Britain-Israel trade after Brexit

December 2017
Key Points

- A UK government issued White Paper identified Israel as a trade priority for post-Brexit Britain because of the potential synergies between Israel’s high levels of innovation and British strengths in design, business growth and finance, as well as the UK’s own high-technology and scientific strengths. However realising the opportunity requires being ready with new bilateral agreements or transitional arrangements.

- Areas in which Israel excels, especially in high-tech fields such as cyber security, Research and Development (R & D) and fintech, are largely not under the purview of EU-Israel agreements, easing the challenges post-Brexit.

- The number of Israeli companies setting up in the UK in the year after the referendum has increased by 28 per cent - with a 33.5 per cent increase in the level of investment and a 12.8 per cent increase in jobs created in the UK. These figures indicate that Israeli businesses see a moment of opportunity, and reflecting the underlying attractiveness of the UK for Israelis, based on language, culture and access to financing. However, there remains large untapped potential in the form of British investment in R & D in Israel itself, with only five British companies having opened innovation centres or acquired Israeli companies since 2014.

- At the same time, the overall attractiveness for Israeli businesses of operating in the UK will depend on whether London maintains its status as a global centre for capital. A prolonged period of uncertainty and concerns as to the future of regulatory and other requirements may lead some companies to reconsider operating out of Britain. Those Israeli and international companies attracted by the UK seek continued smooth access to the EU market for goods and services as well as a solution that allows for continued regulatory alignment with the EU in a Brexit deal.

- There is exceptional potential for growth in bilateral trade and investment, including UK exports to the expanding Israeli market, but this will be harmed if there is no arrangement to ensure the continuation of trade terms currently covered by the EU-Israel Association Agreement. “Grandfathering” existing arrangements currently covered by the EU-Israel agreements will thus be necessary in some important sectors including agriculture, pharmaceuticals and aviation. A UK-Israel working group is focussed on this, though there is a risk of the UK being overwhelmed by the challenge of simultaneously establishing new trade agreements around the world.

- In agriculture there is an opportunity to go beyond current Israel-EU terms by establishing different quotas which could allow Israeli fruit and vegetables to access a larger share of the UK market, and lower prices for UK consumers by increasing competition with southern Europe.

- In foreign policy and defence outlook, the UK and Israel will continue to share a broad strategic foreign policy and defence outlook, and will have even more in common post Brexit, as two important powers on the periphery of the EU and highly integrated with it, but with no aspiration to membership. Israel may however miss the UK’s voice in the EU council on deliberations on the Israeli-Palestinian arena.

Introduction

The bilateral relationship between the UK and Israel has strengthened in recent years and there is a strong willingness on both sides to continue this cooperation and trade following Brexit. Against the backdrop of Brexit negotiations a bilateral post-Brexit trade policy working group of Israeli and British officials began its work in the spring of 2017 and a UK-Israel Business delegation of 35 UK business leaders, from 30 companies travelled to Israel in November to assess investment opportunities and discuss strategies for dealing with Britain’s departure from the EU.

The following paper provides an overview of the value of UK-Israel economic and trade relationship to the UK economy, and explores
potential questions, challenges, and opportunities faced by key sectors due to Brexit. Given what is known at present, the paper also considers how UK-Israel relations will look post-Brexit. It constitutes the first in a series of BICOM research papers that will explore the future of Israeli-UK relations in light of Brexit. This paper is a detailed sector by sector analysis of Brexit's potential impact on bilateral trade that draws on in depth interviews with officials, diplomats, lawyers and business leaders in Britain and Israel. Below are our preliminary insights.

Foreign Policy and Defence

Determining its place in the world post-Brexit is a key focus of the British Government. The UK remains an important and influential internationally, both in terms of hard and soft power. It will retain its status as a permanent member of the United Nations Security Council, its G7 (and G20) membership, and its key role in NATO as the strongest military power in Europe with capacity to project power overseas. As it navigates its exit from the EU, the UK will look to deepen its existing unique network of global alliances – first and foremost its longstanding “special relationship” with the US, and work to enhance its strong commercial, defence, intelligence and cultural ties with the commonwealth countries, including Canada, Australia, New Zealand and India. Britain will also continue to strengthen its robust trade relationship with the Arab states, while building on its longstanding historic ties with the Gulf countries, although these relationships would likely be cooler under a Labour government, given Jeremy Corbyn’s criticisms of Gulf states’ human rights records.

