tariffs across a few key agricultural sectors remained high and noted that UK industry could benefit from a reduction in these tariffs.

Policy explanation

Tariffs are customs duties on imported goods. Tariffs are normally applied on a Most Favoured Nation (MFN) basis. World Trade Organisation rules require members to apply the same tariffs to all other members unless an exemption can be relied upon, including where a preferential trade agreement is in place.

In the existing UK-Israel Trade and Partnership Agreement, 94% of product lines of UK goods exports to Israel (covering 99% of the value) benefit from tariff-free access to the Israeli market and 93% of product lines on UK imports from Israel (covering 99% of the value) qualify for tariff-free access to the UK.

The UK will seek to reduce or remove remaining tariffs for UK exports, making them more competitive in the Israeli market. The government shares the respondents' views that reduction or removal of tariffs can create new opportunities for UK producers.

Rules of Origin

For a good to be eligible for the preferential tariffs agreed in the FTA, it must meet the rule of origin for that good, which determines whether the good originated in the FTA party. Rules of origin prevent the circumvention of tariffs and tariff quotas by goods from countries which are not party to the agreement.

Respondents highlighted challenges in obtaining certification from local customs authorities and described the processes as administratively cumbersome. Some respondents called for removal of the need to provide paper-based commercial documents to customs authorities. Some respondents also noted that burdensome rules of origin administration have a particular impact on SMEs.

Respondents highlighted the importance of rules of origin ensuring exports to the United Kingdom are correctly sourced from Israel and called for measures to be considered to ensure the simple and cost-effective application of administrative procedures.

Policy explanation

Rules of origin are used to determine the 'economic nationality' of a good. In FTAs, their purpose is to define which goods can benefit from the agreement, ensuring that it is the traders of the parties to the agreement that benefit from tariff reductions.

The government recognises that preferential access and certainty for supply chains are vital for both UK businesses and Israeli businesses. Israeli goods are currently covered by the existing UK-Israel agreement and those goods which meet origin criteria receive tariff preferences. Under the

existing agreement, as government guidance shows [<https://www.gov.uk/guidance/summary-of-the-uk-israel-trade-and-partnership-agreement>], UK and Israeli exporters are able to use EU materials and processing in their exports to one another.

The UK's objective will be to develop simple and modern rules of origin that reflect UK industry requirements, supported by predictable and low-cost administrative arrangements.

Customs and Trade Facilitation

The Customs and Trade Facilitation Chapter of a trade agreement ensures that procedures at the border are as facilitative as possible in order to make importing and exporting easier.

Respondents called for simplified, transparent and efficient customs procedures, and commitments on the release of goods. Respondents also suggested that customs processes and documentation should be digitised to reduce the administrative burden for businesses.

Policy Explanation

The government recognises the importance of securing customs procedures that are efficient, transparent, and consistent for both UK importers and exporters. The UK seeks to ensure, through its FTAs, that customs procedures are as facilitative as possible and administrative burdens are minimised and predictable.

The government aims to advance customs co-operation in a way that minimises burdens for businesses. Reducing customs delays and costs could increase the ability of businesses, especially SMEs, to trade efficiently with Israel.

In our negotiations with Israel, we will seek provisions that reflect the needs of UK exporters and importers, promote supply chain security, and minimise burdens for business.

Trade in Services and Investment

Respondents noted the opportunity to use a future agreement to negotiate improved services provisions with Israel that would enhance access for services trade, particularly for key interests such as the financial services, and professional and business services sectors. Feedback was largely sector specific with comments relating to particular requirements for those industries.

Respondents noted the link between temporary movement of professionals and opportunities for service suppliers. In particular, there were specific comments about increasing publicly available information relating to visas and improving commitments to facilitate the entry and temporary stay of business persons.

Respondents also expressed an interest in potential opportunities for a future FTA to facilitate the recognition of professional qualifications, while protecting UK standards and public safety.

A number of respondents expressed opposition to the inclusion of investor state dispute settlement (ISDS) provisions.

Policy Explanation

Services are the predominant driver of the UK economy, contributing 80% of GDP in 2021 and employing over 26 million people (approximately 82% of total employment). The UK had a trade in services surplus worth £127 billion in 2021.

Services play an integral role in both the UK and Israeli economies, providing over 70% of the total economic output in both countries. Despite this, only 36% of total trade between the UK and Israel is services-based. This agreement represents an opportunity for the UK and Israel to strengthen their trade in services relationship.

The government wants to ensure that UK services businesses maintain their world-leading position; it is recognised that this would be strengthened by increased access for key UK export

services such as financial, professional business services, and digital services. An FTA can provide more certainty and improved access to Israeli services markets for UK businesses.

The temporary entry and stay of business persons to another country is important to facilitate trade in goods, services and investment, and to ensure the UK remains a world leader in the provision of services.

The government will explore further routes to support opportunities for service suppliers and investors to operate in Israel and the UK and to enhance opportunities for business people whilst maintaining the UK's high professional standards.

The government recognises the importance of maintaining and increasing investment into Israel and the UK. UK investment overseas enables UK businesses to access new markets, increase their financial returns and contribute to both the UK and foreign economies. Foreign investment into the UK provides capital for major projects, helps to fund start-ups, and generates economic growth. The UK-Israel FTA represents an opportunity to create a legal framework of clear and transparent investment rules which provide certainty for investors.

The government will ensure that UK-Israel FTA negotiations are consistent with the UK's interests and policy priorities. It will maintain, in all cases, the UK's continued right to regulate in the public interest to uphold public policy objectives, including for public health purposes.

Innovation

The UK and Israel are among the world's most innovative economies, having been ranked 4th and 15th respectively in the Global Innovation Index. Israel is the global leader in R&D expenditure as a proportion of national income, spending almost 5% of GDP on it.

Responses across multiple sectors called for a standalone chapter on innovation to establish robust cooperation frameworks. Respondents indicated a desire for the UK to cooperate with Israel on innovative technologies and to support existing collaborations including on research and development.

Policy Explanation

The UK's Innovation Strategy sets out our ambition to be a global leader in innovation and secure FTAs that support innovation and innovative businesses.

The UK is driving the consideration of the impacts of innovation on trade, ensuring the global trading system works for innovative businesses. We want to ensure that innovative business and public services benefit from the best of global health innovation, an area in which the UK and Israel excel. In England, Israeli companies already provide an estimated 100 million prescription items and these Israeli produced generic medicines provide value for patients.

This will ensure the agreement is live to the challenges and opportunities that innovation presents and remains fit for purpose as our trade relationships and our economies grow and develop across the lifetime of the agreement.

Digital and Telecommunications

Most of the services trade between the UK and Israel is delivered remotely, demonstrating the importance of digital trade between the two countries. Compared to the UK, and the OECD average, Israel has greater barriers to digital trade, as the 10th most restrictive to digital trade of the 38 OECD countries.

Businesses raised Israel's start-up culture and strong digital economy, with respondents from a wide range of sectors prioritising the negotiation of a standalone digital chapter in the enhanced agreement. Several areas were mentioned; including the removal of the legal requirement to handle commercial trade documentation in paper form, enhancing regulatory cooperation, and delivering meaningful commitments on electronic contracts and e-signatures. Respondents would

like to see digital provisions to enable online sales channels for digital services and goods. There were calls to establish a modern digital trade chapter in line with the UK's precedent with Japan, Australia and Singapore.

Several respondents highlighted the importance of data to business and the desire for the FTA to reflect a balanced approach to data that removes unjustified barriers to data flows and unjustified data localisation requirements, whilst maintaining the UK's high standards for personal data protection. Respondents also felt that the UK should maintain its adequacy decision.

Some respondents highlighted Israel's pre-eminence in high-tech industries such as telecommunications and cybersecurity, noting that Israel has a world-leading research and development budget relative to GDP and encouraged further cooperation between the UK and Israel on artificial intelligence and R&D. Several respondents voiced concern related to technology being used in ways compatible with domestic legislation.

Policy Explanation

The UK is a strong supporter of modern and ambitious digital provisions in trade agreements, to support all sectors of the economy. This includes preventing new barriers emerging, promoting greater openness, and reducing or removing unfair restrictions or conditions on British businesses as they trade overseas. We will pursue ambitious and liberal provisions that support international cross-border data flows and prevent unjustified data localisation requirements, while maintaining the UK's high standards for personal data protection, including when it is transferred across borders. UK data adequacy and our FTAs are distinct, separate processes, and adequacy assessment decisions are not part of the UK approach to FTA negotiations.

With the onset of Big Data, Artificial Intelligence and the Internet of Things, the government recognises the importance of cooperation on digital trade rules to ensure that global governance keeps pace with emerging technologies and cyber security. This helps foster a fair, predictable, transparent, competitive, and non-discriminatory business environment, to support continued innovation while ensuring citizens and consumers have appropriate protections.

The UK supports liberal telecoms trade provisions that increase market access for UK telecoms services providers and benefit consumers. The UK is drawing on modern and ambitious telecoms provisions while ensuring they are designed in a way that take account of future technological developments. Our objective is for the UK to continue to be a leader in this sector.

The UK will seek provisions to minimise barriers to trade in telecommunications services, promoting fair access to Israel's market and transparent and non-discriminatory regulatory frameworks.

Product standards, regulations, and certification

The existing UK-Israel Trade and Partnership Agreement includes commitments to reduce differences on standards and conformity assessment. It incorporates an agreement on Conformity Assessment, which includes a Mutual Recognition Agreement on Good Manufacturing Practice for pharmaceutical products.

Respondents wanted to see an enhanced agreement underpinned by high standards for both UK and Israeli goods. They asked the UK to seek further regulatory co-operation with Israel and collaboration between our respective standards bodies to encourage the adoption of international standards. Respondents called for more transparency and information sharing on Israel's regulatory environment.

Respondents saw the future agreement as an opportunity to address outstanding barriers to trade, for example specific labelling requirements. Correspondents raised burdensome labelling requirements and proposed measures to simplify or harmonise regulatory requirements between the UK and Israel.

Policy Explanation

The government agrees with respondents that there are opportunities to enhance and expand commitments on product standards, regulations and certification to reduce or eliminate regulatory barriers. This includes promoting the use of international standards, increased cooperation, and improved transparency.

The government remains firmly committed to upholding our high standards on quality, safety and performance for products on sale in the UK. Our right to regulate on goods where necessary for reasons of product safety and human or environmental health will not be compromised.

Sanitary and Phytosanitary Measures

Respondents saw the future agreement as an opportunity to address outstanding barriers to trade in sectors covered by SPS requirements, for example specific labelling requirements.

