



DEBATE PACK

Number CDP-2018-0164, 29 June 2018

UK-Israel trade

Summary

This briefing has been produced ahead of the debate on UK-Israel trade, to be held in Westminster Hall on Tuesday 3 July 2018 at 2:30pm

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By
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Curtis

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1. Background

1.1 UK-Israeli relations

Relations between Israel and the UK have been close historically, and have deepened under Theresa May's government.

Mrs May has hosted two bilateral meetings with the Israeli Prime Minister Benjamin Netanyahu since she took office, in [February 2017](#) and [June 2018](#). Mr Netanyahu also attended [a dinner](#) hosted by the Prime Minister in November 2017, to celebrate the [centenary of the Balfour Declaration](#). In addition, the two leaders have conducted regular official telephone calls. Improving trade and economic ties between the two countries has been a recurring theme of these discussions.

The International Trade Secretary, Liam Fox, [speaking at](#) a Jewish Care business breakfast event in October 2017, advocated deepening the economic links between the two countries. He pointed to the creation of the [UK-Israel Trade Working Group](#), designed to identify and remove trade barriers between the two countries, as an important achievement.

Successive UK governments have, while being closely allied to Israel, disagreed over aspects of Israel's policies towards the Occupied Palestinian Territories (OPTs). These include Israel's settlement building programmes, which the UK and much of the international community believe contravenes international law.

The UK also has raised concerns over Israel's use of live fire in the recent clashes on the Israel-Gaza border.¹

The two governments also disagree over the Iran nuclear deal. Israel opposes the accord, while the UK was one of the six nations to negotiate the deal with Iran, and it remains a strong supporter of finding a diplomatic solution to curbing Iran's nuclear programme.

However, the UK Government has continued to emphasise (in all recent statements) the close ties between the UK and Israel and that it supports Israel's right to defend itself. As a sign of the close relationship between Israel and the UK, Prince William visited Israel as part of a tour of the Middle East in late June. He became the first Royal to make an official visit to the country. In a speech at a reception hosted by the British Ambassador, Prince William said ties between the two countries had "never been stronger".²

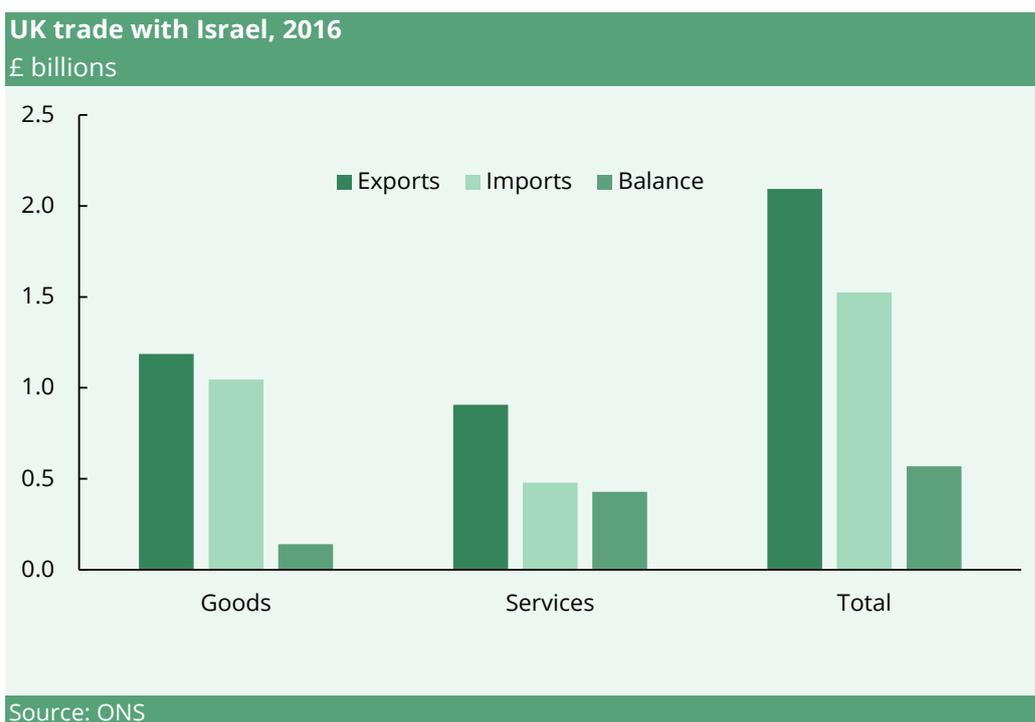
¹ See, for example, ['May urges 'greater restraint' by Israel after Gaza violence'](#), BBC News, 15 May 2018