With respect to Israel-EU relations post-Brexit, the UK’s exit may put Israel at a relative disadvantage when it comes to EU Council deliberations on the Israeli-Palestinian arena. Consecutive UK governments have often advocated European support for US-led diplomacy as opposed to the more independent EU role promoted by France, typically seen as less in tune with Israeli interests.

However, even without the UK in the room, the Council will still encompass a wide range of views on the issue. One European diplomat we spoke to emphasised that “the UK was often a defender of Israel’s position in the EU and Germany will now stand more alone (in addition to the eastern European countries) in supporting Israel in EU discussions”. However he suggested that the change probably would not be significant and “while the difference may be felt in terms of a change of tone over general dissatisfaction with Israeli policy, there will be no radical shift in policy. The EU doesn’t do radical shifts”.

Britain’s independent stance on the conflict will depend very much on who is in government. If the Conservatives retain power, the traditional UK position of supporting US diplomacy is likely to be in reinforced, which will bode well for UK-Israel relations. A Labour government would take a much more pro-Palestinian line.

The UK and Israel will continue to share a broad strategic outlook, including an interest in supporting Western-aligned Arab states and countering shared threats from anti-Western extremism; a desire to maintain a “special” relationship with the US; and a strong interest in ensuring that the US remains engaged in the region. In some ways, post-Brexit Britain will have even more in common with Israel than before in the sense that both countries will be important powers on the margins of the EU, aspiring and capable of very high levels of integration with the EU, but without aspiring to actual membership. Israel and the UK will continue their robust intelligence sharing relationship, particularly against threats posed by ISIS, and countering growing Iranian hegemony in the region. Moreover, as the UK recently suffered from several ISIS-directed or inspired attack in the last year, UK law enforcement is increasingly turning to Israel to draw on its expertise in grappling with the threat of lone wolf terrorist attacks, creating a new dimension to cooperation on security issues.

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In 2011, a UK government issued a White Paper named Israel as a key strategic partner, pledging to “encourage a stronger partnership between British and Israeli companies to exploit the potential synergies between Israel’s high levels of innovation and British strengths in design, business growth and finance, as well as the UK’s own high technology and scientific strengths”. Since then, the economic relationship has strengthened as detailed in a BICOM paper published last year.

**ISRAELI COMPANIES IN THE UK**

28 per cent more Israeli companies entered the UK in the year since the Brexit referendum than in the year before it.

The 57 Israeli companies come from a range of sectors.
Moreover, in an April 2017 study exploring Britain’s policy priorities beyond the EU member states, the UK think tank *Open Europe* found that the value of Israel’s untapped potential is expected to grow significantly by 2030 largely due to its growing population and its rising GDP. These factors, combined with the fact that Israel appears poised to become an energy exporter in the next few years bolster’s the report’s determination that Israel is one of four countries that the UK should prioritise engaging with on trade alongside Canada, India and China. This includes ensuring a bilateral trade agreement is in case to “grandfather” existing trade arrangements covered by the 2000 EU-Israel Association Agreement.

As of 2016, Israel was the UK’s 33rd largest market worldwide, and is Britain’s fourth largest market in the Middle East and North Africa region. The UK, in turn, is Israel’s second-ranking export market, and its biggest market for exports in Europe, helped by annual exports in Israeli pharmaceuticals to the UK. Moreover, the UK serves as Israel’s top destination for foreign direct investment in Europe and 28 Israeli companies are listed on the London Stock Exchange with a total combined market cap of over £11.5bn, and Israeli company Taptica won the Exchange’s Alternative Investment Market (AIM) award for “2017 International Company of the Year”. In January 2017, the Israeli Government chose the London Stock Exchange for its largest ever Euro-denominated bond offering (with investor demand four times oversubscribed) which allowed the Ministry of Finance to complete a 20 year tranche by raising EUR 2.25bn. It was Israel’s 12th and 13th bonds to be listed on London Stock Exchange.

In September, the UK’s Department for International Trade held its first Energy Investor Forum in Israel, in an effort to attract Israeli investment in hundreds of clean energy and infrastructure projects in the UK. The British Embassy in Tel Aviv published figures that over the last three years, Israeli investors injected over £300m into infrastructure projects in the UK, adding that the British government hopes UK believes that it can boost these numbers further by offering Israeli investors a foothold in projects in clean energy, waste management, recycling and other environment-friendly sectors.