Correspondents raised burdensome labelling requirements and proposed measures to simplify or harmonise regulatory requirements between the UK and Israel. Respondents from the food and drink sector called for simplification of certification, including greater guidance on rules for foods requiring Kosher certification and to consider how animals are slaughtered.

Respondents also called for a reduction in documentation requirements with proposals to digitalise documentation and enable the use of English-language documentation as standard.

Respondents highlighted the importance of the SPS agreement to facilitate market access and product movement. There were calls for simplification of SPS requirements and for mutual recognition of equivalence agreements. Respondents wanted to see the identification and removal of unnecessary SPS barriers while maintaining high standards of biosecurity.

Policy Explanation

The government notes the concerns respondents have regarding food safety and standards in negotiations. The UK will maintain its own autonomous SPS regime to protect human, animal and plant life and health and the environment, reflecting its existing high standards. We will not compromise on these standards.

We recognise the importance of clear and easily accessible regulations and will promote transparency at all levels of trade.

The government recognises the opportunities through a trade agreement to streamline procedures for UK food exports into Israel. We will seek enhanced commitments for dialogue, cooperation and transparency on SPS measures which may present challenges to business, with a view to helping UK firms trade more easily.

Good Regulatory Practice

There was a recognition among respondents that Good Regulatory Practice – particularly transparency of the regulatory process - can reduce non-tariff barriers to trade and enable regulatory cooperation. Respondents suggested this could particularly benefit SMEs with specific comments made relating to the pharmaceutical, healthcare and cosmetics sectors. Respondents specifically cited the importance of avoiding duplicative requirements, and some respondents were keen to seek opportunities for regulatory cooperation, including through good regulatory practices, calling for better sharing of information.

Policy Explanation

Through the FTA, the government will aim to reduce regulatory obstacles, facilitate market access, and improve trade flows by encouraging a transparent, predictable, and stable regulatory framework.

We will seek provisions in a future FTA with Israel, encouraging good regulatory practice through processes such as regulatory impact assessments, public consultation, regulatory cooperation, and transparency. The government recognises the importance of ensuring regulations are clear and easily accessible and will promote transparency in all aspects of trade.

Competition, Consumer Protection, Subsidies and State Enterprises

Respondents called for enhancing and upholding a positive trading environment to deliver fair and consistent treatment for businesses. Individual sectors indicated that British business should be able to compete in a non-discriminatory manner.

Policy Explanation

Competition policy, state enterprises and subsidies provisions provide for open and fair competition for businesses in each other's markets. Competition between businesses helps ensure low prices, high quality products and innovation. In turn, this encourages growth and productivity, which benefits consumers. Consumer protection provisions ensure that consumers are protected from harmful business practices.

The government will promote open and fair competition for UK firms at home and in Israel through effective competition law and its enforcement. We will seek provisions that promote consumer rights and explore how best to address distortive subsidisation and unfair practices related to state enterprises.

Government Procurement

Government procurement provisions in trade agreements promote competition, non-discrimination and transparency within the government procurement markets of the trading partner. These provide enforceable rules and standards for how the procurements that are covered by the agreement should be run and ensure that suppliers from the other party are treated the same as domestic suppliers.

Respondents sought greater access for UK companies to the Israeli government procurement market whilst maintaining the protection of certain public services, including NHS health and social care services. Respondents also called for a more modernised procurement chapter.

Policy Explanation

The UK will seek to gain increased legally guaranteed access to government procurement opportunities in Israel and seek to ensure that procurement processes remain open, transparent, fair and accessible for suppliers from Israel and the UK.

Intellectual Property

Intellectual property-rich and creative industries make a significant contribution to the UK economy and growth with £64 billion of intangible investment in the UK being protected by intellectual property rights in 2016. A balanced and effective Intellectual Property (IP) regime is an essential element of a vibrant and creative economy, providing confidence and protection for innovators and creators whilst also reflecting wider public interests. Free trade agreements provide the opportunity to build upon the minimum IP standards set out under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights and secure tailored provisions which will maximise trade and investment opportunities around the world.

Respondents highlighted the importance of a robust Intellectual Property chapter to increase the level of protection afforded to UK businesses in line with international standards. Respondents

called for strengthened cooperation and knowledge sharing and reaffirmation of both parties' commitments to implementing international IP treaties.

Respondents raised a lack of sufficient protection in Israel for certain sectors and made requests to strengthen IP protection in areas of interest to the creative, digital, and pharmaceutical industries.

Policy Explanation

The government recognises the importance of a high standard IP chapter. The UK is widely recognised as being a world leader in IP protection, providing an effective balance between rights holders, users, and consumers. The UK sees this as an opportunity to build on our global leadership, supporting national growth and innovation whilst fostering an environment that further enhances trade between partners.

The government will seek to enshrine international commitments and build upon these commitments in the future agreement. The government recognises the need for the agreement to deliver a balanced outcome for right holders, users, consumers, and wider societal interests.

Environment and Climate Change

Trade policy can support clean growth and efforts to tackle climate change, including through the promotion of low carbon exports which can help to deliver the full economic benefit of the UK's shift to a low-carbon economy. Respondents were interested in the UK seeking to address the barriers to trade in such goods and services.

Respondents called for the UK to seek strong environment and climate provisions in line with our international commitments and role as a global leader.

Respondents highlighted that such provisions should support UK net zero commitments and uphold key climate change accords and Multilateral Environmental Agreements (MEAs) committed to by both Parties, such as the Paris Agreement on climate change. Respondents also highlighted that commitment to cooperation in these areas was important.

Responses illustrated a desire for the future agreement to protect the UK's high environmental standards and ensure effective enforcement of environmental provisions.

Policy Explanation

The UK is a world leader on climate action. We promote delivery of our environmental and climate commitments both bilaterally and multilaterally, across a range of environmental issues, including climate change, biodiversity, and sustainable forests.

The government is firmly committed to maintaining our high standards of environmental protection in trade agreements and expects future environmental provisions with Israel to support these objectives. We will seek to ensure that both parties do not waive or derogate from their environmental commitments, or fail to enforce domestic environmental laws.

The UK and Israel are party to many Multilateral Environmental Agreements, including the Paris Agreement. We are committed to upholding our international obligations under these agreements and will continue to play an active role internationally.

The UK recognises countries' sovereign right to regulate for their own levels of domestic environmental protection and we will ensure this is maintained under the future deal, while also seeking opportunities to advocate for clean growth and cooperation in the global fight against climate change.

Trade Remedies

Trade remedies act as a safety net to protect UK businesses from injury caused by unfair trading practices, such as dumping and subsidies, or injury caused by unforeseen surges in imports. Respondents noted that trade remedies provisions should be maintained from the UK-Israel Trade

and Partnership Agreement, to continue to champion free and fair trade between the UK and Israel.

Policy Explanation

The government recognises the importance of trade remedies as part of a rounded trade policy. In the new agreement, the government will seek provisions which facilitate trade liberalisation whilst providing a safety net for UK businesses against injury caused by dumped, subsidised or unexpected surges of imports of goods. The government is committed to seeking trade remedy provisions which uphold our WTO commitments and aim to ensure that trade remedy measures are applied in a proportionate and transparent manner.

Dispute Settlement

Dispute settlement refers to the formal state-to-state mechanism for resolving disputes where one or more parties consider that there has been a breach of obligations under the relevant international trade agreement and it has not been possible to resolve the dispute informally.

The existing UK-Israel agreement sets out the system to resolve disputes between the UK and Israel. Respondents indicated that dispute settlement provisions were welcomed and were keen to see these built upon in the future agreement.

Policy Explanation

The government considers an effective dispute settlement mechanism to be an important part of an FTA. An effective dispute settlement mechanism gives parties and stakeholders the confidence that commitments made under the agreement can be upheld, and that any disputes will be addressed fairly and consistently.

The government recognises that respondents want a dispute settlement mechanism that is transparent and fosters cooperation. Under the future agreement, the government will seek to create a strong state-to-state dispute settlement mechanism that promotes compliance with the agreement. Provisions will ensure state-to-state disputes are dealt with consistently, fairly and in a cost-effective and timely manner, whilst providing predictability and certainty for businesses and stakeholders.

Small and Medium Sized Enterprises Policy

SMEs are an integral part of the UK economy. Over 99% of the business population in the UK are SMEs. Barriers to trade disproportionately affect smaller firms and can even prevent them from exporting altogether.

Respondents described challenges for SMEs trading with Israel due to complex processes, high costs and a lack of information. Respondents suggested information and processes should be digitalised to improve accessibility of information for SMEs. Respondents also called for a standalone SME chapter to support the specific needs of SMEs and allow SMEs to take advantage of the FTA.

Policy Explanation

The government is committed to seeking an FTA that reduces potential barriers to international trade faced by smaller firms, which often have fewer resources than larger companies. This will benefit the around 5,600 SMEs who exported goods to Israel in 2020 (over 80% of UK businesses exporting to Israel) and create opportunities for new SME exporters.

The government will also seek commitments from Israel to make information about trade and investment rules more transparent and accessible, and to co-operate with the UK on trade issues beneficial to SMEs.

Labour Standards

Respondents highlighted the need for the UK to maintain its high labour standards and to ensure that the parties affirm commitments to uphold labour rights, particularly those that relate to International Labour Organization (ILO) standards and conventions.

Specific concerns were raised over the human rights and labour rights of Palestinian workers under Israeli working practices and the challenges and working conditions under which they are employed, including safety concerns. They also highlighted the need for binding commitments and to provide for the effective implementation, monitoring and enforcement of labour provisions.

Policy Explanation

The government shares the public's high regard for worker protections and has made clear that we will not compromise on these in our trade agreements. The UK will maintain its high standard of workers' rights and continue to advocate for the highest standards and working conditions. The government will seek to ensure parties reaffirm their commitment to international labour protections.

The UK has one of the most dynamic, flexible labour frameworks in the world, with important protections for individuals. We are world-leading in our pursuit of the elimination of all forms of forced labour. The government will ensure that the agreement allows the UK to protect our regulatory sovereignty, protect against labour rights being reduced to gain a trade advantage, and provide for appropriate mechanisms for the implementation, monitoring and dispute resolution of labour provisions.

Other

Anti-Corruption

Respondents noted that supporting anti-corruption was an issue that should be addressed in our trade agreement with Israel.

Policy Explanation

The government is committed to tackling corruption, to ensure free and fair global trade and competition. The UK has a strong anti-corruption framework through the UK Bribery Act 2010 and we will want to build on our expertise in this area. We will seek provisions that address the trade-distorting effects of corruption on global trade and fair competition.