² ['Duke of Cambridge: Scale of Holocaust terrifying'](#), BBC News, 26 June 2018.

1.2 UK-Israel trade

In 2016:

- The UK recorded an overall trade surplus with Israel of £0.6 billion, with a surplus of £0.1 billion in goods and a surplus of £0.5 billion in services.
- UK exports to Israel accounted for 0.4% of all UK exports; imports from Israel accounted for 0.3% of all UK imports.
- Israel was the UK's 40th largest export market and 49th largest source of imports.



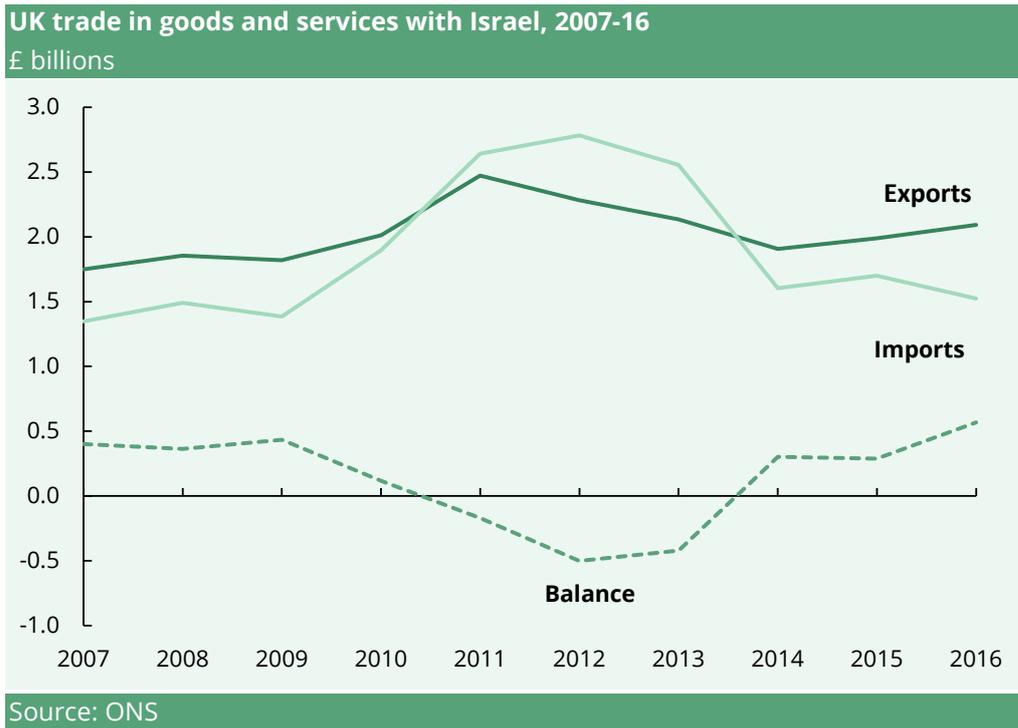
British exports to Israel peaked at £2.5 billion in 2011; UK imports from Israel peaked at £2.8 billion in 2012.

The UK has now recorded a trade surplus with Israel in seven of the last ten years for which data is available, the largest being £0.6 billion in 2016, though recorded three successive deficits between 2011 and 2013, the largest being £0.5 billion in 2012.

