

EU-Israel Trends and Challenges

There are many aspects of the Israel-EU relationship which are complex and filled with paradoxes that need to be explored. A primary and strong trading partner of Israel is the European Union, and Israel is also an active participant in the research and development programs of the EU, but due to political conflict and other factors, this strong economic relationship sometimes faces difficulties. In Europe, radical and populist parties have histories of antisemitism; however, European voices are commonly the strongest to support Israel.

The question then becomes, what happens in terms of innovation, technology, commercialization, and knowledge? A nation such as Israel is renowned for its high levels of venture capital, high numbers of start-ups, and high rates of scientists and tech professionals. In Europe, its companies account for one-quarter of all industrial R&D worldwide.

Despite being so alike, but also so different, two countries that can benefit from each other, do they really make the most of each other's strengths?

Throughout this article, we will discuss the challenges that Israel and the EU relationship are facing in terms of innovation and technology. This article will also discuss what trends are currently taking place, how the EIT is facilitating the stability of this relationship, and how this relationship can be predicted in the future.

EU Israel background relationship

There is a long history of interdependence and cooperation between the European Union and Israel. It is important to note that the two countries share the same values of democracy, freedom, and the rule of law, as well as a commitment to a market-based open international economic system. Leaders in Israeli politics, industry, commerce, and science maintain close ties with Europe. Trade, cultural exchange, political cooperation, and an established system of agreements have strengthened these ties over the past five decades.

The relationship between the European Union and Israel has significantly expanded since the Delegation opened in 1981, making it one of the most extensive and comprehensive relationships the EU has with any third country. As of 2000, the EU-Israel Association Agreement provides the legal basis for these relations. The framework will enable regular political dialogue, freedom of establishment and liberalization of services, free movement of capital and competition rules, as well as a strengthening of economic and social cooperation.

As stated in the agreement, adherence to human rights and democratic principles is a key component. An Association Committee is also established at the level of foreign ministers, supported by the Association Council.

As part of the European Neighbourhood Policy, the 2005 Action Plan governs relations between the EU and Israel. There are ten sub-committees that meet regularly to discuss priorities and exchange views under the Action Plan, which seeks to gradually integrate Israel into European policies and programs.

The Research and Technology Development Framework Programmes of the European Union have been associated with Israel since 1996. Israeli participation in Horizon 2020 was agreed upon in June 2014. As a result of signing the agreement associating Israel with Horizon Europe in December 2021, Israeli researchers and innovators are now able to participate on equal terms with entities from EU Member States in the EU's research and innovation programmes worth €95.5 billion.

As one of the world's most competitive economies with regard to innovation activities, Israel is one of the most innovative nations in the world, and like the EU, one of its primary strengths is its ability to innovate at a world-class level. In order to further promote innovation, boost sustainable growth, and create jobs, Israel and the EU have a strong mutual interest in expanding bilateral business relations and integrating the markets.

Working with start-ups in the EU and Israel: strengths and weaknesses

Start-ups can benefit from Israel in three ways: first, through the cultural aspect of sharing knowledge and a sense of community. Additionally, there is the global aspect, which includes more than 350 multinational companies and venture capital firms, such as PepsiCo, Microsoft, Siemens, and others, which invest, accelerate, and do their research in Israel. As a third aspect, Israel is regarded as a hotbed of pioneering technologies, mentors, and talent. Currently, Israel does not invest in start-ups outside of the country because it does not have a local market.

Europe also offers three main benefits: First, a market for scaling, Proof of Concepts, and Living Labs. Additionally, Europe has developed advanced regulation in the form of guidance and know-how. Last but not least, Europe provides access to co-funding and mentors, as well as geographical proximity, which is an advantage. The limitations of Europe are its fragmented and decentralized market, as well as its traditional entrepreneurial culture.

Challenges facing the EU-Israel relationship

- **Inadequate awareness and lack of information regarding the market of the other.** The Israeli start-ups are unaware that Europe has a wide and progressive market, and that scaling to Europe is not intimidating in terms of regulation and establishing their intellectual property there thanks to progressive and comprehensive methods. It is due to the fact that much of the European public information is not clear and/or does not appear in English, which makes it difficult for foreigners to comprehend. Many Europeans are unaware that Israel can be a hotbed for innovation and research and development. MNCs active in Israel as well as leading venture capital firms may invest in them.
- **Start-up support is reduced due to a lack of connectors.** The practice of calling your commander from your army service and asking for assistance and/or offering to partner up is very common in Israel. Most commonly, in Israel, it is customary to reach out directly to the individual you wish to connect with and express your need or question. With a population of less than 10 million, Israel is a small country, making it easier to meet and form relationships. Contrary to this, in Europe, due to the lack of proximity and the difference in cultures and languages, it is difficult to communicate and connect with each other, as well as to seek assistance or collaboration.
- **Market perceptions, misconceptions, and beliefs about each other's markets.** While Israelis often perceive Europe as a highly conservative market that lacks flexibility and is indifferent to new ideas and products, the reality is completely the opposite. In the fields of climate and energy, Europe is very open to new sustainable ideas and is much more advanced than the leading ecosystems in the world. Many Europeans tend to assume that Israel is primarily concerned with security, safety, and military technologies when discussing Israel. However, Israel has a cross-vertical

approach to investment and innovation, with a number of leading sectors such as digital health, construction, food, and more.

