

EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23.4.2009
SEC(2009) 516

COMMISSION STAFF WORKING DOCUMENT

Accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Implementation of the European Neighbourhood Policy in 2008

Progress Report Israel

{COM(2009) 188 final}
{SEC(2009) 511}
{SEC(2009) 512}
{SEC(2009) 513}
{SEC(2009) 514}
{SEC(2009) 515}
{SEC(2009) 517}
{SEC(2009) 518}
{SEC(2009) 519}
{SEC(2009) 520}
{SEC(2009) 521}
{SEC(2009) 522}
{SEC(2009) 523}

1. BACKGROUND AND OVERALL ASSESSMENT

Israel and the European Community first established contractual relations in 1975 by signing a Cooperation Agreement. The Euro-Mediterranean Partnership inaugurated at the 1995 Barcelona Conference established a policy with ambitious and long-term objectives. This partnership was reinforced in 2008 with the creation of the Union for the Mediterranean. The Association Agreement with Israel which entered into force in 2000 sets out in more detail the specific areas in which the relations can be developed bilaterally. On this basis, the EU-Israel Action Plan was adopted in April 2005, for a period of three years. A first progress report was adopted in December 2006 and a second one in April 2008.

In addition, institutional cooperation through the EU-Israel Association Council, the EU-Israel Association Committee and ten subcommittees, nine of which are activated, enabled both sides to move forward and follow the implementation of the ENP Action Plan closely.

Following a request by Israel to upgrade bilateral relations, the validity of the current Action Plan was prolonged in April 2008. This prolongation provided for more time to discuss the contents of a successor document to the Action Plan.

Since the June 2008 Association Council's favourable response to Israel's upgrading request, work had started on the identification of possible actions for a new instrument in the framework of subcommittee meetings and in meetings of an *ad hoc* steering group. By the end of 2008, initial technical discussions were held for all the areas under Community competence.

This document reports on overall progress made on the implementation of the EU – Israel ENP Action Plan between 1 January and 31 December 2008, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Israel.

Israel has been an active partner in the framework of the ENP, as demonstrated by the progress made in implementing a large number of priorities of the Action Plan. Negotiations aiming at achieving a greater EU-Israel reciprocal liberalisation of trade in agricultural, processed agricultural products and fish and fishery products were concluded in April 2008. In the transport field, the European Community and Israel signed a horizontal aviation agreement and started negotiations on comprehensive aviation agreement. The European Commission and Israel also signed a Joint Declaration on co-operation and dialogue in education and training. The Protocol on the general principles governing the State of Israel's participation in Community programmes was signed in April 2008. It will be formally concluded once the European Parliament gives its assent.

On the domestic front, more efforts are needed to address the increasing poverty gap and to improve the situation of the Arab minority by adopting adequate measures, for instance, in the field of employment, education and public administration.

Any consideration of bilateral EU-Israel relations in the context of the ENP Action Plan must take into account the persisting Israeli-Arab conflict and overall political developments in the Middle East. This report therefore also expands on relevant activities of the Israeli authorities in the occupied Palestinian territory (oPt). The continued and accelerated expansion of settlements in 2008 had a negative impact on the peace process and on the access and

movement situation for the Palestinian population as well as the Palestinian economy. This effect was further compounded by the lack of progress on a certain number of commitments undertaken in the framework of the Action Plan (for example facilitating the Palestinian trade).

The year 2008 ended with one of the gravest chapters in the Israeli-Palestinian conflict, exacerbating the situation of the Palestinian population in Gaza, which was already impoverished prior to the Israeli offensive. Following the collapse of a six-month long truce between Hamas and Israel, on 27 December the latter launched operation “Cast Lead” which lasted until 17 January 2009. Reportedly over 1 315 Palestinians were killed, of which 415 were children and 110 women, and over 5 500 wounded. 14 Israeli were killed. Despite the disastrous humanitarian situation on the ground, it is premature to analyse the political impact of the crisis in this report. Therefore, this report does not address the Gaza crisis which will be covered in detail in the next report covering 2009, to be issued in 2010.

2. POLITICAL DIALOGUE AND COOPERATION

Shared values

Democracy, human rights and fundamental freedoms

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

In 2008, Israel’s willingness to engage with the EU in a constructive dialogue on sensitive issues continued to grow, and closer political co-operation and dialogue was achieved. The agendas and items discussed at formal and informal meetings at different levels bear witness to this. Matters raised included *inter alia* the legal and economic situation of minorities in Israel, children affected by armed conflict, administrative detention, access to education/health/place of employment/judiciary in the oPt. This improvement in atmosphere and depth of the political dialogue is set against the background of the Israeli request for a significant **upgrading of bilateral relations** dating back to March 2007.

Progress with regard to the promotion of democracy, rule of law and respect for **human rights** and international humanitarian law was limited, in particular following the Gaza crisis at year-end, preceded by an 18-months blockade of Gaza.

Overall, the promotion and protection of the Israeli **Arab minority** remained unsatisfactory during the reporting period, particularly in areas like land allocation, housing, planning, economic development, investment in social infrastructure and justice. Regarding land allocation, a petition on current discriminatory practice is still pending in front of the High Court. In December 2008, the Goldberg commission was established to elaborate a possible solution to the conflict regarding the land of the Negev and the Bedouin community living in the area. The commission presented its report to the Israeli Ministry of Construction and Housing. The report issued a number of recommendations, *inter alia* the recognition of some of the villages and retroactive permits for some illegal buildings, financial compensation and the granting of alternative land as well as the creation of an independent agency to facilitate

the implementation of the commission's recommendations. It remains unclear if and how the findings of the commission will be implemented. During 2008, demolition of unrecognised villages continued.