UK trade in goods and services with Israel, 2007-16
£ billions

Year	Exports	Imports	Balance
2007	1.7	1.3	0.4
2008	1.9	1.5	0.4
2009	1.8	1.4	0.4
2010	2.0	1.9	0.1
2011	2.5	2.6	-0.2
2012	2.3	2.8	-0.5
2013	2.1	2.6	-0.4
2014	1.9	1.6	0.3
2015	2.0	1.7	0.3
2016	2.1	1.5	0.6

Source: ONS



1.3 Trade in goods

In 2016, the UK's single largest goods export to Israel was road vehicles, making up almost a fifth of all UK goods exports to Israel, followed by medicinal and pharmaceutical products and general industrial machinery.

UK goods exports to Israel, 2016		
	£ millions	% of all goods
Road vehicles	201.4	18.4%
Medicinal & pharmaceutical products	120.8	11.0%
General industrial machinery & equipment	76.1	6.9%
Professional, scientific & controlling instruments	67.4	6.1%
Machinery specialized for particular industries	63.6	5.8%
Electrical machinery and appliances	53.4	4.9%
Non-metallic mineral manufactures n.e.s.	50.1	4.6%
Miscellaneous manufactured articles n.e.s.	44.7	4.1%
Power generating machinery & equipment	38.8	3.5%
Beverages	33.7	3.1%
All goods	1,097	100.0%

Source: HMRC, UK Trade Info

"Non-metallic mineral manufactures" were the UK's single largest import from Israel – the vast majority of this category was made up of imports of diamonds – Israel accounted for 7% of the UK's total imports of diamonds in 2016. Other significant goods imports from Israel to the UK included miscellaneous manufactured articles (the majority of this category was made up of imports of manufactured plastic goods), vegetables and fruit and electrical machinery and appliances.

UK goods imports from Israel, 2016		
	£ millions	% of all goods
Non-metallic mineral manufactures n.e.s.	117.4	11.3%
Miscellaneous manufactured articles n.e.s.	87.3	8.4%
Vegetables & fruit	83.8	8.1%
Professional, scientific & controlling instruments	68.9	6.6%
Electrical machinery and appliances	59.5	5.7%
Power generating machinery & equipment	51.9	5.0%
Telecomms equipment	45.4	4.4%
Plastics in non-primary forms	44.2	4.3%
Textile yarn, fabrics, made up articles etc	43.7	4.2%
Furniture & parts thereof	41.5	4.0%
All goods	1,036.4	100.0%

Source: HMRC, UK Trade Info

1.4 Trade relations

As the UK is still a member of the European Union, trade relations between the UK and Israel are governed by the [EU-Israel Association Agreement](#), which came in to force in 2000, with the aim of providing “an appropriate framework for political dialogue and economic cooperation between the EU and Israel.”³

This was part of a series of agreements forming the Euro-Mediterranean Partnership (Euromed), a wide framework of political, economic and social relations between EU states and Southern Mediterranean countries. One of the main objectives of Euromed is the creation of a Euro-Mediterranean free trade area, with the aim of removing barriers to trade between the EU and Southern Mediterranean countries, as well as between the Southern Mediterranean countries themselves.⁴

Between 1998 and 2005, eight Euro-Mediterranean Association Agreements were signed between the EU and countries in North Africa and the Near East.

The [EU-Israel Association Agreement](#) allows for free trade in industrial products between the EU and Israel, the free movement of capital, progressive liberalisation in trade in agricultural products, progressive liberalisation of public procurement and aspirations toward the “intensification of cooperation in science and technology.”

Further agreements on trade agreed between the EU and Israel since 2000 include:

- A [2010 Agreement](#) brought into force further liberalisation and market access for trade in agricultural products, processed agricultural products and fish and fishery products
- The implementation of the [EU-Israel Agreement on Conformity Assessment and Acceptance of industrial products \(ACAA\)](#) in 2013, which saw mutual recognition of pharmaceutical certifications between the EU and Israel.