Another positive indicator of mutual commitment to continued strong bilateral ties is the establishment of a post-Brexit UK-Israel trade policy working group, which includes government ministers from both countries, with the goal of having a trade deal in place to replace the current Israel-EU agreement when it expires. While discussions were postponed following the announcement of UK elections, they have since resumed and both sides optimistic about agreeing a new trade agreement following Brexit.

**What will Israel-UK trade relations look like post Brexit?**

Whilst British officials face the daunting task of renegotiating its trade relationship with the EU, they also face the task of negotiating Free Trade Agreements (FTAs) with the rest of the world. With the UK having said it will leave the EU Customs Union, it faces the task of replacing trade agreements with non-EU trade partners that were previously covered by UK membership of the EU. But according to EU rules these new agreements cannot be concluded or signed so long as the UK is still an EU member. As an expert on international trade and EU regulatory and public policy told us “the UK remains a member of the EU until it withdraws, and thus remains bound by EU competency laws, which restrict individual member states from negotiating with third party countries. While EU law does not prevent member states from scoping, or entering into negotiations with third party states, the UK cannot presently sign any agreements based on these discussions”.

Despite these complications in signing new agreements, civil servants we spoke to indicated that maintaining strong trade relations post-Brexit is a high priority for both sides in the UK-Israel relationship, particularly as the UK looks to form strong alliances with countries outside of the EU. UK-Israel trade exceeded $7bn in 2016, and shows considerable scope for expansion. One senior journalist who covers Brexit told us that: “if one had to rank the countries in order of priority [for the UK to sign deals with], Israel is not unimportant” adding that “it ranks highly after the US and the Anglo Saxon countries”.
Some components of the trade relationship between the UK and Israel currently operate under the 2000 EU-Israel Association Agreement, which ensures the free movement of capital, some liberalisation of trade in services, and ongoing economic and social cooperation. While replacing this and other EU agreements with bilateral UK-Israel agreements will be necessary in some sectors including agriculture, pharmaceuticals and aviation, many areas in which Israel excels – especially in especially in high-tech fields such as cyber security, R & D and fin-tech – are largely not under the purview of EU-Israel agreements, easing the challenges post-Brexit.

A closer look at Israel-UK Trade

Agriculture

While the agricultural sector within the EU has long been dominated by heavy subsidies and high tariffs, the Brexit process actually provides an opportunity to the UK to liberalise its agricultural sector and better integrate with markets in non-EU member states. Whether this will occur remains in the hands of the UK government as it determines its negotiation strategy with the EU.

In 2016, Israeli agriculture exports to the UK were $144m, with imports from the UK numbering $110m. Among the main Israeli exports to the UK in 2016 were: dates, $25m; potatoes $25m; avocado $8m, carrots $7m, mango $5m, grapefruit, $5m, and “easy-peeler” citrus fruits $5m. Among the main products Israel imported from the UK in 2016 were whiskey, $42m; and cereals, $5m.

The UK’s departure from the EU could represent a big market opportunity for Israeli agriculture. But the potential for increasing Israel’s market share depends on whether a bilateral free trade agreement between the UK and Israel is ready to go into effect immediately after 30 March 2019; and what the terms of that agreement (or of a temporary placeholder agreement) are.

Britain will almost certainly lack the resources to prepare new FTAs with numerous states within the next sixteen months. While having a bilateral agreement in place the day after Brexit is essential to ensuring that the products can be exported quickly and simply in order to avoid rotting in warehouses en route to the UK, experts we spoke to estimated that the new agreement governing trade in agriculture post-Brexit will most likely be an identical agreement to the existing EU Association Agreement that might be renegotiated or updated later. Yet while such a step may both save time and make sense in some sectors – such as aviation or pharmaceuticals – maintaining the same Israel-EU agricultural terms for a post Brexit Israel-UK relationship could constitute a missed opportunity for both countries.

The quotas which were part of the EU Association Agreement had their source in the interests of European states such as Spain, France, Italy and Greece, whose fruit and vegetable produce is similar to Israel’s. Therefore, establishing new quota-less terms for the bilateral UK-Israel agricultural relationship could allow Israel access to a larger share of the market, and lower prices for UK consumers by increasing competition.

