



ISRAEL:

Ready for the OECD

Ministry of Finance
International Department

March 2006



**VICE PRIME MINISTER,
MINISTER OF FINANCE,
MINISTER OF INDUSTRY, TRADE AND LABOR**

Jerusalem, December 29, 2005
28 Kislev 5766

Dear Colleagues,

Israel is clearly ready for OECD membership. With more high-tech start-ups, scientific publications, engineers, patents, and R&D expenditure per capita than any country in the world, Israel's economy is leading the way in the 21st century.

We believe that incorporating a country such as Israel into the OECD, with our first-world living standards, high-tech, free market economy and vibrant democratic way of life can only serve to strengthen the OECD and its institutions.

In recent years, Israel's Government has implemented a series of economic reforms that have created a smaller and more efficient public sector, a stronger and more competitive private sector and an economy prepared for the challenges of the global marketplace. OECD membership will help anchor these reforms and pave the way for further reforms.

As the most active non-member observer country of the OECD, Israel is well aware of the wide range of OECD activities and the importance and privilege of joining such a prestigious group of nations. We are also well aware of the responsibilities of joining the OECD, and we are prepared to meet those responsibilities.

We look forward to working with all relevant parties in order to be able to join the OECD as soon as possible.

Sincerely,

Ehud Olmert

FOREWORD

"Israel: Ready for the OECD" aims at evaluating Israel's compliance with OECD's high standards for multilateral cooperation. The report details Israel's progress in meeting the international objectives and best practices pursued by OECD members, reflecting Israel's commitment to the common vision of the OECD. Moreover, it illustrates Israel's contribution to addressing the challenges of globalization as well as contributing to the diversity of the Organization.

Part II of *"Israel: Ready for the OECD"* details Israel's activities in OECD bodies during the years 2004-2005, focusing primarily on government ministries, authorities, and institutions. Experts from various Israeli ministries and government entities actively participate in OECD committees and working groups. Today, Israel is a full participant, regular observer, or ad hoc observer in 50 OECD working bodies.

The success of *"Israel: Ready for the OECD"* will be determined by recognition of the mutual benefits to be gained from Israel's membership in the OECD, and the establishment of a goal-oriented outreach cooperation program leading to full membership.

The figures and graphs presented in this report comparing Israel with other countries, are based on the most recent information available from OECD and other foreign sources.

This report was compiled and edited by Marc Luban, OECD Coordinator at the Ministry of Finance in cooperation with the Ministry of Foreign Affairs.

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List of abbreviations and acronyms

CITES	Convention on International Trade in Endangered Species
CPSS	Committee on Payment and Settlement Systems
CSTP	Committee for Science and Technology Policy
DAC	Development Assistance Committee
EBRD	European Bank for Reconstruction and Development
EFTA	European Free Trade Agreement
EPO	European Patent Office
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FSO	Fund for Special Operation
GLP	Good Laboratory Practice
GPA	Government Procurement Agreement
HIPC	Heavily Indebted Poor Countries
IADB	Inter-American Development Bank
IAIS	International Association of Insurance Supervisors
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IEA	International Energy Agency
IFC	International Finance Corporation
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
MFP Code	Code on transparency in Monetary and Financial Policies
MIGA	Multilateral Investment Guarantee Agency
NESTI	OECD National Experts on Science and Technology Indicators
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
ROSC	Reports on the Observance of Standards and Codes

Introduction:

Joining the OECD is a matter of strategic importance in the process of positioning the Israeli economy among the developed and advanced economies of the world, attracting international investments, and influencing the global economic agenda. OECD membership will support Israel's goals of further enhancing structural reforms, implementing social and economic policies, improving services to its citizens, and learning from ongoing reforms in other OECD states. As such, since the mid-1990s, an intensive effort has been conducted by the State of Israel to join the OECD to actively take part in the processes of evaluation, coordination and policy making within the family of the OECD Member countries.

The criteria and yardsticks presented in Part I were formulated by the OECD Working Group on the Enlargement Strategy and Outreach¹. Their purpose is to serve as markers guiding the Council's decisions throughout the accession process. The consideration of candidates to accession comprises two simultaneous steps: "Positioning" and "Assessment". Positioning includes the two criteria "like-mindedness" and "significant player"; Assessment includes "mutual benefits" and "global considerations".

In March 1996, the Council of Ministers of the Organization for Economic Co-operation and Development (OECD) approved Israel's request to participate in the Organization's activities. Israel subsequently joined certain OECD committees and subsidiary bodies as a full participant, regular observer, or ad hoc observer (see Part II and Annexes).

¹ A Strategy for Enlargement and Outreach, Report by the Chair of the Heads of Delegation Working Group on the Enlargement Strategy and Outreach, Ambassador Seiichiro Noboru, May 2004.