Outside the reporting period, with respect to the political rights of minorities, the Central Elections Committee vote of early January 2009 to ban two Arab parties from participation in the 2009 parliamentary elections was a step backwards. This decision was however overturned by the Israeli High Court only a week later.

In the context of the promotion of fundamental freedoms, restrictions to **freedom of expression and assembly** could be noted since the onset of Israeli military operations in Gaza, leading to the arrest of over 700 Arab Israelis demonstrating against the offensive, including over 200 minors. Tight restrictions on access to Gaza for journalists existed already prior to the crisis, but were reinforced during the crisis. This measure significantly curtailed freedom of the press.

As regards **gender equality**, the first mission of experts on the identification of a twinning programme took place in December 2008. This programme would help strengthening the commission on equal opportunities at work. As regards the promotion of women's participation in social, economic and political life, Prime Minister Olmert highlighted in May 2008 in a speech at the Knesset the need to reinforce women's representation in all aspects of Israeli life. He also invited ultra-Orthodox and Arab women to join the workforce in far greater numbers.

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

The EU and Israel pursued their cooperation in supporting initiatives tackling racism and xenophobia, in particular in the UN fora, but also at a joint international seminar in Jerusalem in January 2008, as reported last year, focusing on education and education related matters, especially in view of the recent increase in anti-Semitic incidents in Europe. The seminar was attended by officials and civil society representatives from Israel and the EU Member States.

Regional and international issues

Co-operation under CFSP/ESDP, crisis management

The EU Police Mission for the Palestinian Territories (EUPOL COPPS) expanded and created a new rule of law section with twenty new members of staff. It supports a comprehensive approach to creating security for the Palestinians, treating the Palestinian Criminal Justice System as a whole.

The Council of the European Union extended the mandate of the EU Border Assistance Mission in Rafah (EUBAM Rafah) by a further year, until November 2009. It pointed out that since the closure of the Rafah crossing-point the mission had maintained its operational capability and that the EU was determined and prepared to redeploy its personnel at the crossing-point as soon as conditions permitted. In November 2008 a new Head of EUBAM Rafah took office.

Situation in the Middle East

The EU-Israel **political dialogue** intensified during the reporting period in a number of fora and at different levels. In December 2008, the Council gave a preliminary response

(‘guidelines in view of a reinforcement of the structures for the political dialogue with Israel’) to Israel’s request for a strengthening and formalisation of the existing political dialogue.

Little progress was made regarding cooperation with the EU on a comprehensive settlement of the Israeli-Palestinian conflict. Despite Roadmap obligations and the commitment made at the Annapolis conference to freeze settlements’ growth, a sharp increase in **settlement and outpost construction** can be noted for 2008, including in East Jerusalem. No progress was made with regard to the further improvement of access and co-ordination to facilitate the implementation and delivery of humanitarian and other forms of assistance. During the reporting period, the European Commission, in line with Council conclusions and Quartet statements, continuously requested a regular and predictable opening of the border crossings to and from Gaza for goods and people. Delivery of EU assistance to Gaza was hindered during most of the reporting period, generating higher costs, and an even greater dependency of the Gaza population on external aid.

No significant progress can be noted on secure and safe movement of civilians and goods in the West Bank and Gaza. During the reporting period, the EU on a number of occasions raised individual cases of Human Rights defenders facing travel restrictions or other obstacles to carrying out their work in the context of the political dialogue. Human rights defenders are being subject to unjustifiable restrictions on freedom of movement, violence and ill-treatment by Israeli settlers as well as Israeli security forces.

Furthermore, medical patients attempting to exit the Gaza Strip through the Erez crossing in order to access medical treatment were denied authorisation by the Israeli Security Agency in a number of instances. On several occasions, the EU Presidency managed to help secure some permits to cross Erez for patients in need of life saving treatment.

Progress on improving of economic and social conditions of all populations is limited. In May 2008, the Israeli government agreed to proposals for economic development in Jenin by Quartet Representative Tony Blair. However, implementation continues to be difficult.

Demolition of Palestinian houses without a building permit in Area C (which comprises areas under exclusive Israeli control) of the West Bank, the so-called administrative demolitions, resumed in the last quarter of 2008, after a *de facto* moratorium of six months.

Close EU-Israel cooperation secured the departure of around 100 Palestinian students from Gaza with European scholarships between June and December 2008.

Regarding concrete actions against incitement to hatred and the use of violence from all sources, the Israeli government called for calm and announced financial compensation to the victims of violence after inter-religious violence between Jewish and Muslim residents of the city of Acre broke out in early October 2008. The incidents caused destruction on both sides, and severely damaged the houses of 13 Arab families living in mixed neighbourhoods. By the end of the reporting period, the concerned families had not received the compensation allocated for the damages incurred.

In addition, following a surge in settler violence in September and October 2008, the Israeli government decided to establish an inter-agency task force to deter settler violence and to ensure swift processing of cases brought to court. It also announced, but has not yet implemented, an end to all support to illegal outposts, and the creation of a ministerial committee on how to strengthen law enforcement with regard to outpost construction. A sharp

increase in violence perpetrated by Israeli settlers against Palestinians and their property was reported in 2008. During the reporting period, the EU Presidency issued two statements, condemning the acts and calling on the Israeli government to protect the Palestinian civil population.