³ European Commission, [Israel](#)

⁴ European Commission, [Euro-Mediterranean partnership](#)

- Israel is also a signatory to the 2010 [Regional Convention on pan-Euro-Mediterranean preferential rules of origin](#), which addresses “cumulation of origin”, meaning a product coming from one partner country can be “processed or added to a product of a second partner country and still be considered an “originating product” of that second partner country for the purposes of a particular trade agreement.”⁵

1.5 Settlement goods

Goods originating from Israeli settlements in the Occupied Palestinian Territories are not subject to the same preferential terms of the EU-Israel Association Agreement, as they are not considered Israeli – this was underscored by a 2010 ruling by the European Court of Justice.⁶

In 2009, the government of Gordon Brown issued [guidelines](#) that recommended that produce from Israeli settlements in the OPTs be labelled as such.

These guidelines are advisory only, and are intended to allow consumers to make a ‘discerning choice’ as to whether they wish to purchase products produced in the settlements. However, they do make clear that labelling products from the Occupied Palestinian Territories as ‘produce of Israel’, would “almost certainly be committing an offence”, and this would apply “irrespective of whether the produce was from a Palestinian producer or from an Israeli settlement in the OPT”.⁷

However, while the UK Government believe that settlement building in the OPTs contravenes international law, they do not support a boycott of goods from Israel as whole, or from illegal settlements. They believe that correct labelling will enable consumers to make their own choices.⁸

1.6 UK-Israel trade relations post-Brexit

In February 2017, following a meeting between the Prime Minister and Prime Minister Netanyahu, it was announced that the UK and Israel had “agreed to establish a new UK-Israel Trade Working Group to continue the progress we have seen in our burgeoning trade and investment relationship, and to prepare the ground for a post-Brexit trade agreement.”⁹

The Working Group met for the first time in March 2017, with the Israeli Minister of Economy and Industry Eli Cohen stating “as the UK is Israel’s first export destination in Europe, we see high importance in

⁵ European Commission, [Israel](#)

⁶ See [Firma Brita GmbH v Hauptzollamt Hamburg-Hafen, Judgment of the Court \(Fourth Chamber\)](#), 25 February 2010

⁷ DEFRA: [Technical advice: labelling of produce grown in the Occupied Palestinian Territories](#), December 2009.

⁸ HC Deb 28 March 2017 [c108](#)

⁹ Prime Minister’s Office, [PM meeting with Israeli Prime Minister Netanyahu](#), 6 February 2017

keeping and enhancing our trade relations when the UK ceases to be a member of the European Union.”¹⁰

In an April 2017 report, the Open Europe think-tank identified Israel as an export market in which the UK “consistently” under-performs and, along with South Korea, Switzerland and Canada, it should be one of the “standout priorities for ensuring the continuation of existing EU FTAs” post-Brexit.¹¹

In response to a written question on the EU-Israel Association Agreement and UK-Israel relations after the UK leaves the European Union, a Minister of State in the Department for International Trade responded:

As we leave the European Union, we are seeking to replicate our existing EU free trade agreements and other EU preferential arrangements, so as to ensure continuity in our trade and investment relationships with third countries. This includes the EU-Israel Association Agreement.¹²

¹⁰ Department for International Trade, [UK and Israel set to hold first trade policy working group](#), 28 March 2017

¹¹ Henry Newman, Stephen Booth, Aarti Shankar, Alex Greer and Vincenzo Scarpetta, [Global Britain: Priorities for trade beyond the EU](#), Open Europe, April 2017, pg. 3

¹² Department for International Trade, [Overseas Trade: Israel: HL8530](#), 25 June 2018

2. Press Articles

[Prince William voices 'hope for lasting peace' during first ever royal visit to West Bank: Second-in-line to throne refers to Palestinian territories as a 'country'](#)

Bethan McKernan

The Independent, 28 June 2018

[Prince William visit ends royal 'boycott' of Israel: The first official royal visit to the Jewish state has Britain's diplomats treading a fine line to avoid angering allies](#)

Anshel Pfeffer

The Times, 17 June 2018

[British arms exports to Israel reach record level: Figures reveal defence firms' sales at new high, as Prince William prepares for visit to Ramallah and Jerusalem](#)

Jamie Doward

The Observer, 27 May 2018

[Britain must make new trade deals in record time](#)