There are also a number of additional issues in the field of agriculture currently governed by the Association Agreement which will be in need of being bilaterally renegotiated or formally agreed as the UK has different requirements than the EU member states. These issues include: mutual recognition of labelling on organic products; the maximum legal level of pesticide permitted in imported fruits and vegetables; and phytosanitary export certification.

Pharmaceuticals and Life Sciences

The UK government’s recently published Life Sciences Industrial Strategy identified concerns at the potential disruption to the industry due to a loss of skilled talent, as well as potential tariffs that might be imposed once the UK exits the EU, in an industry which imports raw materials and exports products with a high added value. In the pharmaceutical sector, the UK relies heavily on imports, and Israeli pharmaceutical giant Teva – which packs 5bn tablets a year in four separate UK sites and whose largest customer is the NHS – provides one in seven prescriptions
proscribed by the NHS, which it claims saves the NHS approximately 2.9bn pounds a year.1 The UK Government consider Israeli-based pharmaceutical companies to have created hundreds of jobs in the UK,2 and believe they play a significant role in the British healthcare system, through investment in clinical research projects, and academic exchange research partnerships. A senior professional in the field told us that it would be important for a new FTA it “not to have any customs duties on medicines” between the two countries, although they added that “generally developed countries don’t impose such duties”.

The two sides will most likely want to maintain the current agreement with one expert in the field saying “the current situation is pretty optimal”.

Another issue post Brexit relates to a sectoral annex to the EU-Israel agreement on the recognition of GMP - Good Manufacturing Practice for Pharmaceuticals which has been in operation since January 2013. This annex established a mutual inspection system that applies to trade in a range of pharmaceutical products as well as veterinary products. As a result of this, barriers to trade in pharmaceutical products have been reduced, while facilitating faster market access between EU member states and Israel. This has also recently been expanded to include the US market as well. Both Israel and the UK will want to ensure that these terms are maintained in a new agreement once the UK exits the EU.

1 The British Generic Manufacturers’ Association www.british-generics.co.uk shows that more than two thirds of all medicines dispensed by the NHS are generics yet only cost around 29 per cent of the NHS drugs bill, a saving of more than £10bn just in England and Wales. Based on the amount of generics Teva provides the NHS, Teva estimates that it contributes to more than £2.9bn of these savings per year.
2 For example, in March 2014, Prime Minister David Cameron welcomed more than £70m of investment into the UK following his visit with Trade and Investment Minister Lord Livingston to Israel and the Palestinian Territories. The investment, which the government estimates will create hundreds of UK jobs, included: a £50m commitment by Israel’s Noy Infrastructure and Energy Investment Fund to the UK’s renewable energy sector; a £12m investment by Israeli pharma company Teva in clinical development in the UK and a pledge of an additional £600,000 to support research into dementia; and a £10m investment by Israeli-based AposTherapy in the UK in the next 3 years. See https://www.gov.uk/government/news/prime-minister-welcomes-70-million-israeli-investment-in-uk-following-visit

Tourism and aviation

Following the June 2016 referendum, the declining value of the pound has already had a discernible impact on the tourism industry. While the devaluation of the pound has made it more difficult for Britons to travel abroad, the number of foreign visitors to the UK has grown at its fastest pace since 2012.

A post-Brexit UK will have to negotiate a range of travel-related agreements with former EU counterparts and non-EU countries, including passenger screening systems and cell phone charges. Even more significant is the need to retain or replace existing aviation agreements. The implementation of the Open Skies Agreement between the EU and Israel has been beneficial to Israel with 110 foreign airlines now active in the country, a tripling of low-cost airlines activity, the reduction by 18 per cent in the price of flights to Western Europe, and a 40 per cent increase in passenger traffic from 12.4m in 2012 to 17.3m international passengers today. Maintaining the agreement is essential for the UK.

Maintaining the UK-Israel relationship based on Open Skies is important as by 2013 there were, with a host of budget airlines competing with British Airways and El Al, greatly reducing ticket prices and increasing passenger numbers with more than 70 flights each week between the two countries over 200,00 Israelis visited UK in 2016 (the highest in over 15 years). In order to maintain budget airline flights between the two countries there would need to be some form of an exception or annex to the Open Skies agreement that would allow for their regular operations and flight routes over Europe to continue, or a separate, bilateral agreement.