No progress can be noted with regard to minimising the impact of security and counter-terrorism measures on the civilian population, in particular in the context of the Gaza crisis. Punitive sealing of houses resumed in East Jerusalem outside the reporting period, in January 2009.

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

Informal dialogue on non-proliferation of weapons of mass destruction has continued and has focused on a number of issues of common concern such as non-proliferation treaties and instruments, Israel's participation in export control regimes, multilateral nuclear fuel approaches, arms transfer to terrorists.

Combating terrorism

The Israeli government continued to put considerable emphasis on **terrorism** as a challenge to security and political leadership. Israel expressed interest to deepen collaboration with the EU, drawing on Israeli expertise in the subject matter. A report by the UN Special Rapporteur for Human Rights found a number of incompatibilities between Israel's counter-terrorism laws and practices and the country's international human rights obligations.

The bilateral cooperation in this field has continued to progress. In addition to regular contacts among specialists from both sides, an *ad hoc* "Israel-EU troika ENP seminar on the dilemmas and concerns of democracies in fighting terrorism" took place in December 2008 in Brussels.

Israel continues to hold hundreds of Palestinians in **administrative detention** without formal charges, including minors. Under Israeli law, the age of majority is attained at 18 whereas the Military Order 132 defines a minor as a person under the age of 16. In contravention of Article 37 (c) of the Convention on the Rights of the Child, Palestinian children are routinely detained with adults both before and after sentencing. For the first time, two female minors were held in administrative detention in 2008. They were released in January 2009. The total number held in administrative detention fell from 813 in January 2008 to 548 in December. 42 Palestinians had been held in administrative detention for more than two years.

A number of violations by Israel of its treaty obligations under the Convention against Torture and Other Cruel, Inhuman and Degrading Treatment or Punishment (CAT) was reported in 2008, and is being examined by the relevant authorities in Israel.

International organisations

In line with the joint objective to promote effective multilateralism, the EU and Israel continued to develop regular contacts on a number of matters of common interest, notably in the framework of the United Nations. Discussions on UN-related matters were also addressed in the framework of the informal working group on "international organisations" which met in April 2008.

EU-Israel cooperation in multilateral fora also included work on the Universal Periodic Review (UPR) in the UN Human Rights Council in December 2008. A number of recommendations were made to Israel as part of the review process, ranging from improving the situation of the Arab minority to increasing gender equality, improving detainment conditions, facilitating access and movement as well as the humanitarian situation in the oPt, and obligations under international humanitarian law. The UPR outcome document was adopted by the plenary session of the Geneva-based UN Human Rights Council in March 2009. Israel committed itself to implement the recommendations it accepts within a four-year timeframe. Israel has 5 overdue reports of UN Treaty Bodies and it has extended a standing invitation but not to all thematic special procedures. While Israel has hosted eight visits of special rapporteurs in the last three years, the Special Rapporteur on the situation of human rights in the Palestinian territories occupied since 1967, was prevented by the Israeli authorities from undertaking a mission to the oPt in December 2008.

Regional cooperation

Trilateral cooperation (involving Israel, the Palestinian Authority and the European Commission) in the field of energy and trade, as a means to contribute constructively to the reinitiated negotiations in the framework of the peace process, was resumed in 2008. In particular in the energy field, progress was made in coordinating cooperation with a particular emphasis on cooperation in the field of solar energy. No progress was made towards restarting trilateral cooperation on transport matters.

3. ECONOMIC AND SOCIAL COOPERATION

Israel's economy slowed down to 4.1% in 2008, after four consecutive years of growth rates above 5%. Real GDP growth was strong during the first half of 2008, but has moderated since, as business and consumer confidence weakened in the context of the global financial turmoil. Exports were also affected by the slowdown in the EU and US markets and to some extent by the shekel's continued strength.

Inflation rose to 3.8% for 2008, affected in part by increases in world prices of raw materials, in particular oil and food prices. The Bank of Israel raised interest rates to face inflationary pressures while keeping moderate the short-term impact on the economic activity. However, given the slowdown of the economy and the deterioration in the global financial markets, the interest rates were subsequently decreased towards the end of 2008.

After four years of decrease the budget deficit in 2008 rose to 2.1%, above the budget target of 1.6% of GDP. This was due to the slowdown of the economy and a number of legislative changes which reduced the collection of direct taxes. The public debt was reduced to 80% of GDP in 2008. Public debt still remains a constraint for the Israeli economy and the implementation of anti-cyclical policies (in the form of higher government expenditure).

The current account surplus narrowed to 1.3% of GDP in 2008, mainly because of the slowdown in exports and the fall of the investment income from abroad. Nevertheless, the surplus in the current account and the widening of the interest rates differentials with the US continued to support the shekel which appreciated markedly during 2008 despite the central bank's decision to purchase around USD 10 billion in foreign exchange.

The financial crisis in 2008 did not have a severe impact on Israeli banks which are relatively stable but was a point of concern for the capital markets. The drop in the price of shares and corporate bonds resulted in very significant losses in the value of pension and provident funds triggering heavy withdrawals. The Government intervened with a plan to provide a limited support to elderly pension savers depending on future market conditions.