Oliver Wright, Callum Jones

The Times, 3 April 2018

[UK could suffer a 'loss of trade' with around 40 countries on Brexit day, admits Liam Fox's chief civil servant: Countries with existing deals negotiated by EU will be 'trying to get something else extra', Trade Secretary's adviser acknowledges](#)

Rob Merrick

The Independent, 7 March 2018

[After Brexit, Israel senses a chance to boost trade with UK: It is hard to sell fruit into the EU, but when Britain leaves it could become a big market for Israeli agriculture and for its burgeoning cyber-industries](#)

Mark Leftly

The Observer, 11 March 2017

[Israel's economy is a study in contrasts: Dazzling high-tech firms divert attention from a serious productivity problem](#)

The Economist, 18 May 2017

[Israel: The going gets rough for diamonds](#)

John Reed

Financial Times, 12 May 2016

3. Parliamentary material

3.1 Written questions

[Department for International Trade: Overseas Trade: Israel: HL8530](#)

Asked by Baroness Tonge

Asked on 11 June 2018

To ask Her Majesty's Government whether they intend to impose the same trade conditions on Israel as they now impose under the EU–Israel Trade Association Agreement after Brexit.

Answered by Baroness Fairhead

Answered on 25 June 2018

As we leave the European Union, we are seeking to replicate our existing EU free trade agreements and other EU preferential arrangements, so as to ensure continuity in our trade and investment relationships with third countries. This includes the EU-Israel Association Agreement.

The Prime Minister met the Israeli Prime Minister in February 2017 and agreed to establish a joint trade working group. In March 2017, my Noble Friend the Rt Hon The Lord Price CVO, the then Minister of State for Trade Policy, visited Israel to chair the first meeting of the working group, which is continuing to make positive progress towards ensuring a smooth transition.

[Department for International Trade: Israel: Arms Trade: 149019](#)

Asked by Lloyd Russell-Moyle

Asked on 01 June 2018

To ask the Secretary of State for International Trade, whether restrictions on end-use are applied to UK exports of military equipment to Israel; and if he will make a statement.

Answered by Graham Stuart

Answered on 12 June 2018

We do not have extraterritorial powers to restrict the end use of goods exported under an export licence from the UK. However, end use is an important consideration when assessing a licence application against the Consolidated EU and National Arms Export Licensing Criteria.

This assessment is undertaken on a case-by-case basis and the Consolidated Criteria require us to think hard about the impact of providing equipment and its capabilities to the end user. We will not grant a licence if to do so would be inconsistent with these criteria.

We are keeping the situation in Israel and Gaza under careful review to ensure that extant export licences remain consistent with the

Consolidated EU and National Arms Export Licensing Criteria. We will revoke these licences if we assess that they are no longer consistent with these criteria.

We have no information to suggest that UK supplied equipment has been used in contravention of the Consolidated Criteria.

Foreign and Commonwealth Office: Overseas Trade: Occupied Territories: Written question - 149013

Asked by Lloyd Russell-Moyle

Asked on 01 June 2018

To ask the Secretary of State for Foreign and Commonwealth Affairs, pursuant to the Answer of 3 April 2018 to Question 133853 on Overseas Trade: Occupied Territories, how the Government's policy to allow individual companies to decide whether to operate in the Occupied Territories is in compliance with UN resolution 2334.

Answered by Alistair Burt

Answered on 11 June 2018

The UK voted for this resolution because of our support for the two-state solution and commitment to Israel as the Jewish homeland. It has long been our position that Israeli settlement activity is illegal and undermines the viability of two states for two peoples. We advise British businesses to bear in mind the British Government's view on the illegality of settlements under international law when considering their investments and activities in the region. This is in line with our commitments, as set out in the resolution.

Department for International Trade: Trade Agreements: Israel: Written question - 141792

Asked by Jim Shannon

Asked on 08 May 2018

Trade Agreements: Israel

To ask the Secretary of State for International Trade, what opportunities he has identified for further trade cooperation with Israel once the UK is no longer party to the EU-Israel Association Agreement.