Human Rights

A number of respondents expressed concerns around human rights and those respondents urged the use of the FTA to address these issues, for example, by ensuring equal access to services for women, LGBT and ethnic or religious minorities. Comments stressed the importance of underlining respect for human rights within the trade discussions and making human rights fundamental to the trading relationship.

Policy Explanation

The UK has a strong history of protecting human rights and promoting our values globally and continues to call on all countries to uphold international human rights obligations. Decisions to pursue FTAs are taken after considering the potential benefit to the British economy, current and foreseen opportunities for British business, negotiability, political will of the prospective negotiating partner, and broader direction of and goals within the bilateral relationship. By having stronger economic partnerships across the world, we can have more open discussions on a range of issues, including human rights. We will work with Israel bilaterally and in a range of international fora to promote human rights.

Gender Equality and Women's Economic Empowerment

A number of respondents highlighted gender equality and women's economic empowerment as an important issue within this agreement. Some recommended using the FTA to promote improvements to workforce development, vocational training, education and equal access to services. Other respondents highlighted issues such as unemployment, security and shipping costs that make it more difficult for women to trade across borders.

Policy Explanation

This is a crucial issue, affecting all areas of trade, with discrimination and barriers faced disproportionately by women in trade, such as lack of access to markets and business networks.

The UK is committed to ensuring that our trade policy supports women's economic empowerment. The Government will explore opportunities, in partnership with Israel, to reflect this in our FTA.

Continued Engagement

In line with DIT's approach to new agreements and the UK's independent trade policy, we will ensure that our agreement with Israel works for the whole of the UK and its wider UK family. Parliament, Devolved Governments, local government, business, trade unions, civil society and the public from every part of the UK will have the opportunity to engage and contribute.

We will continue to engage through:

- Strategic Trade Advisory Group (STAG), to seek informed stakeholder insight and views on relevant trade policy matters
- Trade Advisory Groups (TAGs) and Thematic Working Groups (TWGs), to contribute to our policy development at a detailed technical level
- Engagement and outreach events across the whole UK

The STAG's principal purpose is for the government to engage with stakeholders on trade policy matters as we shape our future trade policy and realise opportunities across all nations and regions of the UK through high level strategic discussion. The STAG's remit extends across the breadth of trade policy and more information can be found online at gov.uk.

The objective of the TAGs and TWGs is to enable the government to draw on external knowledge and experience to ensure that the UK's trade policy is backed up by evidence at a detailed level and to deliver positive outcomes for the UK. We will draw on the expertise of these groups to gather intelligence for informing the government's policy positions.

DIT is committed to ensuring we will have appropriate mechanisms in place during negotiations to inform the government's position. As we move forward, we will review our approach to engagement, and consider whether existing mechanisms are fit for purpose. We welcome further and ongoing feedback and input from stakeholders during this process.

The government is committed to ensuring that our trade policy is transparent and subject to appropriate parliamentary scrutiny and will provide regular updates throughout negotiations.

After launching negotiations with Israel, we will continue to work closely with all our stakeholders, plus the devolved administrations, to ensure that negotiations with Israel further the UK's key interests and bring benefits for the whole of the UK.

The government has built close working relationships with colleagues in Wales, Scotland and Northern Ireland at a ministerial and official level on trade matters. These discussions will continue to develop as the UK pursues an ambitious independent trade agenda.

Chapter 3: Outline Approach

Overall Objectives

- Seek a comprehensive, world-class FTA with Israel, one of the world's most dynamic and innovative economies, securing additional benefits for UK businesses and boosting UK services exports.
- Modernise and upgrade our trade relations with Israel, delivering a cutting-edge agreement with provisions covering services, innovation and digital trade. As two like-minded partners, we are confident that we can agree an ambitious deal that will complement both of our economies.
- Secure an agreement that promotes open and fair competition between our businesses, including in relation to the procurement of government contracts.
- Promote new opportunities for UK businesses, including small and medium-sized enterprises (SMEs), and investors, whilst facilitating greater choice and competition benefitting UK producers and consumers.
- Ensure the UK's existing high standards and protections for consumers and workers are maintained, whilst building on our existing international obligations. We will not compromise on our high environmental and labour protections, public health, animal welfare and food standards, and we will maintain our right to regulate in the public interest.
- Uphold the government's manifesto commitment that the NHS, its services, and the cost of medicines are not on the table. We will not accept any provisions that would increase the cost of medicines for the NHS. Protecting the NHS is a fundamental principle of our trade policy, and our commitment to this will not change during our negotiations with Israel.
- Secure an agreement which works for the whole of the UK and takes appropriate consideration of the UK's constitutional arrangements and obligations.
- Send a powerful signal to the rest of the world that the UK as an independent trading nation will continue to champion free and fair trade, fight protectionism, and remove barriers to trade at every opportunity.

Trade in Services

- Pursue modern rules for all services sectors, as well as sector specific rules to support our world-leading services industries including financial services, legal services, professional and business services, and transportation services.
- Ensure certainty for UK services exporters operating in the Israeli market and transparency of Israeli services regulation.
- Seek to improve access for UK businesspeople to operate in Israel by enhancing opportunities for business travel.
- Continue to preserve the integrity of the UK's domestic immigration system.

Digital Trade

- Pursue an ambitious and comprehensive digital chapter with cutting-edge provisions that maximise opportunities for digital trade between the UK and Israel.

- Pursue commitments that facilitate free and trusted cross-border data flows and ban unjustified data localisation, whilst maintaining the UK's high standards for personal data protection.
- Promote online consumer protection and seek necessary business safeguards in digital trade.
- Seek commitments to facilitate more efficient, modern and secure international trade through use of digital technologies, including through paperless trading.
- Cooperate on evolving areas of trade such as emerging technologies.

Financial Services

- Seek ambitious financial services provisions that will expand opportunities for UK financial services and ease frictions to trade between the UK and Israel.

Investment

- Agree provisions that create new opportunities for UK investors in Israel, whilst addressing existing barriers that investors currently face.
- Maintain the UK's right to regulate in the national interest and, as the government has made clear, continue to protect the NHS.

Innovation

- We will seek the UK's most innovation-friendly FTA, to demonstrate a shared commitment and understanding of its importance to the UK and Israeli economies.
- Deliver an FTA that recognises and promotes our technological strengths, is resilient to change and provides a platform for future leadership of shared global and economic challenges, including the development of low-carbon technologies, and emerging technologies.
- Agree ambitious provisions throughout the agreement that recognise the importance of innovation and the role trade policy should play in facilitating innovation through a world-leading FTA that is flexible to emerging business models and global trends and events.
- Further establish the UK's ambition and cooperate on developing a new trade policy that is supportive and responsive to innovation.

Telecommunications

- Promote an open and competitive telecommunications market.
- Pursue fair and non-discriminatory terms and conditions for access to the Israeli telecommunications network and services.
- Promote the competitive supply of telecommunications services by facilitating market access through fair and transparent regulation and competitive safeguards on major suppliers.
- Pursue greater connectivity for UK consumers and businesses in the Israeli market and encourage innovation and investment in the telecommunications market.
- This will benefit UK consumers and businesses in all sectors by supporting competition and promoting a sector that is ripe for further innovation.

Intellectual Property (IP)

Protect the UK's world-leading IP standards and secure provisions which:

- Ensure rights holders receive protection and fair remuneration for the use of their works abroad, whilst ensuring reasonable and fair access for consumers.
- Achieve an effective balance between rewarding research and innovation, whilst reflecting wider public interests such as ensuring access to medicines.
- Adequately secure protection for brands and design intensive goods, whilst keeping the market open to fair competition.
- Promote the accessible, transparent, effective, and efficient enforcement of IP rights including for online IP infringement and facilitate cross-border collaboration on IP matters.
- Are consistent with the UK's existing international obligations, including the European Patent Convention, to which the UK is party.
- Promote provisions which take account of emerging opportunities and challenges in the digital age.
- Seek effective protection of UK geographical indications in a way that ensures consumers are not misled about the origins of goods while ensuring they have access to a range of products.

Government Procurement

- Secure comprehensive access for UK businesses to compete for procurement opportunities at all levels of government, based on clear and enforceable rules and standards.
- Seek rules to ensure that procurement processes are simple, fair, open, transparent and accessible to all potential suppliers, building on commitments in the WTO Agreement on Government Procurement and the UK-Israel Trade and Partnership Agreement.
- Ensure robust protections remain in place for key public services such as the NHS and care services, public service broadcasters.

Trade in Goods

- Secure comprehensive access for UK goods into the Israeli market through the reduction or elimination of tariffs and non-tariff barriers, considering UK product sensitivities, and building on the progress made in the existing UK-Israel Trade and Partnership Agreement.

Rules of Origin

- Develop simple and modern rules of origin that reflect UK industry requirements and build on the existing UK-Israel Trade and Partnership agreement, supported by predictable and low-cost administrative arrangements.

Customs and Trade Facilitation

- Secure commitments to efficient and transparent customs procedures which aim to minimise costs and administrative burdens for businesses.
- Promote customs processes that are predictable before, at, and away from the border.

Technical Barriers to Trade

- Continue to reduce technical barriers to trade by removing and preventing trade-restrictive measures in goods markets, whilst upholding the safety and quality of products.

- Seek mechanisms to make it easier for UK manufacturers to have their products tested against Israeli rules.
- Promote the use of international standards to further facilitate trade between the parties.
- Promote making regulations easily accessible to businesses from each other's markets.

Sanitary and Phytosanitary Measures (SPS)

- Uphold the UK's high standards of food safety, animal and plant health, and animal welfare, and the UK's right to regulate in these areas in the public interest.
- Improve access for UK agri-food goods to the Israeli market by securing commitments for dialogue, cooperation and transparency on SPS measures, including Israeli approval processes for UK goods.
- Pursue enhanced cooperation on the key matters of animal welfare and antimicrobial resistance.

Good Regulatory Practice and Regulatory Cooperation

- Reduce regulatory obstacles, facilitate market access, and improve trade flows by encouraging a transparent, predictable, and stable regulatory framework to give confidence to exporting businesses and investors.
- Seek commitments to the application of good regulatory practices to facilitate market access, improve trade flows, and enable regulatory cooperation, including:
 - internal coordination
 - transparency in the regulatory process, including making relevant information freely and publicly available online
 - meaningful public consultation in the development of regulatory measures
 - the use of proportionate regulatory impact assessments for proposed major regulatory measures
 - the periodic evaluation of regulatory measures in force

Transparency

- Seek appropriate levels of transparency between the UK and Israel, particularly with regards to the publication of measures (such as laws and regulations) affecting trade and investment, public consultation, and the right of appropriate review of these measures.