Social situation, employment, poverty reduction

Poverty represents a challenge in Israel. The poverty gap has deepened in the last few years. According to the National Insurance Institute (NII), 31.8% of the Israeli population is considered poor (first semester of 2008), more than twice the average OECD rate. According to the Israel Central Bureau of Statistics, 51.4% of the Arab population living in Israel were considered poor and 26% of the elderly Jewish population was at poverty risk compared to 60% of the Arab elders¹. The Bank of Israel set up an inter-ministerial team in July 2008 to analyse the expected effects of the negative income tax on poverty and on the rate of workforce participation in Israel. The negative income tax plan gives tax refunds to low wage earners in selected areas as of September 2008. Narrowing the inequalities is a key issue which includes the training of technicians from the ultra-Orthodox sector, and the establishment of an authority which would deal with economic development in the minority sectors.

Unemployment continued to decline and reached 6% in October 2008. Among men, it dropped from 5.9% to 5.7% and among women from 6.7% to 6.2%. The share of citizens out of the total number of job-seekers living in Arab towns and Jewish development towns was 41%, far larger than their relative share in the population. The Ministry of Industry, Trade and Labour estimates that, due to the global economic slowdown, the construction and agricultural sectors as well as financial services were the most affected by the decline of available jobs. The total number of available jobs in the second quarter of 2008 declined by 4% compared to the first quarter, despite a rise in the number of available jobs in the fields of transportation and telecoms.

As regards social inclusion, Israel lags behind OECD countries regarding the social targets related to poverty and employment. For example, the rate of participation in the workforce in Israel is 53%, compared to 66% in OECD countries.

According to surveys published during the reporting period, Israel scores poorly regarding the integration of disabled people in the labour market. Disabled people earn about 34% less than the national average (against a 15% gap in the other developed countries polled), a result putting Israel second to last of the 17 countries surveyed.

As regards **social dialogue**, tripartite dialogue works fairly well.

An inter-ministerial committee on **sustainable development** related matters has been set up; it is led by the Director-General of the Ministry of Environment and meets regularly. It also enjoys the active involvement of NGOs, academics and local authorities. An annual report on sustainable development is presented to the Government highlighting progress made.

¹ The figures quoted are the most updated ones (e.g. from 2007)

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

In 2008, the EU was the first trading partner for Israel, with imports representing 34.0% and exports 33.0 %. Contrary to the trend of the previous three years, export of Israeli products to the EU and import of EU products to Israel decreased respectively by 1.4 and 1.6%. In July 2008, Israel and the European Commission initialled the preliminary agreement on further liberalisation of bilateral **trade** in agricultural, processed agricultural products and fish and fishery products amending the current provisions of the Association Agreement for those products. The compensations regarding the enlargement of the Community to include Bulgaria and Romania formed an integral part of the negotiations. Work is on-going towards the establishment of a “dispute settlement mechanism” for an effective resolution of trade disputes in the framework of the Association Agreement. Israel actively participated to the Trade Senior Officials’ Working Group set up to draw a Euromed Roadmap of next steps in the field of trade till 2010 and beyond. The Roadmap is due to be adopted at the Trade Ministerial meeting in autumn 2009.

Israel and the European Commission continued to exchange information and experience on **customs**, in the context of the relevant subcommittee. The Israeli Tax Authority signed a contract in September 2008 that would establish a new system for foreign trade. The new system, which shall be operational in three years, shall enable the handling of all customs-related activities between the private sector and the Israeli Department of Customs and VAT electronically, using online forms and electronic signatures. The web-based version of AFIS (OLAF's Anti Fraud Information System) is now fully operational, which constitutes an improvement in communication and leads to enhanced cooperation in the fight against fraud.

On **free movement of goods and technical regulations**, the EU and Israel launched the negotiations on an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) in one of the priority sectors, namely Good Manufacturing Practice (GMP) for pharmaceuticals in November 2008. The conformity of the Israeli Inspectorate with EU practices had been positively assessed by a European Commission expert mission in Israel in August 2008. Final amendments to the Israeli draft GMP legislation are being assessed by European Commission services. Preparations in other sectors (i.e. medical devices and pressure equipment) are on-going.

At the request of Israel, a technical and information seminar on the Rapid Alert System for non-food products (RAPEX) took place in June 2008. As reported last year, Israel is an affiliate member of the European standards bodies CEN and CENELEC since January 2008.

Israel and the European Commission continued their dialogue on **sanitary and phyto-sanitary** issues including through the relevant subcommittee and Israel’s participation in workshops under the European Commission’s “Better training for safer food” programme and TAIEX funded events. Israeli veterinary services participated in SPS projects under the EU’s Framework Programme RTD. In August, October and November 2008, the European Commission’s Food and Veterinary Office (FVO) carried out missions to Israel on plants, poultry as well as on fish and fishery products. In February 2009, after the reporting period, the Knesset adopted a new phyto-sanitary law for import of plants and plant products.

While good progress was made in resolving a long-standing trade issue concerning the import of beef into Israel, no progress was registered in facilitating the import of live bovines. Other SPS issues are also outstanding.

As regards **business climate**, the EU-Israel business dialogue continued to develop over the reporting period and several events took place. The second meeting of the Israel-EU Chamber of Commerce took place in November 2008.

As regards **company law**, accounting and **auditing**, most operators in the financial market in Israel adopted the International Financial Reporting Standards (IFRS) system in 2008, except for the banks which will start using it in 2009. The European Commission and Israeli authorities agreed in December 2008 to start a dialogue on auditing to get a better understanding of the Israeli system for the oversight and the regulation of the auditors' profession. The Companies Act of 1999 was amended in July 2008 to include provisions on independent director. Further, broader changes to that Act on corporate governance were initiated but not yet adopted in the course of 2008.