However, while maintaining the rate of travel between the UK and Israel is important, maintaining the rate of travel between the UK and Europe is essential. More than 135m passengers fly annually between a U.K. airport and an EU country (approximately 370,000 passengers per day.) Aviation experts have warned that difficulties will arise unless the British government develops a strategy on “air connectivity” once outside the EU, and that legal issues could even cause all flights between the EU and UK to be grounded.
While agriculture, pharmaceuticals and aviation fall under Israel-EU agreements and thus need alternative agreements following Brexit, technology sectors in which UK-Israel ties are significantly expanding are primarily bilateral rather than EU related which ease the challenges.

The potential the UK sees in tech-based cooperation with Israel was reflected in 2012 in the establishment of the special government sponsored mission in Israel – the UK-Israel Tech Hub – to foster tech cooperation between the two countries. Since then, the Hub is credited with creating more than 80 business partnerships between the two countries.

The Israeli High-Tech and Venture Capital Database IVC-Online estimate that 337 Israeli high-tech companies are currently in the UK (with 125 having set up over the last five years). In July, The British Embassy in Tel Aviv reported that the number of companies has actually risen since the Brexit referendum, with 25 Israeli companies entering Britain between June 2015-May 2016 – investing £114m and creating 787 jobs – while 32 Israeli companies

Polling of 17 Israeli tech and financial businesses with UK offices shows some are concerned about Brexit, but many think it will have no effect on them.

Impact of Brexit in the next 5-10 years

- Fairly negative: 6
- Very negative: 24
- Very positive: 53
- Fairly positive: 12
- Don't know: 6
- No effect: 6

Impact of Brexit so far

- Fairly negative: 6
- Very negative: 35
- Very positive: 18
- Fairly positive: 35
- Don't know: 35
- No effect: 35
of 888 jobs (an increase of 12.8 per cent.) These companies focused on a variety of issues such as software, financial services, media, life sciences, infrastructure and energy and other areas.

One example of the successful synergy between London and Israeli tech companies was Israeli data network processing technology developer Ethernity Networks raising £15m on London’s AIM (a sub-market of the London Stock Exchange) in June. Another is that the London Stock Exchange’s ELITE programme, which was launched in 2014 as an education, mentorship and business growth platform for what it sees as “the most exciting international companies” has nine Israeli companies enrolled (including six in the last 18 months). These companies, Blender, eToro, Geek Apps, iCapital, Innitel, Massivit 3D, Motionize, Showbox and Tevva Motors come from a range of sectors – from Software & Computer Services to Financial Services, and Industrial Transportation to Media. In November, ELITE itself partnered with an Israeli startup analysis company called Zirra which will provide the London Stock Exchange with company research tools powered by automated signals, artificial intelligence, and big data to support ELITE companies on boarding and growth.

**High Tech Industries and Brexit**

There remains an on-going debate within start-up companies regarding the extent to which tech companies will be deterred by Brexit. In October, Ipsos MORI published a survey, for UK based overseas chambers of commerce, involving seventeen Israeli firms from different sectors with operations in the UK according to which, 35 per cent believe Brexit has had no overall impact on their business so far with 24 per cent contending that Brexit would have “no effect either way” on plans. However, 53 per cent were “fairly negative” regarding the likely effect Brexit will have on future investments by their companies, a number broadly in line with views of investors from other countries.

What was important for Israeli and other international companies featured in the survey – and what the UK will hope to resolve – was “a solution that allows for companies to have smooth access to the EU market for goods and services” and “a solution that allows for continued regulatory alignment with the EU”.

Other analysts that BICOM spoke to were more sanguine. A British advisor to Israeli start-ups told us that several tech companies focused on fintech, advertising, or gaming are largely unconcerned about the effects of Brexit and continue to be attracted to do business in Britain: “The UK is a hub of capital and of certain sectors like financial services and advertising.” An Israeli lawyer who works with fintech and emerging technologies companies argued that “clients look for funding, customers, or an attractive regulatory environment – all of which currently exist in Britain – and this won’t change post-Brexit”. A finance expert with many years of experience working with Israeli companies said that “the UK is definitely the place to be listed and do business,” adding that “London is seen as a base to subsequently reach a global market” and the “UK is so attractive to Israelis because of language, and culture, and access to pool of capital”. Head of financial institutions at a British bank that deals with Israeli banks said that from their perspective its “business as usual”. One person in the tech field even suggested that many in the Israeli high tech sector see Brexit as an opportunity for Israeli companies to gain a foothold in the UK: “as some European companies are pulling back from the UK due to the current uncertainty, a number of Israeli companies are bringing
their business into the UK market in the belief that there will be an opportunity for many new business relations to evolve very quickly.”