Public Services

- Protect the right to regulate public services, including the NHS and public service broadcasters.
- Continue to ensure that decisions on how to run public services are made by the UK government, including the Devolved Administrations (DAs).

Competition and Consumer Protection

- Provide for effective competition law and enforcement mechanisms that promote open and fair competition for UK firms at home and in Israel.

- Provide for transparent and non-discriminatory competition laws, with procedural rights for businesses and people under investigation.
- Promote the protection of core consumer rights.
- Promote co-operation between enforcement agencies on competition and consumer protection matters.

Subsidies and State Enterprises

- Seek commitments on subsidies and state enterprises to address discriminatory or trade distortive practices.
- Ensure that UK state enterprises, particularly those providing public services, can continue to operate as they do now.

Trade Remedies

- Ensure provisions support market access, uphold our WTO commitments, and are underpinned by transparency, efficiency, impartiality, and proportionality.
- Secure provisions which facilitate trade liberalisation while protecting against unfair trading practices.

Dispute Settlement

- Establish appropriate mechanisms that promote compliance with the agreement and seek to ensure that state to state disputes are dealt with consistently and fairly in a cost-effective, transparent, and timely manner whilst seeking predictability and certainty for businesses and stakeholders.

Small and Medium-sized Enterprises Policy

- Seek a dedicated SME chapter to facilitate co-operation between the UK and Israel on SME issues of mutual interest.
- Seek to ensure that SMEs have easy access to the information necessary to take advantage of the trade opportunities generated by the agreement.
- Seek to include throughout the agreement SME-friendly provisions that support businesses trading in both services and goods.

Environment and Climate

- Secure robust provisions that support and help further the Government's ambition on environment and climate change, and achieve our shared goal of net zero greenhouse gas emissions by 2050.
- Promote trade and investment in environmentally and climate friendly goods and services and seek collaborative commitments across a range of issues.
- Continue to maintain the UK's right to regulate to meet environmental objectives, including climate change.
- Affirm commitments to Multilateral Environmental Agreements such as the UNFCCC and the Paris Agreement.

- Ensure that parties do not waive, derogate from, or fail to enforce their domestic environment laws in ways that create an artificial competitive advantage.
- Provide for appropriate mechanisms for the implementation, monitoring, and dispute resolution of environment provisions.

Labour Standards

- Reaffirm commitments to international labour standards.
- Include measures which allow the UK to protect its regulatory sovereignty, and maintain the integrity of, and provide meaningful protection for, the UK's labour protections.
- Provide assurance that parties will not waive or fail to enforce their domestic labour protections, in ways that create an artificial competitive advantage.
- Provide for appropriate mechanisms for the implementation, monitoring, and dispute resolution of labour provisions.

Anti-Corruption

- Provide for measures that address the trade distorting effects of corruption on global trade and fair competition to help maintain the UK's high standards in this area.
- Provide for appropriate mechanisms for the implementation, monitoring, and dispute resolution of anti-corruption provisions.

Trade and Women's Economic Empowerment

- Promote women's access to the full benefits and opportunities of this agreement, as workers, business owners, entrepreneurs, and consumers.
- Seek cooperation to address the barriers which exist disproportionately for women in trade.
- Recognise the importance of upholding protections on gender equality.

Trade and Development

- Seek to promote provisions that support the government's objectives on trade, investment, and development, and towards building a network of liberty.
- Seek to promote cooperation between the UK and Israel on trade and development activities, including monitoring the development impacts of the UK-Israel FTA.

General Provisions

- Ensure flexibility for the Government to protect legitimate domestic priorities by providing the necessary general exceptions to the agreement.
- Provide for review of the operation of the agreement.
- Allow for the agreement to be amended, when necessary, in support of shared objectives between the UK and Israel.

Territorial Application

- Provide for application of the agreement to all four constituent nations of the UK, taking into account the effects of the Protocol on Ireland/Northern Ireland.

- Provide for further coverage of the agreement to the Crown Dependencies and Overseas Territories (including Gibraltar), as appropriate.

Chapter 4: Scoping Analysis

1. Introduction

The Scoping Analysis sets out the potential economic impact of a renegotiated UK-Israel Free Trade Agreement (FTA).

An improved, comprehensive FTA that reduces barriers to trade could drive growth in both goods and services trade between the UK and Israel, particularly if non-tariff barriers are reduced. It would allow British and Israeli firms to benefit from greater access to each other's markets and reduce trading costs in both goods and services, bolstering each country's areas of competitive strength and delivering greater opportunities for specialisation. In response to the opportunities the agreements will provide, firms may improve their efficiency and become more innovative due to greater access to services from Israel. This is particularly important for services, which make up over 75% of each country's total economic output¹⁴, but currently only account for around 36% of total trade between the UK and Israel.¹⁵

Trade between the United Kingdom (UK) and Israel is currently conducted under the UK-Israel Trade and Partnership Agreement (UK-Israel TPA), which came into force in 2021.¹⁶ The UK-Israel TPA was signed on 18 February 2019 and replicated, as far as possible, the effect of the multiple existing trade agreements between the European Union and Israel, the most relevant of which came into force in 2000. Under the TPA, 99% of the value of goods trade (93% of tariff lines) remained duty free¹⁷, but significant opportunities for liberalisation exist in services and digital sectors.

The Department for International Trade (DIT) is preparing to commence negotiations with Israel to upgrade the current TPA to meet the current and future needs of the UK-Israel trading relationship. This updated agreement will build on the strengths of the UK and Israeli economies by focusing on areas not covered in the existing agreement. A new agreement with Israel could open new opportunities in areas such as financial and professional services, digital, life sciences, and high-tech industries.

About Scoping Analysis

Scoping Analysis is used where the negotiations cover an augmentation of an existing trade agreement and aims to set out the potential impact of an upgraded agreement prior to the start of negotiations.¹⁸ The analysis presented in this assessment uses tools including gravity modelling of services trade, tariff analysis and descriptive analysis as the main evidence base to highlight where there are remaining barriers to trade. The analysis does not include economic Computable General Equilibrium (CGE) modelling, because changes and impacts resulting from the agreement are concentrated in specific sectors and are better captured by other analysis. Nor does it include (at this stage) an assessment on UK nations and English regions, SMEs, protected groups of the labour market and the impact on developing countries. These impacts will be included in a final Impact Assessment of the agreed deal that will be published at the end of negotiations.

A note on data and statistics

¹⁴ OECD (2020), Value added by activity. Accessed June 2022. Available at: <https://data.oecd.org/natincome/value-added-by-activity.htm>

¹⁵ ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2021 edition.

¹⁶ Continuing the UK's trade relationship with Israel: parliamentary report is available at <https://www.gov.uk/government/publications/continuing-the-uks-trade-relationship-with-israel-parliamentary-report>

¹⁷ DIT calculations using tariff data from DIT, ITC Market Access Map (MacMap), and WTO TAO and annual import data averaged over 2017-2019 (Israeli import data from ITC TradeMap and UK import data from Eurostat).

¹⁸ Scoping Analysis is an analytical document for FTAs where an existing agreement is in place, whereas a Scoping Assessment document is used to set out the potential impact of an FTA where an existing agreement is not in place.

Statistics presented in this scoping analysis are based on 2021 where possible or the latest available year at the time of drafting. Due to the COVID-19 pandemic, trade data were more volatile in 2020. Tariff liberalisation analysis uses an average of trade figures from the years 2017-2019 to reduce the impacts of year-on-year trade volatility.

2. The existing trade and economic relationship between the UK and Israel

Total trade in goods and services between the UK and Israel was worth £5.0 billion in 2021, which consisted of £2.5 billion of UK exports to Israel and £2.5 billion of UK imports from Israel. Most of this trade (64%) is trade in goods, with 36% being in services trade.¹⁹ Around 6,600 UK businesses exported goods to Israel in 2020.²⁰

Figure 1: Economic indicators for the UK and Israel



Figures from 2020 unless stated otherwise. Sources: IMF World Economic Outlook (October 2021); World Integrated Trade Solution (WITS); ONS UK total trade: all countries, seasonally adjusted, October to December 2021 edition; HMRC UK trade in goods by business characteristics 2020.

Trade in goods

The UK exported around £1.5 billion of goods to Israel in 2021²¹, with 99% of the value (94% of product lines) eligible for duty-free imports into Israel.²² The UK's top exports were medicinal and pharmaceutical products (primarily in measured doses), mechanical power generators (such as turbojets used in aircraft), and cars. Together, these three product groups accounted for 28% of UK goods exports to Israel.²³

Similarly, the UK imported £1.7 billion of goods from Israel in 2021²⁴, with 99% of the value of Israel's exports (93% of product lines) eligible for duty-free import into the UK.²⁵ Medicinal and pharmaceutical products were the UK's top import from Israel, followed by mineral manufactures and then mechanical power generators (such as parts of turbojets or turbo-propellers). These product groups accounted for around 39% of total UK goods imports from Israel.

¹⁹ ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2021 edition.

²⁰ HMRC (2021), UK trade in goods by business characteristics: 2020.

²¹ ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2021 edition.

²² DIT calculations using tariff data from ITC Market Access Map (MacMap) and WTO TAO, and annual Israeli import data averaged over 2017-2019 from ITC TradeMap.

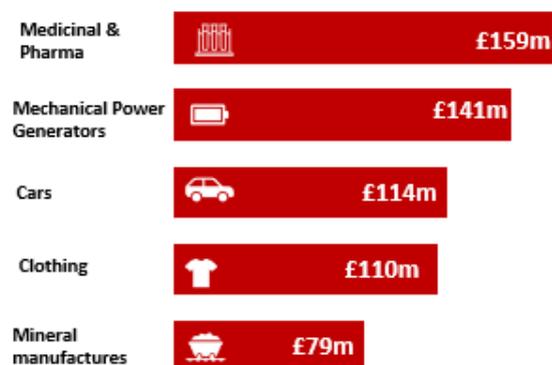
²³ ONS (2022), Trade in goods: country-by-commodity exports, May 2022 edition.

²⁴ ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2021 edition.

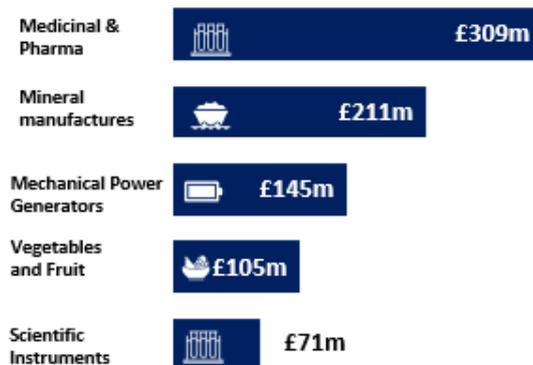
²⁵ DIT calculations using tariff data from DIT and ITC Market Access Map (MacMap), and annual UK import data averaged over 2017-2019 from Eurostat.