The bilateral negotiations for the liberalisation of **services** and establishment were launched in 2008. The next meeting is scheduled for the first quarter of 2009.

In the field of **financial services**, preparations for a new law on the Bank of Israel are ongoing. The draft law includes provisions for establishment of a monetary policy committee. Basel II principles for effective banking supervision are to be implemented as of January 2010. The Bank Fees Reform, in place since July 2008, enables customers to obtain all relevant information regarding fees charged by banks for their services. Given Israel's plans to apply SOLVENCY II in Israel by 2010, local insurance companies are gearing up their preparations. They held a professional workshop in June 2008, and are looking into the establishment of a special committee for the implementation of SOLVENCY II.

The Israel Securities Authority (ISA) proposed key amendments to Israel's legislation, *inter alia* on marketing and portfolio managements, to the regulation and supervision of secondary markets as well as to the regulation of new financial instruments. Moreover, the ISA drafted amendments to the securities law which will broaden the category of "qualified investors" as well as a major amendment regarding the regulation of securities exchanges, brokerage services and alternative trading platforms.

Other key areas

In the context of the relevant subcommittee, Israel and the European Commission continued to exchange information and experience in the area of **taxation**. Israel is currently reviewing its purchase tax system for spirits and has said that the reformed system should not impose discriminatory taxes between different types of alcohol.

With regard to **competition policy**, in the anti-trust field, the Israeli system is comparable to the systems in place in the EU Member States. No progress can be reported in the field of state aid.

No progress was made towards resolving long-standing problems faced by EU companies in Israel concerning **intellectual property rights** for pharmaceutical products. Israel's OECD accession is an opportunity to resolve this. A new Copyright Law entered into force in May 2008. However, Israeli legislation continues not to be in line with a number of EU requirements on patents (data exclusivity, patent term extension, registration delays and reinforcement of the patent administration) and designs. This creates obstacles to market access and unfair competition on the world markets. During the reporting period, Israel

worked with the European Patent Office on the definition of a cooperation framework to harmonise examining procedures and train patent examiners.

As regards **public procurement**, Israel adopted new regulations in December 2008, aiming at full transparency of the tenders' decision-making procedures in the different ministries and requiring bidders to respect all labour laws and workers' rights. The buy-back obligation (offsets) of foreign companies winning public tenders decreased from 28% to 20% in January 2009 following Israel's WTO General Procurement Agreement (GPA) commitments. Offsets are considered as an impediment to trade and fall under the on-going GPA review.

The Israeli Central Bureau of **Statistics** (ICBS) and the Bank of Israel signed a Memorandum of Understanding in September 2008 that clarifies their relations, notably the distribution of responsibilities and mutual expectations. Israel continued to participate actively in the MEDSTAT II activities oriented towards improving the national statistical system and enhancing staff qualification. The ICBS and Eurostat signed a Memorandum of Understanding in May 2008 on data exchange.

On **enterprise policy**, Israel assessed its progress in implementing the Euro-Mediterranean Charter for Enterprise. The assessment showed that Israel has a sound and effective enterprise policy, with a good record both in enterprise policy making and implementation. Israel's performance stands out in particular in areas such as risk capital and innovation. Areas for improvement include inter-agency cooperation, legislative and administrative simplification and the promotion of entrepreneurial learning in the school system.

Israel took measures to reinforce the effectiveness of its legislation on **consumer protection**, in particular as regards the prolongation of contracts and information regarding terms of subscription. These measures entered into force in January 2009. The cancellation procedures for long term contracts (for example, Internet and telephone) were simplified. New regulations on price marking were adopted in May 2008. The Bank of Israel decided, in July 2008, to reform bank fees, in order to increase transparency and enhance competition.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In the area of **migration**, information and best practices were exchanged between Israeli, EU and Member States' experts at a seminar on legal and illegal immigration and asylum in June 2008 under the auspices of TAIEX and in several occasions in the second half of the year 2008 within the framework of the Euromed Migration II project.

Israel, in coordination with Egypt, continues to instantly and forcibly send back asylum seekers/migrants from countries such as Sudan, Eritrea and Somalia. An Israeli NGO in partnership with UNHCR and IOM received EC support for a project to enhance the Israeli authorities' capacity to combat labour trafficking, register asylum seekers, assist vulnerable migrants, and potential victims of trafficking. The project also includes a pilot voluntary return option for victims of trafficking.

With regard to the fight against **organised crime**, in July 2008, Israel ratified the First Protocol to the United Nations Convention against Transnational Organized Crime on the trafficking of women and children. Work continued on the ratification of the second Protocol on the smuggling of migrants while the third Protocol on the illicit manufacturing of and trafficking in firearms has not been ratified yet.

An exchange of information took place with respect to measures to combat cybercrime and Israel indicated willingness to accede to the Council of Europe Convention on Cybercrime.

Israel remains a key destination country for women trafficked for sexual exploitation from Eastern Europe and Central Asia. In the context of the fight against **trafficking of human beings**, a study visit to Italy under the TAIEX instrument took place in April 2008 on the provision of services to victims of trafficking as well as cooperation methods and exchanges of best practice between law enforcement agents and social services. A second TAIEX study visit and a workshop took place in June 2008 in Moldova where EU, Israeli, Moldovan and Ukrainian officials, experts and civil society representatives explored further cooperation on actions in the areas of prevention, protection and prosecution. Migrant women workers seeking employment in the health care and service sectors are particularly vulnerable to involuntary servitude, debt bondage and forced labour. While some convictions were secured for sex trafficking, raising public awareness of the issue, Israel remains on par with Lebanon, Yemen, Thailand and Ethiopia in this regard.