Answered by **Greg Hands**

Answered on 16 May 2018

As we leave the European Union, we are seeking to replicate our existing EU free trade agreements and other EU preferential arrangements, so as to ensure continuity in our trade and investment relationships with third countries.

The Prime Minister met the Israeli Prime Minister in February 2017 and agreed to establish a joint trade working group. In March 2017, my

noble friend, the then Minister of State for Trade Policy (Lord Price CVO), visited Israel to chair the first meeting of the working group, which is continuing to make positive progress towards ensuring a smooth transition.

The UK and Israel have an important trading relationship, which we are committed to strengthening through our dedicated trade promotion team at our Embassy in Israel.

[Foreign and Commonwealth Office: Israel: Sanctions: Written question - HL5686](#)

Asked by Baroness Tonge

Asked on 20 February 2018

To ask Her Majesty's Government with regard to human rights and international law violations, under what circumstances they would consider imposing selective trade sanctions on Israel.

Answered by Lord Ahmad of Wimbledon

Answered on 06 March 2018

The Government is firmly opposed to sanctions or boycotts against Israel. Such moves would not support the progress we need towards resolution of the Israeli-Palestinian conflict.

[Foreign and Commonwealth Office: Israel: Technology: Written question - 126893](#)

Asked by Jim Shannon

Asked on: 06 February 2018

To ask the Secretary of State for Foreign and Commonwealth Affairs, what recent steps he has taken to strengthen trade cooperation with Israel in the high tech sector.

Answered by Alistair Burt

Answered on: 14 February 2018

The UK is a close friend of Israel and we enjoy an excellent bilateral relationship, built on decades of cooperation between our two countries across a range of fields such as education, hi-tech research, business, arts and culture. Trade between our countries is at record levels. The British Government helped to establish the UK-Israel Tech Hub, a non-profit organisation based in Tel Aviv and London, to help British companies looking for cutting-edge innovation or Israeli start-ups seeking to grow through the UK. Over the last 5 years the Tech Hub has generated deals worth £62 million.

[Department for International Trade: Imports: Israeli Settlements: Written question - 115933](#)

Asked by Catherine West

Asked on: 27 November 2017

To ask the Secretary of State for International Trade, what discussions has he had with his counterpart in Israel on imports of produce grown in illegal settlements.

Answered by Mark Garnier

Answered on 05 December 2017

The UK and Israel have a strong and important trading relationship. However, we do not recognise the Occupied Palestinian Territories as part of Israel and indeed it is not covered by the current EU-Israel Association Agreement which governs our trade with Israel.

We are looking across the board to ensure a smooth transition for existing EU trade agreements in the region, and that will include the EU-Israel Association Agreement as well as the Interim Association Agreement with the Palestinian Authority.

[Department for International Trade: Overseas Trade: Israel: Written question - HL2722](#)

Asked by Baroness Tonge

Asked on 30 October 2017

To ask Her Majesty's Government what assessment they have made of increased trade opportunities with Israel following the UK's exit from the EU.

Answered by Baroness Fairhead

Answered on 13 November 2017

As we prepare to leave the EU, we will seek to transition all existing EU trade agreements and other EU preferential arrangements. This will ensure that the UK maintains the greatest amount of certainty, continuity and stability in our trade and investment relationships for our businesses, citizens and trading partners.

In March 2017, the UK-Israel Trade Working Group was launched, aiming to strengthen the trade and investment relationship between the two countries and ensure a smooth transition, as we leave the EU.

[Foreign and Commonwealth Office: Overseas Trade: Israeli Settlements: Written question - 62462](#)

Asked by Mr Barry Sheerman

Asked on 31 January 2017

To ask the Secretary of State for Foreign and Commonwealth Affairs, if he will support measures by the UN Human Rights Council to draw up a

database of all UK firms involved in trade or financial dealings with illegal settlements in coordination with the EU and UN.

Answered by Mr Tobias Ellwood

Answered on 07 February 2017

The UK, alongside our EU partners abstained on a vote about proposals for a database at vote at the UN Human Rights Council in March 2016. The database has not yet been finalised.