Figure 2: Top goods traded between the UK and Israel in 2021

Top UK goods exports to Israel in 2021



Top UK goods imports from Israel in 2021



Sources: ONS Trade in goods: country-by-commodity exports and imports, May 2022 edition.

The UK-Israel TPA ensured that UK exports had preferential access to the Israeli market that could reduce annual duties levied on imports into Israel by £37.8 million annually compared with trading on MFN (most favoured nation)²⁶ terms. The sectors eligible for the largest tariff reductions were the transport equipment, machinery, and chemicals sectors and are shown in Figure 3.

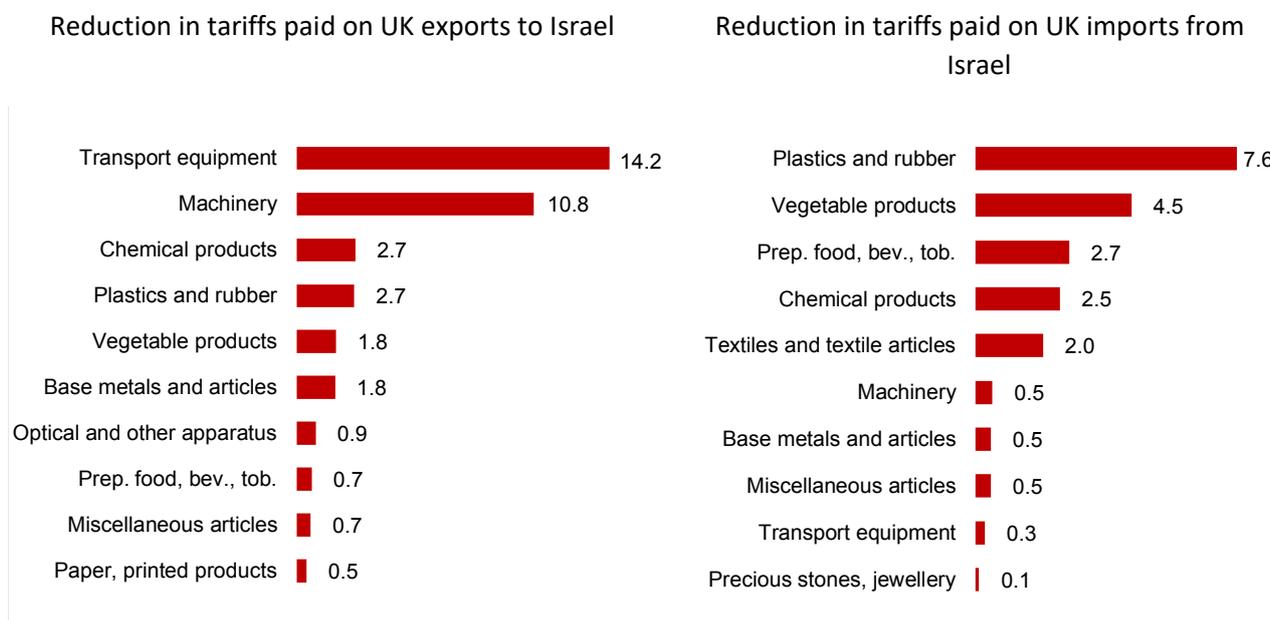
Similarly, UK businesses importing intermediate products have benefitted from access to cheaper inputs from Israel. Greater openness increases competition between firms, enhancing their incentives to specialise their knowledge, increase innovation, improve productivity, and lower prices for consumers.²⁷ Less productive domestic firms may exit the market while consumers in the UK have benefitted from lower prices of final goods and increased product variety due to the tariff liberalisation on imports from Israel.²⁸ UK importers had access to preferences that reduced tariffs on imports from Israel by £21.4 million. The sectors eligible for the largest tariff reductions were the plastics and rubber, vegetable products, and prepared food and beverages sectors (Figure 3).

²⁶ Any goods traded without using available preferences are traded under MFN tariffs.

²⁷ CMA (2015), Productivity and competition: a summary of the evidence. Available at: <https://www.gov.uk/government/publications/productivity-and-competition-a-summary-of-the-evidence>

²⁸ The extent to which businesses or consumers in the UK have benefitted from the reduction in tariffs will depend on the rate of “pass through” of lower import costs from the importing business to the end consumer.

Figure 3: Maximum annual reduction in tariff duties on exports and imports available to business for the top 10 HS sections under the UK-Israel TPA (£ million)



Source: DIT calculations using tariff data from DIT, ITC Market Access Map (MacMap), and WTO TAO and annual import data averaged over 2017-2019 (Israeli import data from ITC TradeMap and UK import data from Eurostat). It assumes full utilisation of tariffs and compliance with rules of origin requirements.

Utilisation of the agreement

The analysis above assumes that utilisation of preferential tariffs is 100%, which is not true in practice. Around 71% of UK exports to Israel and 89% of UK imports from Israel used available preferences under the EU-Israel agreements in 2019, before the UK-Israel TPA came into force.²⁹

Any goods traded without using available preferences are traded under MFN tariffs. Almost 30% of eligible UK exports to Israel did not utilise preferential tariff treatment in 2019. Groups of products that are traded at the MFN tariff rate but could benefit from accessing the lower preferential tariff rates, and which account for high UK export values to Israel, include transportation equipment (PUR of 67%), measuring and musical instruments (49%), and base metals & articles thereof (62%). High-value product groups imported from Israel which have scope for improved use of the UK's preferential tariffs include machinery and mechanical appliances (75%), pearls, (semi-) precious stones & metals³⁰ (58%), and measuring and musical instruments (70%).

²⁹ Director General for Trade of the European Commission calculations based on data from national customs administrations of importing third countries and MADB, updated October 2020. Note: 2019 is the latest year of available data.

³⁰ Diamonds make up the majority of UK imports from Israel in (semi-)precious stones & metals, although this category also includes non-monetary gold.

Trade in services

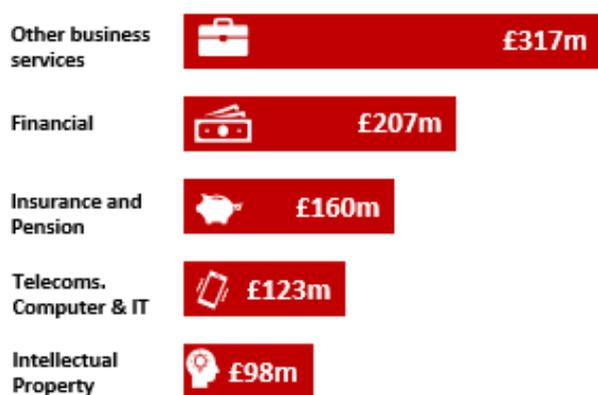
Services activity accounts for the majority of UK economic activity and a large proportion of exports. In 2020, the sector provided 80% of UK economic output by value, a high proportion even among developed economies.³¹

UK-Israel services trade was worth £1.8 billion in 2021, of which 57% were UK exports (£1 billion) and 43% were UK imports (£800 million). However, UK exports to Israel have fallen by 33% from their 2019 high of £1.5 billion, which may be in part due to the impact of Covid-19.³²

The three largest services exports from the UK to Israel in 2021 were other business services (a category that includes legal, accounting, and consulting services), financial services, and insurance and pension services, which together make up 66% of total services exports to Israel. This composition is similar to that of the balance of total UK services exports, with these three categories representing 68% of UK services exports to the world.³³

Figure 4: Top services traded between the UK and Israel in 2021

Top UK services exports to Israel in 2021



Top UK services imports from Israel in 2021



Source: ONS (2022), UK trade in services: service type by partner country, non-seasonally adjusted, October-December 2021 edition. Note: Other business services includes research and development; professional and management consulting services; and technical, trade-related and other business services not included elsewhere³⁴.

³¹ OECD (2020), Value added by activity. Accessed June 2022. Available at: <https://data.oecd.org/natincome/value-added-by-activity.htm>

³² ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2021 edition.

³³ ONS (2022), UK trade in services: service type by partner country, non-seasonally adjusted, October-December 2021 edition.

³⁴ Other business services not included elsewhere is the largest category of services within UK imports of other business services from Israel. This category includes distribution services (water, steam, gas, petroleum) and electricity where provided separately from transmission; air conditioning supply; placement of personnel; security and investigative services; translation and interpretation; photographic services; building cleaning; real estate services to businesses; and any other business services that cannot be classified within other business services.

3. The rationale for a bilateral FTA with Israel

- **There is scope to negotiate a deeper trade agreement with Israel which improves access for services trade between the UK and Israel.** The current agreement with Israel mostly covers goods trade. The UK and Israel are services-led economies, with over three quarters of their value added coming from services, yet services trade only makes up just over a third of total trade between the UK and Israel. Gravity modelling of services trade by DIT suggests that an agreement on services between the UK and Israel could increase UK exports of services by around £78 million (9%). Around 9% of services trade between the UK and Israel in 2020 was delivered via the temporary entry and stay of highly skilled professionals (mode 4) and in 2019, there were 12,000 business visits from the UK to Israel and 36,000 business visits to the UK from Israel. An agreement that supports business mobility could help facilitate services trade between the UK and Israel.
- **A bespoke FTA could foster conditions to support and promote UK innovation.** The UK and Israel are world leaders in innovation and have strong scientific and digital industries. Israel is the global leader in R&D expenditure as a proportion of national income, spending almost 5% of GDP. Israel excels as a business-driven research and innovation environment, with high foreign investment in R&D. Trade can increase innovation by increasing competition, encouraging firms to adopt new technologies and learn more efficient production techniques. Widened access to the latest technology and techniques could also allow firms not directly affected by an agreement to benefit. Stronger intellectual property rights can encourage firms to innovate and invest more by providing better protection for UK firms operating in Israel, and may particularly benefit exporters in the creative industries, advanced manufactured sector, and of vendors of technical products such as pharmaceuticals. Intellectual property rights will also be key to any collaboration on ensuring smooth digital trade and on areas such as artificial intelligence and emerging technologies.
- **There are opportunities to agree ambitious and modern digital provisions in the upcoming negotiations.** Israel is known for its strong start up culture and digital economy, and over half of UK services exports to Israel were delivered remotely (or digitally) in 2019, rising to over 80% in 2020, in the context of the COVID-19 pandemic. However, Israel is currently more restrictive to digital services trade than the UK, with barriers around infrastructure and connectivity as the main impediments. These negotiations provide the opportunity for the UK and Israel to liberalise and increase digital trade.
- **An enhanced FTA could support more UK Foreign Direct Investment (FDI) in Israel.** Israel is more restrictive than the UK and OECD average for FDI. This is mainly due to equity restrictions, which limit the extent of foreign ownership permitted in companies in those sectors. A deeper agreement between the UK and Israel could increase inward and outward FDI, generating great benefits for businesses and the UK economy.
- **By entering into negotiations, the UK and Israel can also work together on reducing non-tariff barriers that may be inhibiting trade.** The TPA ensured that 99% of the value of UK exports to Israel remained eligible for duty free trade. Increased transparency, information sharing and regulatory cooperation to reduce obstacles to trade could further reduce costs for businesses.