With regard to the fight against **drugs**, the Israel Anti-Drug Authority (IADA) and the police continued law enforcement measures to combat trafficking and related drug offences. The national counter-narcotics strategy and the anti-drugs programmes operate relatively effectively, though Israel remains vulnerable to smuggling despite strong security measures. Work continued on updating the Dangerous Drugs Ordinance (established under the British Mandate) into a comprehensive, codified Anti-Drug Law including measures such as the prohibition of the import, production and sale of drug paraphernalia. A specific police unit was established in 2008 to cover the selling of drugs and dangerous substances in convenience stores. Israel participated actively in the regional Euromed Police II programme. It has ratified all three UN conventions on narcotic drugs and psychotropic substances and was re-elected as a member of the UN Commission on Narcotic Drugs for a second consecutive term (2008-11). Furthermore, Israeli authorities cooperated with the Regional Near East Dublin Group in the preparation of an updated narcotics situation report in November 2008 (see Sector Report).

With regard to **money laundering**, economic and financial crime, Israel joined the Council of Europe's Moneyval Committee of Experts in January 2008 as an active observer and completed the mutual evaluation process, discussed by the Moneyval Committee of Experts in draft in July 2008. Concerns highlighted included the timeliness of the reporting system, non-regulation of anonymous or fictitious accounts and the adequacy of measures to prevent the establishment of shell banks. The pool of Moneyval evaluators was opened to Israeli experts as of April 2008. Israeli experts participated in a seminar on best practices in the fight against terrorist financing with their EU counterparts in March 2008. Planning is on-going for further seminars on the transparency of financial transfers within the private sector and the implementation of the 3rd Anti-Money Laundering Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

In the area of **police and judicial cooperation**, work continued to prepare for the possible negotiation of an operational agreement with Europol. In this respect, the latter conducted a data protection audit visit to Israel in April 2008 as part of the negotiations. Israel expressed interest in concluding a cooperation agreement with EUROJUST and appointed a contact point. Israeli experts and police benefited from a TAIEX study visit to EUROJUST in June 2008 to better understand how the EU combats serious transnational crime.

Outside the reporting period, in February 2009, Israel ratified the United Nations Convention against **Corruption**. An amendment to the Penal Law in July 2008 criminalised the bribery of a foreign official as understood under the relevant article of the Convention.

A financing agreement for a twinning project financed out of the 2007 National Programme on personal data protection cooperation with the Israeli Law, Information and Technology Authority (ILITA) was signed in July 2008. The project aims to ensure the effective enforcement of national legislation on privacy in line with European standards and raise public awareness of personal data protection.

Israel requested the European Commission to activate the procedure aimed at declaring, in accordance with Directive 95/46/EC that Israel ensures an adequate level of protection with regard to the personal data transferred from the EU. In response to this request, the European Commission commissioned a study to determine whether Israel provides adequate protection. The study was transmitted to the Israeli authorities in September 2008.

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

The importance that is placed by Israel on issues of **transport** safety is reflected in the recent name change of the responsible ministry that is now called 'Ministry of Transport and Road Safety'. Road safety and telematics are areas where the EU and Israel continued to cooperate actively. A number of intelligent transport system (ITS) initiatives are on-going, from highway traffic management, traffic control centres, cellular based traffic monitoring to light rail projects. In the area of public transport a twinning project is under preparation with a view to reinforcing the capacity of the ministry to provide quality public transport in the urban areas of Israel.

As regards infrastructure investments, Israel attaches great importance to the increased involvement of the private sector through public-private partnership (PPP) projects. In January 2008 the Government approved a set of recommendations for the evaluation of new transport projects to be promoted in cooperation with the private sector during the years 2008-2015. Nearly 90% of the on-going PPP projects in Israel (amounting to approximately USD 7 billion) are already in the transport sector, but there is a potential for 12 additional important projects in the fields of airports, seaports, roads, railway and mass transit systems, at a total cost of approximately USD 4 billion for the years 2008-2015.

Israel continued to strengthen the railway sector, not only through the on-going comprehensive investment programme of upgrading and developing infrastructure, but also through the setting up of a regulatory body, that in a first phase will be situated within the Ministry of Transport and Road Safety itself.

The European Commission and the Israeli authorities signed in December 2008 the horizontal air transport agreement bringing bilateral air service agreements between Member States and Israel in line with EC law. In April 2008, the European Commission received from the Council of the European Union a mandate for a comprehensive EU-Israel Euro-Mediterranean aviation agreement providing for gradual market opening and a high level of regulatory convergence; a first negotiation round took place in December 2008. As regards aviation safety, Israel needs to increase efforts and resources in order to ensure efficient safety oversight.

In the maritime sector, Israel is re-evaluating the results of the previous port reform as it had not led to the expected increased competition and efficiency of the ports. The delays, in particular on import container movements and the relative high container fees and surcharges in Israeli ports are causes for concern.