Much may depend on the primary aim of tech companies. Several people we spoke to said that those companies who view the UK as a springboard to expand into Europe may have second thoughts post referendum. Urging a note of caution, an international employment lawyer told us that “it would be naive to think that there will be no impact [of Brexit] generally”.

Ultimately though, the crux of the decision among tech companies (Israeli and other) revolves around the debate over whether the UK will continue to be a centre of capital. A prolonged period of uncertainty, concerns as to the future of regulatory and other requirements, or a halt in economic growth in the UK may lead some companies to reconsider operating out of Britain (or putting Initial Public Offerings in London on hold), while a long-term devaluation of the pound may result in a drop in demand for Israeli products.

Many – although not all – in the business world are confident the UK will continue to utilise the advantages that have made it a global hub – namely the English language, the British common law legal system, its world-class university system (in and of itself a hub for research, science and innovation) and maintain its status as a centre of finance and strong regulation. Indeed, in the third quarter of 2017, more businesses floated on the London Stock Exchange than any other bourse across Europe, the Middle East, India and Africa. A British consultant who helps tech companies setting up in Britain told us, “the hedge funds and private equity are still in London – you can’t recreate Soho in Paris overnight,” adding that as long as that doesn’t change, companies will continue to find London

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**London as a future centre of global capital**

Analysts are divided over whether London will continue to be a centre of capital.

The Global Financial Centers Index (GFCI), which collates data from institutions and businesses to score over 100 participating cities in areas such as competitiveness, business environment, infrastructure and reputation, published findings in October 2017 that London had kept its place at the top and even strengthened its score.

At the same time, Frankfurt, Dublin, Paris and Amsterdam - perceived by many to become potential alternatives centres of business following Brexit – all increased their rankings aswell and several financial institutions have indicated that they will move to Frankfurt or Dublin.

Some analysts, such as the New York-based data firm CB Insights believe Brexit will have major negative consequences. “As part of the EU, London’s advantages were clear: the status of London as a preeminent global finance hub, the abundance of European talent, and the uniformity of regulations that allowed London-based companies to easily roll out products Europe-wide”. But with Brexit, “all the comparative advantages are thrown at least partly into question”.

Others, such as Nikhil Rathi, chief executive of the London Stock Exchange Plc, argue that the UK has “always been a very global market. The reason people come to London is the rule of law, regulatory integrity, timezone, depth of investor base, liquidity, fairness of the legal system... Nothing that’s happened in the last year has changed that, or will change this fundamentally. This is a tradition in London that goes back hundreds of years”.

While uncertainty lingers, London’s financial sector has shown signs of rallying and by the end of the third quarter of 2017, cross-border IPOs accounted for 12 per cent of the listings on the London Stock Exchange, representing 56 per cent of the £2.9bn in proceeds.
attractive. A British lawyer advising Israeli companies operating in the UK claimed that: “London is a key market, especially for Agritech and Fintech. There will always be Israeli companies who use London as a key hub, irrespective of leaving the single market.”

In any event, one important component for the UK government in continuing attracting skilled techies of all nationalities will be ensuring the continuation and even expansion of the Tech Nation visa scheme which is the endorser of the Tier 1 (Exceptional Talent visa route) 3. In mid-November, the UK Government announced that it was doubling the number of visas that would be made available under Tier 1 to leading figures and individuals who show promise in technology, science, art and creative industries.

BICOM intends to focus on the UK-Israel relationship in different high tech industries in future papers.

Cyber Security

Another major technology related field that the two countries have forged deep ties in is cyber-security, which is increasingly important to the UK government, with plans announced last year to spend £1.9bn on a viable cyber strategy over the next five years.