4. Economic analysis of a bespoke UK- Israel FTA

A deeper agreement between the UK and Israel could include provisions liberalising trade in services, promote greater innovation, and enhance digitally delivered trade, as well as support more investment and reduce non-tariff barriers that may inhibit trade. This section explores the potential benefits that could follow a deeper agreement in these areas.

Trade in services

Both the UK and Israel are services-heavy economies, with 80% of the UK's and 78% of Israel's value added coming from services sectors³⁵, however, services trade accounts for only 41% of UK exports to Israel³⁶. Almost half (49%) of the UK's exports to the world are services.³⁷ With a broad new agreement, services exports could grow to form a larger proportion of UK exports to Israel and drive an increase in total trade.

According to the World Bank, 85% of UK workers have an advanced education, compared to 78% of the Israeli labour force. Workers with this educational background can be vital for firms in the services sector, which employ 81% of the UK and 82% of the Israeli workforce.³⁸ Therefore, increasing trade in services has the potential to benefit many workers and businesses in both economies.

The temporary entry and stay of highly skilled professionals to provide services in another country (mode 4 of services trade) can be an important enabler of other modes of services supply, thereby amplifying its beneficial effects.³⁹ Excluding mode 3⁴⁰, around 11% (£141 million) of UK services exports to Israel were delivered by the temporary entry of business persons into Israel (mode 4 of services trade) in 2019, falling to 8% (£88 million) in 2020, in the context of wide-spread travel restrictions during the COVID-19 pandemic.⁴¹ Similarly, mode 4 made up around 11% (£89 million) and 10% (£68 million) of UK imports of services from Israel in 2019 and 2020 respectively.⁴² In 2019, there were 12,000 business visits from the UK to Israel by UK residents, whereas Israeli residents made 36,000 business visits to the UK from Israel.⁴³

The UK-Israel TPA contains very limited services provisions. The services commitments reaffirm the level of access granted to all WTO members under the General Agreement on Trade in Services (GATS). The GATS is a World Trade Organisation agreement governing trade in services and regulates UK-Israel services trade.⁴⁴ Israel has agreed services provisions in other trade agreements which go further than GATS, with the most ambitious precedent being the Israel-Korea FTA.

Respondents to the Call for Input⁴⁵ suggested the inclusion of services provisions in a new agreement to reduce barriers to business expansion. Areas such as recognition of professional qualifications, transparency, greater access to business visas, and digital trade simplification were all highlighted as important areas for a renegotiated FTA. According to the OECD's Services Trade Restrictiveness Index (STRI), in 2021 Israel's average restrictiveness made it the 6th most restrictive country in the OECD for services trade. In contrast, the UK was the 5th most open of the

³⁵ OECD (2020), Value added by activity. Accessed June 2022. Available at: <https://data.oecd.org/natincome/value-added-by-activity.htm>

³⁶ ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2021 edition.

³⁷ Ibid.

³⁸ World Bank (2019), World Development Indicators. Accessed March 2022.

³⁹ WTO (2005), The Impact of Mode 4 Liberalisation on Bilateral Trade Flows. Available at: https://www.wto.org/english/res_e/reser_e/ersd200506_e.htm

⁴⁰ Mode 3 refers to services provided via UK-owned foreign affiliates. Mode 3 accounted for only 6% of total UK services exports to Israel in 2020, falling from 21% in 2019. Information on mode 3 is not available for import data and has therefore been excluded from the comparative statistics above.

⁴¹ ONS (2020), Exports of services by country, by modes of supply: 2019 and 2020. Mode 4 refers to services traded by individuals of one WTO member through their presence in the territory of another. It covers employees of services firms and self-employed service suppliers. It is used as a proxy for business mobility.

⁴² ONS (2020), Imports of services by country, by modes of supply: 2019 and 2020. Mode 4 is used as a proxy for business mobility.

⁴³ ONS (2020), Travel trends estimates: overseas residents in the UK, 2019 and ONS (2020), Travel trends estimates: UK residents' visits abroad, 2019.

⁴⁴ This is the basis of most-favoured-nation terms for services trade under the World Trade Organisation, whereby countries cannot discriminate between trading partners. WTO members must offer market access on the same terms to each trading partner.

⁴⁵ The Call for Input is designed to inform the government's approach to negotiations. Responses come from the business community and the general public.

38 OECD countries. Only in road freight transport was the UK more restrictive than Israel.⁴⁶ A broad agreement that reduces restrictions on services trade between the UK and Israel could thus help increase services trade for both economies to better reflect the relative importance of services to both economies.

Israel's most restrictive services are rail freight transport, courier, and air transport services, and the UK's most restrictive services are accounting, air transport, and architecture services. Between 2017 and 2021, Israel became less restrictive to trade in architecture and engineering services and became more restrictive to trade in road freight, telecom, computer, maritime transport, construction, commercial banking, courier, and insurance services.⁴⁷ Restrictions in telecom and computer services may also have negative impacts on digital trade.

A bespoke UK-Israel FTA focused on services could therefore benefit both economies. Reducing restrictions could enable UK exporters (SMEs in particular) of services to benefit from increased market access and lower costs when complying with regulations to enter the Israeli market.⁴⁸ Respondents to the Call for Input highlighted the advantages that regulatory simplification could bring to UK-Israel services trade. An increase in services imports from Israel also has the potential to increase competition for UK firms exposed to foreign imports. However, increased imports and enhanced competition could benefit the UK economy by encouraging UK firms to specialise their knowledge, increase innovation, and lower prices for consumers.⁴⁹

Modelling estimates suggest that even a shallow agreement on services between the UK and Israel, focusing solely on binding some currently applied measures, could increase UK services exports to Israel by around £46 million, an increase of around 5% (scenario 1). A deeper agreement that locks in an even greater proportion of currently applied measures could increase UK services exports to Israel by an estimated £78 million, an increase of around 9% (scenario 2).⁵⁰ These estimates are based on modelling reductions in the 'water', which is the difference between legally bound and applied STRI values, for the UK and Israel based on benchmark free trade agreements of varying depths. Further details and sensitivity analysis are available in Annex A.

The deeper agreement modelled above includes estimated increases in exports of other business services (which includes advertising, R&D, legal, accounting, architectural, and other technical services) by around £40 million, an increase of around 13%, and exports of insurance services by around £17 million, an increase of around 11% (scenario 2).

There may also be an increase in services imports from an improved and comprehensive FTA between the UK and Israel. A shallow agreement focusing on binding a proportion of currently applied measures could increase UK services imports from Israel by an estimated £35 million, or 5% (scenario 1), while a deeper agreement binding a greater proportion of existing measures could increase UK services imports from Israel by around £60 million, or 9% (scenario 2).

Business groups called for UK businesses to have comprehensive market access to public procurement for services in Israel. An enhanced agreement opening procurement markets could greatly increase opportunities for UK firms to build and grow their presence in Israel. In 2019, general government procurement spending was approximately 15% of Israel's GDP and about 37% of its total government expenditure, shares that were similar to the UK. The majority of Israeli procurement takes place at a central, as opposed to regional or municipal level (77% of procurement spend in 2019, compared to 68% in the UK in 2020).⁵¹

⁴⁶ OECD (2022), Services Trade Restrictiveness Index (STRI). Accessed March 2022.

⁴⁷ Ibid.

⁴⁸ OECD (2019), 'How services trade liberalisation can support SMEs'. Available at: <https://www.oecd.org/trade/how-services-liberalisation-support-sme/>

⁴⁹ CMA (2015), Productivity and competition: a summary of the evidence. Available at: <https://www.gov.uk/government/publications/productivity-and-competition-a-summary-of-the-evidence>

⁵⁰ Further details on assumptions and modelling methods are available in Annex A

⁵¹ OECD (2021), Government at a Glance 2021. Accessed at <https://stats.oecd.org/Index.aspx?QueryId=66882>

Respondents to the Call for Input highlighted the importance of increasing visibility of and fair access to procurement opportunities. This could provide UK firms with additional business and increase employment opportunities.

Encouraging greater innovation

The UK and Israel are among the world's most innovative economies, having been ranked 4th and 15th respectively in the Global Innovation Index.⁵² Both countries have large digital and scientific industries. Israel boasts an attractive business-driven research and innovation environment, where foreign investment in R&D makes up 57% of total business R&D and where the business sector accounts for 84% of R&D investment.⁵³ Furthermore, Israel is the global leader in R&D expenditure as a proportion of national income, spending almost 5% of GDP on it.⁵⁴

Academic work suggests three conventional channels through which innovation can be boosted in an FTA:⁵⁵

- Imports and FDI can speed up the adoption of new technology.
- Increased competition may act as an incentive for firms to innovate to remain competitive and active in the global market.
- Productive and innovative firms are more competitive on local and international markets and will tend to export more. Academic literature has highlighted that exporting is associated with innovative investments and learning. Consequently, exporting can improve efficiency and productivity.

The UK's ambition is that trade agreements that go beyond precedent with innovative economies, such as Israel, support these channels. This includes having sufficient flexibility to adapt to changes in what and how we trade as our economies grow and develop.

The UK and Israel trade goods in sectors such as machinery, pharmaceuticals, and vehicles. These are areas in which UK industry is relatively specialised⁵⁶, and therefore may benefit the most from an enhanced FTA, especially given the UK's historical market share of Israeli imports and that Israel's total imports are projected to double by 2035.⁵⁷ A bespoke FTA provides opportunities to strengthen cooperation in these areas and to ensure innovation is not met with unintended trade barriers in the future.