Israel and the EU further strengthened **energy** cooperation. In 2008, the European Commission and Israel took preparatory steps towards the country's future participation in the Intelligent Energy Europe Programme. Israel started, although with some delays, the implementation of its 2007 electricity sector reform plan, which aims at progressive market opening. Israel increased the use of natural gas in particular for electricity generation. It further expanded domestic gas pipelines. In 2008, gas imports from Egypt through the completed undersea pipeline started. The gas is used by the Ashkelon and Tel Aviv power stations. Following completion of a feasibility study in 2007, Israel decided to work towards the construction of a Liquefied Natural Gas terminal. Israel and Turkey continued to study a Haifa-Ceyhan interconnection for oil, gas, electricity and water. Also in 2008, Israel confirmed its interest in off-shore Gaza gas supplies. Israel, the Palestinian Authority and Jordan exchanged views on possible future electricity interconnections. In view of the situation in the Gaza Strip, the construction of an electricity line to Gaza remained frozen. Israeli oil refineries developed investment plans aiming, *inter alia*, to produce cleaner products.

Israel continued to improve energy efficiency and to enhance the use of renewable energy sources. As indicated already in last year's report, it wishes to reach, by 2020, 20 % energy savings and a 10 % share of renewable energy sources in electricity generation. Israel initiated work towards a national energy efficiency programme, allocated additional resources to research and development in the area of renewable energy and further prepared the construction of a solar-thermal power station in the Negev.

At regional level, Israel pursued Euro-Mediterranean energy cooperation, in particular through multiple projects. The July 2008 Summit of the Union for the Mediterranean endorsed the development of a Mediterranean Solar Plan. In 2008, Israel, the Palestinian Authority and the European Commission re-launched their trilateral energy cooperation with the aim of facilitating the joint Israeli-Palestinian "Solar for Peace" initiative and the establishment of a joint energy office. A European Commission financed study was undertaken to support the "Solar for Peace" project.

In the field of **climate change**, Israel took initial steps to formulate a national plan for the reduction of greenhouse gas emissions and work continued on greenhouse gas emission inventories. The Ministry of Environmental Protection prepared a report on the anticipated impacts of climate change on Israel. Israel also prepared further Clean Development Mechanism (CDM) projects. Altogether 13 of the more than 40 Israeli projects that have been submitted to the Designated National Authority are registered at UN level. Israel has not yet adopted a formal position regarding the post-2012 climate regime.

The Ministry of **Environmental** Protection took steps to implement its vision and goals for 2008-2010. New legislation was adopted on air quality, protection of the Kinneret Lake, enforcement of environmental regulations by local authorities, offences to wildlife protection, national cleanliness day, as well as new or amended regulations on tires, import and export of hazardous waste, ozone-depleting substances and non-ionizing radiation. Israel also took steps to prepare new legislation on soil, asbestos, enforcement and marine areas, as well as new or amended regulations on air pollution from on-road vehicles, access to information, marine

pollution from land-based sources, protection of the coastal environment, hazardous substances and prevention of water pollution. Israel adopted a national contingency plan for preparedness and response to marine oil pollution. Under the protocols to the Barcelona Convention, Israel prepared a national plan to reduce pollution to the marine environment from land-based sources and is preparing draft legislation on a national plan for preparedness and response to marine pollution incidents. Work is on-going to prepare a national action plan on sustainable consumption. Work continued to implement existing strategies and plans, where continued attention is required. In the field of water, Israel took measures to promote more efficient use of water resources.

Israel took some steps to strengthen administrative capacity on environment at local level, but overall, the administrative structures still need to be strengthened. Several activities took place to integrate environment considerations into other policy sectors, such as through capacity building of sector ministries. Steps were also taken to implement integrated permitting through the business licensing law and clean air law. Israel continued to publish environmental information on a regular basis, and carried out activities to inform and involve the public. Steps were taken to prepare a study on a pollutant release and transfer register.

Israel did not make significant progress in ratifying and signing outstanding Protocols to the Barcelona Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean². Israel continued its participation in the “Horizon 2020” Initiative, the EU Water Initiative and the Mediterranean Action Plan. Israel also participated in the 2008 Euro-Mediterranean Ministerial Conference on Water, launching the preparation of a regional water strategy for the Mediterranean. Cooperation and information exchange took place between the European Commission and Israel, including on integrated pollution prevention and control, water and environment management and planning, environmental reporting and civil protection. Other topics, such as water, were identified for possible closer cooperation.

As regards the **Information Society** sector, the Ministry of Communications declared in August 2008 that it will follow the recommendations set out in the report of the Committee for Promotion of Competition in the Telecommunication Industry in Israel (the Gronau Committee) issued upon the request of the Minister with the objective to enhance competition in the field of telecommunications. The implementation of certain recommendations will contribute to aligning the Israeli regulatory framework with that of the EU in areas such as local loop unbundling, the establishment of a regulatory authority and the option of requesting the remedy of a structural separation within the fixed network operator. The fixed and mobile operators introduced number portability and the general license holders are obliged to offer Universal Service. The three major mobile operators focused on third generation mobile services (3G) which account for 25% of the subscriptions. The Ministry of Communications intends to issue additional licences using the technology of a Mobile Virtual Network Operator (MVNO).

Exchanges of views on cultural and **audiovisual** policy took place in the framework of the Euromed Ministerial meeting on Culture and Cultural Dialogue and in the relevant subcommittee.

² Israel has signed but not ratified the Barcelona Convention’s New Emergency Protocol. The same goes for the protocols on Specially Protected Areas and Biodiversity and Integrated Coastal Zone Management (signed in January 2008). It has not ratified the amendments to the Land Based Sources and Dumping protocols.