Israel and the UK signed a Memorandum of Understanding on bilateral digital cooperation in 2014 4 which spurred research and investment opportunities in Britain and during a February 2016 visit to Israel then-Minister for the Cabinet Office Matt Hancock MP announced extended cooperation, in cyber defence relating to national infrastructure, including a program promoting academic cooperation in the cyber-physical security, and information sharing between Cyber Emergency Response Teams. In January 2017, the outgoing Director-General of GCHQ Robert Hannigan, spoke publicly about the agency’s strong partnership with Israel. According to Hannigan: “As we establish the new National Cyber Security Centre as part of GCHQ, we are building on an excellent cyber relationship with a range of Israeli bodies and the remarkable cyber industry in Be’er Sheva.” In September, British companies Aviva Insurance, BT, Goldman Sachs, RBS, Visa and others hosted Israeli cyber security startups for a series of targeted events in London.

UK-Israel cooperation in this sector extends beyond national security to harnessing cyber expertise to serve the private sector and the public as well, utilising the expertise of the security services in both countries, as well as in academia. Israeli-based cyber start-ups receive around 20 per cent of global investment in the cyber market. 5

Both the UK and Israel are founding members of D5 – an organisation formed in 2014 and unrelated to the UK’s membership of the EU – comprised of 5 founding member states (South Korea, Estonia, and New Zealand are the other 3), with the aim of bringing together the most digitally advanced governments in the world, working to improve digital public services, including streamlining government websites and using technology to make voting more accessible. In 2015, the UK and Israel partnered on a £1.2m joint academic project, promoting collaborative research partnership with a total of 6 institutions (3 Israeli and 3 British), exploring

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3 This Tier 1 Exceptional talent visa, which initially was primarily based around the arts and sciences, was expanded in 2014 to include Tech and helps to attract skilled, non-European, high tech workers to the UK, strengthens the country as a global hub for investment and economic opportunity and the UK’s position as a globally competitive digital economy. Moreover, maintaining and potentially expanding the Tier 2 scheme - which comes under the “shortage occupation list” and includes jobs such as cyber specialists and IT managers and allows a start-up tech UK company to hire non-EU citizens who are qualified in the IT sector will also be important in this regard. See also, DRSI LAW, UK Work Permits, http://www.drsi-law.com/en/ukworkpermits.html

4 The MOU sought to promote “the exchange of information and experiences around open markets, open standards and open source; work together to make sure that each country has the capability and ability to develop digital public services; and develop other ways of working together internationally”.

5 Israel’s share of global private-sector investment in the cyber industry doubled to 20 per cent in 2015, and as of 2016, 15 per cent of all capital raised by the industry globally (around $581m) was raised by Israeli cybersecurity companies. See John Reed, “Israel cyber-security expertise lured growing share of investment,” Financial Times, 12 January 2016, https://www.ft.com/content/dfa5c916-b90e-11e5-b151-8e15c94029f7?mhq5j=e5; Owen Ackerman, “Israeli Cybersecurity Industry Grows as Global Threats Multiply,” Bloomberg, 26 January 2017, https://www.bloomberg.com/news/articles/2017-01-26/israeli-cybersecurity-industry-grows-as-global-threats-multiply.
six specific areas of the growing cyber threat, including: identity management; governance, and the need for cyber security regulation; privacy assurances and perceptions; mobile and cloud security; cryptography; and human aspects of security or usable security.6

The project is part of an initiative by the UK government as part of its long-term economic plan to ensure that the UK remains “one of the safest places to do business and access services online”.

Research and Development - R & D

The closeness of the UK-Israel R & D relationship is unlikely to be adversely affected by Brexit. Indeed, in September 2017, three months after the referendum vote, the London-based Institution of Engineering and Technology, the UK’s main engineering institution, signed a Memorandum of Understanding with Israel Advanced Technology Industries to spur bilateral cooperation in high-tech projects.

However, there remains large untapped potential in the form of British investment in R & D centres in Israel itself. A recent report by Start-Up Nation Central, a non-profit organisation that connects international businesses with Israeli innovation, published findings detailing 87 companies from 18 countries – including Booking.com, Hyundai and Dropbox – which have opened offices in Israel since 2014 to pursue R & D or innovation. However, only five of these – chip designer ARM Holdings, Atmosphere Control Technology business Johnson Matthey, Fin-Tech venture ShareGain, multinational telecommunications testing company Spirent and Yoobic Retail Experience – were British companies. Other British companies such as Barclays and HSBC – which launched a cyber-hub in Tel Aviv in September are present. Others such as BT have an innovation centre within the UK – Adastral Park – that often cooperates with Israeli companies. But in general the UK lags behind Canada, China, and the US in utilising Israeli expertise in this field.