Intellectual Property

Innovation relies heavily on effective intellectual property (IP) rights. Of the 20 countries with the most patents granted in 2014-15, Israel has the second highest share of foreign oriented design protections⁵⁸, and charges for the use of IP made up around 10%, or £98 million, of all UK services exports to Israel in 2021.⁵⁹

An agreement which promotes R&D, includes strong and balanced IP provisions, and simplifies regulations may encourage more firm creation and expansion in crucial growth sectors and areas of relative strength for both the UK and Israel. According to organisations responding to the Call for Input, strengthening IP rules and recognition could also encourage UK and Israeli firms to invest

⁵² WIPO (2021), Global Innovation Index 2021: Tracking Innovation through the COVID-19 Crisis.

⁵³ WTO (2018), Trade Policy Review: Israel. Available at: https://www.wto.org/english/tratop_e/tpr_e/tp476_e.htm

⁵⁴ World Bank (2021). Data from 2018. Accessed: April 2022.

⁵⁵ OECD (2012), Trade and innovation – innovation report. Available at: https://read.oecd-ilibrary.org/trade/trade-and-innovation_5k9gwprtbtxn-en#page1

⁵⁶ DIT analysis based on data from ITC TradeMap.

⁵⁷ DIT analysis based on methods outlined in the Global Trade Outlook published by DIT in 2021.

⁵⁸ World Intellectual Property Organisation (2021). Time-period 2014-15. Accessed April 2022.

⁵⁹ ONS (2022), UK trade in services: service type by partner country, non-seasonally adjusted. Accessed May 2022. (IBID).

and trade more confidently. Stronger legislation and additional transparency were key asks of UK firms.

Traditionally, high-tech manufacturing, transport equipment, and life sciences encompass the most patent-intensive sectors in the UK⁶⁰ so they may benefit most from opportunities created in this area. Respondents to the Call for Input also highlighted the importance of strong IP regulations for the creative industry. IP will also be key to any potential dialogues with Israel on ensuring smooth digital trade and working together on areas such as artificial intelligence and emerging technologies.

Digital trade

Most of the services trade between the UK and Israel is delivered remotely, demonstrating the importance of digital trade between the two countries. Excluding mode 3⁶¹, around 53% of UK services exports to Israel and around 65% of UK imports from Israel were delivered remotely (mode 1 of services trade) in 2019.⁶² These shares rose to 82% and 77% respectively in 2020⁶³, in the context of the global COVID-19 pandemic.

Compared to the UK and the OECD average, Israel has greater barriers to digital trade.⁶⁴ Barriers around infrastructure and connectivity⁶⁵, as well as electronic transactions, are the main impediments to digital trade in Israel, accounting for 88% and 12% of restrictions respectively. These barriers led to Israel's position as the 10th most restrictive to digital trade of the 38 OECD countries, contrasting with the UK being ranked as joint 3rd most liberal. The largest difference in restrictiveness between the UK and Israel is in infrastructure and connectivity barriers.⁶⁶

In the Call for Input, UK firms and business groups raised Israel's start-up culture and strong digital economy as reasons to address restrictions on digital trade between Israel and the UK.

Foreign Direct Investment

Foreign direct investment (FDI) can provide UK firms with access to higher quality production inputs, including technologies and working practices. Inward FDI generates benefits as technological advances can be passed from foreign to domestic firms through the supply chain. FDI is also an important contributor to economic growth due to its potential to enhance productivity and innovation, create employment, and benefit a broad range of sectors and regions. UK businesses with inward FDI links are 69% more productive than businesses without an FDI link.⁶⁷ However, there may be challenges for domestic firms due to increased competition in the domestic market.

Outward FDI from the UK can also generate benefits for the UK economy. Multinational companies use outward investment to strengthen their capabilities and competitiveness by entering new markets, importing intermediate inputs from foreign affiliates at lower prices, producing a larger volume of final goods and services abroad at lower cost, and accessing foreign technology. It also increases access to knowledge and improves collaboration.⁶⁸ Research points to a positive link

⁶⁰ HM Government: Use of Intellectual Property rights across UK industries (2020). Accessed April 2022.

⁶¹ Mode 3 refers to services provided via UK-owned foreign affiliates. Mode 3 accounted for only 6% of total UK services exports to Israel in 2020, falling from 21% in 2019. Information on mode 3 is not available for import data and has therefore been excluded from the comparative statistics above.

⁶² ONS (2020), Exports of services by country, by modes of supply: 2019 and ONS (2020), Imports of services by country, by modes of supply: 2019. Mode 1 is used as a proxy for digital delivery.

⁶³ ONS (2022), Exports of services by country, by modes of supply: 2020 and ONS (2020), Imports of services by country, by modes of supply: 2020. Mode 1 is used as a proxy for digital delivery.

⁶⁴ OECD (2021), Digital Services Trade Restrictiveness Index. Accessed March 2022.

⁶⁵ 'Infrastructure and connectivity' comprises Digital STRI measures covering restrictions related to interconnection on communication infrastructures and restrictions affecting connectivity (e.g. measures affecting cross-border data flows).

⁶⁶ OECD (2021), Digital Services Trade Restrictiveness Index. Accessed March 2022.

⁶⁷ ONS (2020), [UK foreign investment, trends and analysis: August 2020](#).

⁶⁸ World Bank Group (2018), Global Investment Competitiveness Report.

between outward FDI and employment in the long run, as internationally expanding firms increase their demand for labour.⁶⁹

Between December 2011 and December 2021, 116 Israeli FDI projects were started in the UK, 75% of which fell under the 'ICT and electronics', 'professional services', 'life sciences', and the 'creative industries' sector clusters. Over the same period, there were 25 UK FDI projects started in Israel. The three sectoral clusters with the greatest number of projects, constituting 80% of the total, were 'financial services', 'professional services', and 'ICT and electronics'.⁷⁰ Data on the Israeli stock of FDI held in the UK are unavailable, but in 2020 the stock of FDI from the UK in Israel was £1 billion, accounting for 0.1% of the total UK outward FDI stock, a 6% fall from 2019.⁷¹

The OECD FDI Regulatory Restrictiveness Index highlights that Israel is more restrictive than the UK and around twice as restrictive to FDI as the OECD average. Furthermore, Israel has restrictions in every sector and ranks 32nd out of 38 OECD countries, whereas the UK has no restrictions in 18 out of the 22 sectors covered by the Index and ranks 17th most liberal. In terms of Israel's FDI restrictiveness, 53% is due to equity restrictions (which limit the extent of foreign ownership permitted in companies or in the aggregate of companies in that sector), 27% is due to other restrictions⁷² and 15% is due to screening and approval requirements.⁷³

There may be opportunities to facilitate greater UK FDI through reducing restrictions in certain Israeli sectors. Restrictiveness is highest in sectors including telecoms, transport, and electricity generation due to equity restrictions.⁷⁴ Expanding mutual FDI flows may present a chance to deepen links between the countries and drive export growth.

Trade in Goods

Almost 30% of eligible UK goods exports to Israel did not utilise preferential tariffs available under the EU-Israel agreement based on the latest data before the UK-Israel TPA came into effect.⁷⁵ This may be due to various reasons including non-tariff barriers to trade and lack of awareness of preferences.⁷⁶

Most of the non-tariff measures (NTMs) that Israel applies on imports of goods from all countries are classified as sanitary and phytosanitary (SPS) measures. Technical barriers to trade (TBTs) account for around a quarter of all NTMs on Israeli imports.

Conformity assessments, which include any procedure to verify if technical requirements to sell on the domestic market have been met, can be costly to firms. These assessments accounted for around a quarter of all NTMs applied by Israel and almost half of TBTs. Labelling requirements

⁶⁹ Riccardo Crescenzi, Robert Ganau, Michael Storper (2021), 'Does foreign investment hurt job creation at home? The geography of outward FDI and employment in the USA', *Journal of Economic Geography*.

⁷⁰ FDI markets, Online database of cross border greenfield investments (accessed April 2022).

⁷¹ ONS (2022), Foreign Direct Investment (FDI) totals for inward and outward flows, positions and earnings: 2019 & 2020. Accessed February 2022.

⁷² 'Other restrictions' includes restrictions around establishment of branches, reciprocity requirements, profit or capital repatriation, access to local finance, land ownership, minimum capital requirements, local content requirements, and government procurement.

⁷³ OECD FDI Restrictiveness Index, 2020. Accessed February 2022. The OECD's FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment across 22 sectors. It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: 1) Foreign equity limitations; 2) Discriminatory screening or approval mechanisms; 3) Restrictions on the employment of foreigners as key personnel and 4) Other operational restrictions, for example, restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. Restrictions are evaluated on a 0 (open) to 1 (closed) scale.

⁷⁴ *Ibid.*

⁷⁵ Director General for Trade of the European Commission calculations based on data from national customs administrations of importing third countries and MADB, updated October 2020. Note: 2019 is the latest year of available data.

⁷⁶ DIT internal research and analysis

⁷⁷ UNCTAD (2022), TRAINS (Data from 2015). Available at: <https://trainsonline.unctad.org/>. Accessed March 2022.

were the next most significant sub-category. These sub-categories were mentioned by respondents to the Call for Input.

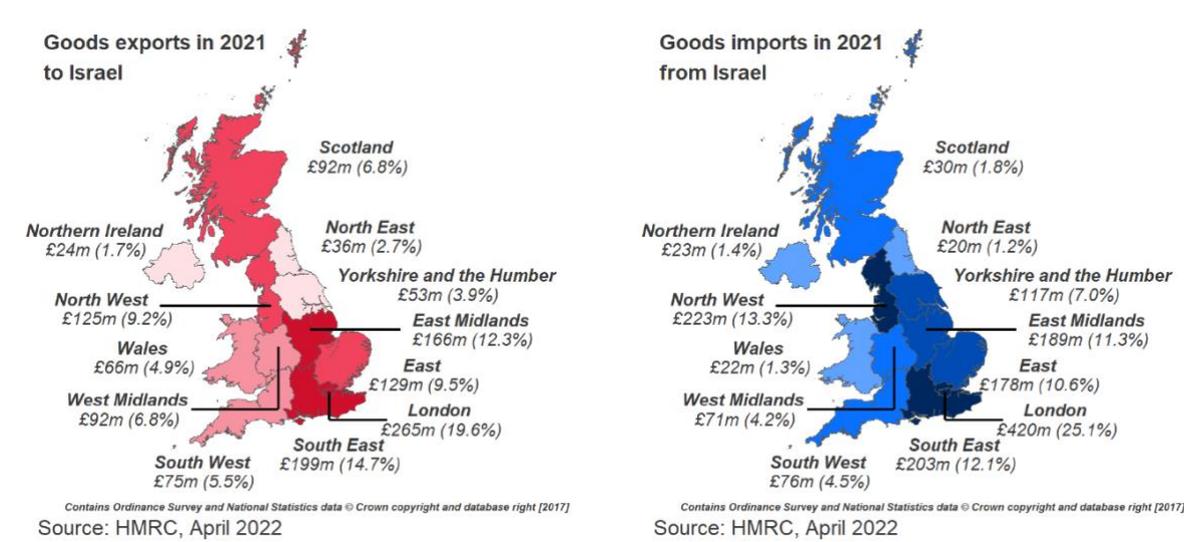
An enhanced trade deal with Israel could help increase trade in goods, for example by addressing restrictive TBT and SPS measures. SMEs may also benefit from greater support and awareness as part of a new deal, which could increase utilisation of preferential tariffs. Changes in Israel's regulations over recent years shows a move towards reducing non-tariff barriers and aligning with international standards.⁷⁸ An enhanced free trade agreement presents an opportunity to further this reduction in barriers for UK exports.