In the area of **science and technology**, cooperation between Israel and the EU remained very strong as Israel was associated to the 7th Framework Programme for Research and Development (FP7) since its beginning in January 2007. Its success rate in participating in FP7 financed research projects was impressive since then. Israeli researchers were particularly successful in the FP7 Ideas programme as well as in the FP7 Information and Communication Technologies (ICT) and the health thematic programmes. Sixty-seven projects with 89 participants were registered for the ICT theme. Five of these FP7 projects were initiated and are coordinated by Israeli organizations. In March 2008, the Parties organised their fourth Joint Research Committee meeting in Tel Aviv at which both sides expressed satisfaction with the development of S&T cooperation. The Joint Research Centre and the Israel Nuclear Energy Commission concluded a memorandum of understanding covering cooperation for the peaceful use of nuclear energy. Israel, the Commission and the European Space Agency (ESA) discussed the Israeli participation in EU FP7 space funding and in ESA programmes as well as issues related to space policy, critical technologies, earth observation data and Global Monitoring for Environment and Security (GMES) services.

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

Reform of the **education** sector continued under the national “New Horizon Programme” which aims to improve teaching quality while allowing for an individualized approach to student education. In addition, a draft law on special needs education based on the European model is under consideration with improvements in the area of e-learning and the introduction of life long learning approaches to teaching and learning provision.

In July 2008, Israel signed a Joint Declaration with the European Commission on cooperation and dialogue on education and training with an initial focus on lifelong learning policies, including information and communication technologies, school twinning, language learning and the promotion of the transferability of qualifications. Israel participated actively in the first call for proposals for Tempus IV benefiting from two projects for the academic year 2008-9. In addition, eight masters students and nine scholars received scholarships under Erasmus Mundus. A further three Israeli students received scholarships in European integration studies at masters level for students from the ENPI region under a special pilot project for the academic year 2008-9. Student and academic mobility was further enhanced through the involvement of two universities in Erasmus Mundus External Cooperation Window. However, inadequate funding as well as ‘brain drain’ continue to affect higher education, while the high drop-out and low graduation rate of Arab minority students continued to be an area of concern alongside the academic freedom and movement of people including Palestinian students and academics.

Israel increased funding for **youth** activities in 2008 and continued support for the development of youth exchanges, informal education provision and intercultural dialogue within the context of Israel’s participation in Euromed Youth III. Under the latter, a total of 16 projects were selected in the period 2007-8 facilitating contacts between youth from diverse cultural and religious backgrounds as well as youth exchanges. Policy dialogue on youth issues took place in the framework of the relevant subcommittee.

In the field of **culture**, the EU supported six Israeli projects selected under a call for proposals for local and regional cultural activities including support for three international film festivals. Israel actively participated in the Euromed Audiovisual II programme and in a regional project under Euromed Heritage III on capacity-building and promotion of the preservation of

shared Byzantine-Islamic cultural heritage alongside partners from the occupied Palestinian Territory, Cyprus, Greece and Turkey.

Israel is not a party to the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

The European Commission expressed its concern about the restricted access to holy places in its meetings with Israeli authorities. Muslims and Christians are impeded from worshipping at some of their most holy places in the world due to an elaborate system of permits, visas, checkpoints and the barrier. Ms Asma Jahangir, the UN Special Rapporteur on freedom of religion or belief, following her visit to Israel and oPt in January 2008, also voiced her concern over problems of access to holy places revered by Jews. She drew attention to the fact that while Israeli citizens' ID cards no longer state the holder's ethnicity, those of Palestinians residents of the oPt do disclose their religion. She stated that there was no religious persecution by the State of Israel, but strands within Christianity, Judaism and Islam still experienced some forms of discrimination.

Extensive contacts between EU/Israeli **civil society** continued. The second annual trilateral meeting of Israeli, Palestinian and European Peace NGOs took place in Pisa in September 2008.

Israel and the EU continued the dialogue on **health**. In November 2008, Israel participated in the second Euro-Mediterranean ministerial health conference, which opened new perspectives for regional health cooperation. Israel participated in the EU Network of competent authorities in health information and knowledge. It also continued its involvement in the “EpiSouth” network for EU, Mediterranean and Balkan countries on communicable diseases.

8. FINANCIAL COOPERATION – 2008 KEY FACTS AND FIGURES

In the framework of the European Neighbourhood and Partnership Instrument (ENPI), a small bilateral allocation (EUR 8 million for the period under the 2007-2010 National Indicative Programme) has been programmed for Israel, in support for the implementation of the EU-Israel Action Plan through operations that promote the approximation of Israeli norms and standards to those of the EU. For this purpose, the Twinning cooperation instrument became available to Israel by the end of 2007. Since 2006, Israel has also received support from the TAIEX instrument.

With their first bilateral allocation of EUR 2 million under the ENPI-Israel Action Programme 2007, two twinning projects in the fields of Data Protection and Urban Transport will be funded after their signature by EU Member States. Additional twinning projects are currently being identified, which will be funded by the EUR 2 million allocation provided for 2008. Moreover, Israel is the leading country in the Mediterranean in terms of requests and organisation of TAIEX seminars.

Israel is also eligible for other cooperation activities like multi-country, regional, including the Partnership for Peace, financed under the ENPI, as well as the European Instrument for Democracy and Human Rights and other thematic programmes supporting the civil society. Israel is a partner in the CBC Mediterranean Sea basin programme (EUR 173,607 million for the programme in the period 2007-13). Through this programme the populations of the

maritime regions bordering the Mediterranean Sea will receive funding for joint co-operation projects aimed at fostering sustainable development and enhancing human contacts.