Ed-Tech / Education

Another component of bilateral Israel-UK trade not directly tied to the UK’s membership of the EU is cooperation surrounding education as well as the growing field of EdTech (the facilitation of learning and improving performance by creating and using technological processes and resources.) One Israeli involved in this field as well as UK-Israel cooperation told us that “Israeli companies see the UK as a competitive market which is welcoming to cooperation and expansion and this has not been altered due to the uncertainty surrounding the Brexit negotiations”.

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6 These research partnerships, created through a fund supporting a bilateral cyber research programme through the Engineering and Physical Sciences Research Council (EPSRC) include a joint project with the University of Bristol and Bar-Ilan University; a project with pairing the University College London and Bar-Ilan; and a third partnership funding research at the University of Kent and Israel’s Ministry of Science and Technology.
Also unlikely to be significantly affected by Brexit is BIRAX, the Britain Israel Research Academic Exchange, which is a joint British-Israeli scientific collaboration that has provided over £7m to promote academic partnerships in over 15 bilateral research programs. The program has facilitated funding for research in a variety of cutting edge projects at the forefront of medical research, including stem cell treatments, research into Type 1 diabetes, and regenerative medicine therapies. The British Council and the British Embassy in Israel recently noted that the academic partnership “has since grown into the flagship of UK/Israel science partnership”. An official involved in this area told us that “a future Memorandum of Understanding to be signed in 2019 is expected to include a focus on neuroscience, nanotech, cyber, antimicrobial resistance (AMR), renewable energy, infectious diseases, and water”.

Similarly, general cooperation between the UK and Israeli universities and research institutes is expected to be maintained, regardless of Brexit, with Israeli research institutes continuing to be viewed favourably by their British counterparts.

An open question remains as to what extent Brexit may impact mobility and funding of collaborative research programmes. Those spoken to in this field raised the question of the future funding of many programmes. Horizon 2020 – the 70bn Euro EU consolidated fund for research and innovation which is seen as very successful by both the UK and Israeli governments and to which Israel is a full partner – has UK funding commitment up to 2020, and can therefore continue to serve as a facilitator of UK-Israel research cooperation. However, to what extent the UK will remain part of that beyond 2020 remains to be seen.

Conclusion

Whilst mutual interests in enhanced strategic and economic cooperation between Britain and Israel are only increasing due to Brexit, the future context for trade and economic cooperation has of course been cast under a shadow of uncertainty, bringing both threats and opportunities.

There is exceptional potential for growth in bilateral trade and investment, including UK exports to the expanding Israeli market, but this will be harmed if there is no arrangement to ensure the continuation of trade terms currently covered by the EU-Israel Association Agreement. Uncertainty over aviation arrangements is also a significant concern, given that cheap flights between the UK and Israel have flourished under Israel’s accession to the EU Open Skies agreement. Ensuring the continuation of existing arrangements should be seen as a minimum, since in some sectors, notably agriculture, there is potential for UK-Israel trade liberalization to go beyond the EU agreement.

Tech sectors on the other hand are largely not covered by EU agreements, and therefore less affected by Brexit. The cooperation between UK and Israeli tech sectors which has been actively promoted by the UK government in recent years look set to continue. It is a promising sign that in the current climate of uncertainty (post-referendum, pre-official 2019 exit agreement), there has not only not been a reduction in Israeli tech companies and expertise coming to the UK but an increase. While it would be naïve to suggest that there will be no impact from Brexit generally, the absence of major setbacks in collaborative opportunities and investment – within the tech and cyber security sectors in particular – is an encouraging sign for what British-Israeli trade and economic ties will look like after 2019.

However, whilst Israeli business will continue to be attracted to the UK because of language and culture, much will depend on whether London succeeds in maintaining its significance as global financial centre, and on future trade relations between the UK and EU.

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“London is a key market, especially for Agtech and Fintech. There will always be Israeli companies who use London as a key hub, irrespective of leaving the single market.”
This strategic assessment was produced by BICOM’s research team.

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