- **Fierce competition.** The European market competes with one of the world's largest and most developed ecosystems, the US market. Regarding the relationship with Israel, Israeli start-ups tend to 'follow the money', while in the US, you can hear about large rounds of investments, high salaries, and excellent working conditions. It is very easy to communicate and make connections in the US because everyone speaks English. Upon opening a US office, you are eligible to access the entire US market. As a one-stop shop, the US offers acceleration programmes, investment opportunities, clients, partners, and markets. This creates intense competition for Europe to compete and achieve a comparable position.

An analysis of the EU-Israel relationship's trends

- The number of Israeli companies and venture capital firms investing in European talent and technology is on the rise. Currently, 912 Israeli companies are operating in the EU, employing 24,223 EU citizens.
- Because of the presence of multinational corporations in Israel, European start-ups consider the country as a gateway to the global market. In the period 2010-2020, there was a massive growth in the number of multinational companies opening offices in Israel, with the number currently standing at 362 from the US, Asia, and Europe. Intel, Amazon, and Facebook have established offices, R&D divisions, and investment arms in Israel, demonstrating the quality of human capital in the country.
- Israel's start-ups tend to focus on growing in the US market rather than in Europe. An unoptimistic trend, but one which is relevant now more than ever before. The US still has an edge over what Europe has to offer. It seems that more and more initiatives are being undertaken to address this issue and to change this situation.
- Several Israeli start-ups, such as those involved in climate and energy, are increasingly looking toward the European market as a potential growth market.
- A high level of engagement and a desire for more collaborations between the EU and Israel in innovation.
- Providing tailored assistance to SMEs is a necessary step in enabling closer collaboration between Israel and a broader pool of EU companies, beyond large multinational corporations.

Action needed: EIT, the European Union's innovation Institute

Founded in 2008 by the European Commission and Horizon 2020, EIT is the ultimate European organization that empowers innovators to develop innovative products and solutions for society's most pressing challenges, creating new jobs and positions, and launching new products. This ecosystem was built by EIT in partnership with more than 3,000 partners who are part of the commercialization chain. By paying a yearly retainer to EIT, large corporations such as Bosch and Merck, municipalities, hospitals, research centers, and academia are exposed to the deal flow, talent, and network of EIT. Municipalities offer beta sites, innovation centers and accelerators that are directly exposed to industry and market needs. Many European students tend to remain in laboratories without scaling their ideas, the European entrepreneur is afraid of taking risks, and ideas that remain buried in drawers, EIT is here to change all of that. With a focus on the most urgent global challenges humanity is facing, EIT works in eight fields aligned

with the SDGs. KICs (Knowledge Innovation Communities) include health, food, energy, climate, manufacturing, raw materials, urban mobility, and digital. There are teams, hubs, and programs associated with each KIC. There are a few that have an investment arm and are located throughout Europe.

Following EIT's positioning as an ecosystem enabler and leader, it developed the Global Outreach Project. The first to be established outside of Europe's borders was Silicon Valley. The second hub was established in Tel Aviv, Israel, and it is expected to open soon in the United Kingdom now that it is not a member of the European Union. Having access to the US, Israel, Europe, and the UK markets makes EIT valuable than ever before.

EIT Hub Israel and its efforts to strengthen EU-Israel relations

There are two types of services offered by EIT Hub Israel to the European and Israeli markets: a soft-landing service, ecosystem training, and the creation of a consortium to apply for Horizon grants. In the second area, there are product-oriented programs designed for scaling up, open innovation, and challenge-based training for corporates, start-ups, SMEs, and researchers. The Israeli Hub's objective is to foster as many collaborations between the EU and Israel in the areas of innovation and technology as possible.

Summary and conclusions

As a country without natural resources, Israel emphasizes technology and innovation as a strategic priority. While the country is small and has faced difficult conditions, it has always had an educated human capital. It is therefore only through the development and commercialization of IP that a substantial GDP can be generated. As a result of its entrepreneurs' efforts to get out there to market, Europe is leading the world with cutting-edge technologies, infrastructures, and regulations in the fields of climate, energy, and food, and can serve as a model for the rest of the world.

As similar, as they are in terms of pushing and leading, they are so different in terms of their initial elements. Considering the vision of EIT in Europe and in Israel, it appears that the two countries are becoming closer and closer, not to mention the Horizon Europe agreement that was signed this year as another push to enhance the relationship. A brighter future appears to be ahead, and even pandemics and wars cannot stop this evolving connection.

By: Maayan Sharon, Business Creation Manager at EIT Hub Israel
Maayan.sharon@eithubisrael.eu

Appendix

1. Strengthening of investment opportunities in EU Israel economic relations, 2020 [Report]
2. https://research-and-innovation.ec.europa.eu/news/all-research-and-innovation-news/israel-joins-horizon-europe-research-and-innovation-programme-2021-12-06_en
3. https://www.eeas.europa.eu/israel/european-union-and-israel_en?s=200
4. <https://jiss.org.il/he/navon-israel-and-europe-looking-back-looking-ahead-2/>
5. <https://ilstartupmap.eu/>
6. <https://www.mckinsey.com/featured-insights/innovation-and-growth/reviving-innovation-in-europe>
7. <https://eit.europa.eu/>