In December 2013 we placed advice online to raise awareness of the key security and political risks which UK businesses may face when operating abroad, including in Israel and the Occupied Palestinian Territories. This includes guidance on Israeli settlements. We are advising British businesses to bear in mind the British Government's view on the illegality of settlements under international law when considering their investments and activities in the region.

[Department for International Trade: Overseas Trade: Israeli Settlements: Written question - HL4489](#)

Asked by Baroness Tonge

Asked on 10 January 2017

To ask Her Majesty's Government, following UN resolution 2334 (2016) concerning the illegality of Israeli settlements in the Palestinian Occupied Territories, what action they will take in respect of trade between those settlements and the UK; and whether they intend to impose penalties on UK individuals, firms and companies trading in those settlements.

Answered by Lord Price

Answered on 18 January 2017

The UK and Israel have a strong and important trading relationship and we are firmly opposed to boycotts or sanctions. But we do not recognise the Occupied Palestinian Territories, including the settlements, as part of Israel and indeed the settlements are not covered by the current EU-Israel Association Agreement which governs our trade with Israel.

A just and lasting resolution that ends the occupation and delivers peace for both Israelis and Palestinians is long overdue. The UK remains focused on achieving a two-state solution and we continue to believe that the best way to achieve this is through negotiations between the parties.

3.2 Oral questions

Foreign Direct Investment

Stephen Crabb: In the 12 months since the EU referendum in 2016, 32 Israeli companies have invested in new business ventures in the UK, bringing an increase in capital investment of 32% from that country. Does that not demonstrate, first, a strong vote of confidence in the UK

economy, and, secondly, that Israel should be a natural partner for any future free trade agreement?

Mark Garnier: Indeed. I have visited Israel; we do a lot of trade with it, and the investment it is making in this country is very welcome. Importantly, since the Brexit vote a huge number of investment projects are coming to the UK, which is creating new jobs. Doom mongers like me who during the referendum were part of the “Project Fear” campaign have been proved wrong, and it is important that we stand up and say that so far we have not got this right, and that is incredibly good news for both Britain and our individual constituencies.

[HC Deb 12 Oct 2017 c 428](#)

4. Press releases

[UK and Israel set to hold first trade policy working group: Tomorrow \(29 March\), government ministers from the UK and Israel will chair the inaugural meeting of the new UK-Israel Trade Working Group.](#)

28 March 2017

Department for International Trade and Lord Price CVO

Announced in February by UK Prime Minister Theresa May and Israeli Prime Minister Benjamin Netanyahu, the group will strengthen the trade and investment relationship between the UK and Israel.

Ministers expect to discuss the global trade environment and ways to ensure continuity in the future of the UK-Israel trade relationship. With the inaugural meeting of the Trade Working Group, officials will begin work towards a smooth transition to our trading relationship as the UK leaves the EU.

Bilateral trade between the UK and Israel reached \$7.5 billion in 2015 and the UK is Israel's second largest trading partner. It is also Israel's number 1 destination for investment in Europe, with more than 300 Israeli companies operating in the UK. Since April 2016, 28 Israeli companies have set up shop or expanded their presence, creating over 700 new jobs in the UK.

Over 30 British companies operate in Israel, in addition to hundreds more that are represented.

International Trade Minister Lord Price said:

From the cherry tomato to new global calling technology Viber, Israeli inventions and produce have been welcomed by UK consumers for many years.

My visit to Israel has reinforced the strong ties that already exist between our 2 nations and our new working group will look to continue the progress we have seen in our burgeoning trade and investment relationship.

We will work together to maximise future trade opportunities and ensure a smooth transition as we leave the EU, to keep the UK-Israel trading relationship thriving.

Minister of Economy and Industry Eli Cohen said:

As the UK is Israel's first export destination in Europe, we see high importance in keeping and enhancing our trade relations when the UK ceases to be a member of the European Union. We should make sure that the business communities in both countries will be able to continue trading with each other by providing them the necessary trade platforms.

We welcome Lord Price's decision to visit Israel in that context, among visits of other UK high officials.

5. Further reading

[Global Britain: Priorities for trade beyond the EU](#)

Open Britain, April 2017

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