Wider economic impacts

An enhanced FTA provides the opportunity to:

Support both small and large businesses that trade with Israel. In 2020 around 6,600 businesses exported goods to Israel, with over 80% (around 5,600) of these being SMEs. Around 3,200 UK businesses imported goods from Israel in 2020, of which 2,500 were SMEs.⁷⁹ Securing SME friendly provisions provides the opportunity to increase the number of businesses of all sizes trading with Israel.

Figure 5: Regional trade with Israel in 2021^{80 81}



Support UK jobs across the UK. The North West and Scotland each exported over £21 billion in services globally in 2018⁸² and could stand to benefit from a deal that improves access to services trade. In 2020, there were 325 Israeli-owned local business units operating in the UK, employing over 7,000 people. Of these, the most were employed in London (1,781 people), followed by the

⁷⁸ WTO e-ping notifications. Accessed April 2022. Available at: <https://epingalert.org/en/Search/Index>

⁷⁹ HMRC (2021), UK trade in goods by business characteristics: 2020.

⁸⁰ HMRC data source for regional UK trade data: HMRC Regional Trade Statistics (data extracted from the spreadsheet download using the HMRC interactive tables).

⁸¹ Note that these figures from HMRC are reported on a physical movement basis and are not directly comparable to trade data from ONS which are reported on a change of ownership basis. Totals presented here will differ from overall HMRC trade figures and percentages will not total 100% due to the exclusion of trade in non-monetary gold and non-response estimates and the exclusion of data not allocated to a UK country or region. Figures for 2021 are provisional and subject to change.

⁸² ONS (2020), International trade in services by subnational areas of the UK: 2018. Note: 2018 is the latest year of available data.

North West (941 people), the South East (876 people) and Scotland (864 people).⁸³ In addition, UK businesses that export goods to Israel employed over 1.7 million people in 2020 and are distributed across the country.⁸⁴ In 2020, the South East, London, and the North West had over 1,900, 1,500, and 1,300 businesses exporting goods to Israel respectively⁸⁵, with a combined export value of around £550 million, rising to over £580 million in 2021⁸⁶.

Environmental impacts

The UK became the first G20 country to legislate binding commitments in 2019 to bring greenhouse gas emissions to net zero by 2050. At COP26 in Glasgow, the UK helped secure agreements to implement the Paris Rulebook and ensure that other countries increase transparency in achieving their own targets. From 1990 to 2019, the UK has reduced its emissions by 40%, whilst GDP has grown 78% over the same period. The Sixth Carbon Budget requires a reduction in emissions of 78% from 1990 to 2035.⁸⁷

FTAs can have consequences for the environment by expanding and redirecting economic activity. Environmental impacts can occur through channels including:

- as a direct result of greater volumes of bilateral and world trade (e.g., from increased production and transport emissions).
- as economic activity shifts between sectors with different levels of emissions (a 'composition effect').
- as economic activity shifts between countries with differing levels of environmental protection and efficiency.

FTAs also provide the opportunity to address some of these consequences, including through:

- the transfer and adoption of new and potentially more environmentally friendly technologies as well as production methods (a 'technique effect').
- provisions which strengthen bilateral cooperation on issues relating to environment and climate change.

As set out in Section 3, the rationale for an enhanced agreement with Israel is focussed on areas such as services, innovation and digital trade. This could mean that the enhanced agreement could have lower incremental environmental impacts than an agreement focussed on goods, given that services trade is generally less carbon-intensive than industrial and agricultural trade.⁸⁸ Cooperation between the UK and Israel on innovation in environmental sectors may also help support decarbonisation goals.

In 2018 the UK emitted 5.4 tons of CO₂ per person, compared to 7.0 tons emitted per person in Israel. Both countries have lower emissions per person compared to the OECD average of 8.8 tons per person.⁸⁹ Both the UK and Israel also have a comparative advantage in exporting low carbon technology products, which produce less pollution than their traditional energy counterparts.⁹⁰

⁸³ ONS (2021), Business Structural Database. This work was produced using statistical data from ONS. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

⁸⁴ HMRC (2021), UK trade in goods by business characteristics: 2020.

⁸⁵ HMRC (2021), Regional trade in goods statistics disaggregated by smaller geographical areas: 2020.

⁸⁶ HMRC (2022), Regional trade data: custom tables. Available at: <https://www.uktradeinfo.com/trade-data/rts-custom-table>

⁸⁷ UK Government (2021), Press Release: UK enshrines new target in law to slash emissions by 78% by 2035, 2021. Available at: <https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035>

⁸⁸ OECD TECO2 database. Available at: https://stats.oecd.org/Index.aspx?DataSetCode=IO_GHG_2021# . Accessed: May 2022.

⁸⁹ World Bank data, Metric tons of CO₂ emissions per capita, 2018 (Accessed February 2022).

⁹⁰ IMF (2020), Climate Change Dashboard: Comparative Advantage in Low Carbon Technology Products. Accessed June 2022. Available at: <https://climatedata.imf.org/pages/country-data>

Annex A – services gravity modelling explanation

The impact of services trade liberalisation is modelled using a gravity simulation methodology set out in a DIT analysis working paper.⁹¹ Services gravity modelling allows for counterfactual analysis against a baseline, which enables us to highlight the benefits of further liberalisation on a sector-by-sector basis for services. There is greater scope for further services liberalisation in an enhanced trade agreement with Israel, while there is limited scope to achieve additional market access for goods, making services gravity modelling an appropriate tool for evaluating the agreement.

The model works in several stages. First a standard structural gravity model is estimated for the sector in question. It uses data on trade over time to estimate the effect of different factors in determining how much trade occurs between countries. This accounts for the effect of bilateral frictions like physical and cultural distance, as well as country-specific factors like GDP and tax regime, which we control for through ‘fixed effects’. There are two key estimated effects which we take from this stage and use in the other stages. The first is the sensitivity of trade flows to the OECD’s Services Trade Restrictiveness Index (STRI), which translates qualitative information on services trade policy into a quantitative measure. The second is an estimated series of terms which captures how changes to trade costs in a given country affect trade costs for the rest of the world.

In stage two, a scenario is modelled using OECD data on the STRIs in existing FTAs.⁹² The difference between legally bound and applied MFN (most favoured nation) restrictions is called ‘water’ and is also measured by the STRI.⁹³ The percentage reduction in ‘water’ under existing trade deals is then calculated. These calculated differences are then applied to the UK’s and to Israel’s current ‘water’ levels to determine inputs for the model.⁹⁴

For this scoping analysis, a higher and a lower scenario, respectively 50% and 30% reductions in the ‘water’ across all modelled sectors, were modelled. Each scenario is based on the average percentage reduction in ‘water’ across sectors in existing FTAs and models the effect of reductions in the ‘water’. Reductions in the ‘water’ are scaled according to the Ciuriak et al. (2019)⁹⁵ finding that actual liberalisations generate responses 2.4 times greater than reductions in ‘water’. The higher scenario assumes that an even greater reduction in the ‘water’, or larger reduction in the legally bound rates, is achieved than in the lower scenario.

In the third stage, we feed the specified scenario back into the structural model we estimated in the first stage. Bilateral trade adjusts in accordance with the estimated sensitivity of trade flows to the STRI but also affects trade with other countries. These third country effects, in turn, feed back into the initial bilateral relationship. Note, the final simulated results presented here do not account for second order spill overs between sectors within an economy or the reallocation of factors of production, such as capital or workers, that a CGE model would capture.

Confidence intervals are produced at the 80% level using a bootstrapping method, which accounts for the uncertainty in the estimates of the sensitivity of trade flows to the STRI. The method takes 5000 random draws from the estimated distribution around this parameter, runs each of these draws through the simulation framework, then takes quantiles from the final outputs to produce a

⁹¹ Available at: <https://www.gov.uk/government/publications/services-trade-modelling-working-paper>

⁹² Available at: <https://read.oecd.org/10.1787/fee5c901-en?format=pdf>

⁹³ OECD (2015), Water in the GATS. Available at: https://www.oecd-ilibrary.org/trade/water-in-the-gats_5jrs6k35nnf1-en

⁹⁴ Modelling includes calculations based on measures to lock in commitments and reduce risk for firms by reducing the difference between the legally bound and applied MFN restrictions, also known as reducing the ‘water’ in agreements.

⁹⁵ Ciuriak, Dadkhah, and Lysenko “The Effect of Binding Commitments on Services Trade”. 2019 World Trade Review, 19(3), 365-378.

confidence interval. Confidence intervals are used to account for uncertainty when using maximum likelihood estimators.

Point estimates and sensitivity analysis for scenarios 1 and 2

Exports

Sector	Point estimate	Lower bound	Upper bound
Scenario 1			
Insurance	6% (£10m)	4% (£7m)	8% (£13m)
Other business services	8% (£24m)	4% (£13m)	11% (£34m)
Scenario 2			
Insurance	11% (£17m)	7% (£11m)	14% (£23m)
Other business services	13% (£40m)	7% (£23m)	19% (£58m)

Imports

Sector	Point estimate	Lower bound	Upper bound
Scenario 1			
Insurance	6% (£1m)	4% (£1m)	8% (£1m)
Other business services	4% (£12m)	2% (£7m)	6% (£17m)
Scenario 2			
Insurance	11% (£2m)	7% (£1m)	14% (£2m)
Other business services	7% (£21m)	4% (£12m)	10% (£29m)

The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

We are an international economic department, responsible for:

- supporting and encouraging UK businesses to drive sustainable international growth
- ensuring the UK remains a leading destination for international investment and maintains its number one position for international investment stock in Europe
- opening markets, building a trade framework with new and existing partners which is free and fair
- using trade and investment to underpin the government's agenda for a Global Britain and its ambitions for prosperity, stability and security worldwide.

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