Chapter 1 Israel – Positioning

A. Like-mindedness –

Market- based economy

Israel has a sophisticated, highly technological, free market with a population of over 6.9 million. Development towards a modern and open business environment in Israel has been underpinned by comprehensive deregulation across all sectors of the economy. Legal frameworks have been reformed in areas that affect conditions for operating a business. The Companies Law, intellectual property laws, competition laws, and laws dealing with the fight against corruption and money laundering have all been substantially revised over recent years. There are no special approval requirements or operating permits for foreign-controlled enterprises.² In the past several years, the Israeli economy has been undergoing a comprehensive pro-market, pro-competition structural reform program: reducing government expenditures, cutting taxes, breaking up monopolies, privatizing state-owned companies and banks, promoting competition, reforming the pension system, reforming the capital market, and dozens of other reforms. IMF staff statement at the conclusion of a visit to Israel, on December 12, 2005, said Israel's *"commitment to increased competition and efficiency has enhanced market confidence and is crucial in fostering sustainable growth."*

In 2005, Israel advanced eight places to No. 25 in the IMD Business School's Economic Freedom scale (compiled by

² OECD Investment Policy Reviews: Israel, September 2002 – OECD Directorate for Financial, Fiscal and Enterprise Affairs, p.7.

NGOs), which categorizes its economy as "mostly free" in terms of openness to market forces. Areas where Israel ranks highest are monetary policy, trade policy, foreign investment, property rights, and wages and prices.

In 2004, Israel was ranked 18th out of 104 countries by the World Economic Forum's Networked Readiness Index and 19th by its Growth Competitiveness Index.

Democratic principles

Israel is a **parliamentary democracy**, with governmental powers divided among separate legislative, executive, and judicial branches. The legislative power of the State resides in the Knesset, a unicameral parliament that consists of 120 members elected by universal suffrage under a system of proportional representation. Israel has no formal constitution as yet. Instead, it has chosen to enact Basic Laws dealing with different components of its constitutional regime: the electoral system, the government, the legislature, and the judiciary, and guarantee the protection of property, life, body, dignity, the right to privacy and freedom of occupation. Their constitutional import is derived from their nature and, in some cases, from the inclusion of "entrenched clauses" whereby a special majority is required to amend them. The Government is the executive authority of the State. The government holds office by virtue of the confidence of the Knesset.

The courts adhere to the principle that the Knesset is a sovereign entity. As the High Court of Justice, the Supreme Court rules as a court of first instance, primarily in matters regarding the legality of decisions of State authorities: government decisions, those of local authorities

and other bodies and persons performing public functions under the law, and direct challenges to laws enacted by the Knesset that are inconsistent with the Basic Laws.

**Basic
economic
performance**

Israel, a modern, technologically advanced economy, enjoyed 5.2% GDP growth during 2005, higher than the 2.7% average growth rate in the 30 member states of the OECD. GDP per capita in 2005 was \$17,838. Trade flows stand at 97% of GDP, and the relatively advanced high-technology sector – the key factor in Israel's economic growth over recent years – was largely responsible for Israel's annual average GDP growth of 5% during the 1990s. Israel has a well-developed capital market and a sound financial sector. *"Based on purchasing power parity for 1999, it was classified as the most developed country in the "low-middle income" group by OECD comparative figures on GDP for 43 countries, with an estimated GDP per capita of 88% of the OECD average."*³

Foreign direct investment (FDI), insignificant before the 1990s, has taken on a significant role in the development of the Israeli economy. Towards the mid-1990s, rapid expansion of the country's high-tech sector, in conjunction with the opening up of the financial and telecommunications sectors, attracted large amounts of both foreign direct and portfolio investment. *"Between 1995 and 2000, FDI represented 44 percent of the total US\$33.2 billion invested in Israel. At the end of 2000, accumulated stock of foreign capital amounted to US\$117 billion, of*

³ OECD Investment Policy Reviews: Israel, September 2002, p.7.

*which 21 percent was accounted for by FDI. FDI in 2000 represented 41.6 percent of gross fixed capital formation and 4.1 percent of GDP. Israel's capital markets, free from almost all exchange controls since 1998, have enabled investment through the Tel-Aviv stock exchange and at the same time permitted Israeli firms to raise capital through foreign exchanges, in particular the technology-oriented NASDAQ. In terms of the number of foreign companies registered for trading on this stock exchange, Israel is the second largest country of origin...While Israeli companies have tended to favor the NASDAQ for fundraising, the number of Israeli companies registered for trading on European stock exchanges has risen considerably. High-tech sectors, such as software, semi-conductors, Internet, communications and medical devices have attracted the largest amount of FDI. Foreign investors are also active in the banking sector and some insurance activities."*⁴ (In 2005, FDI represented US\$5.75 billion).

**Good
governance
and rule of
law**

The primacy of the law is a fundamental principle in Israel. Israel manages its public affairs in a transparent, accountable, participative, and equitable manner. Israel enjoys an independent and accessible judicial system that guarantees all citizens basic access to legal resources.

Israel benefits from the ability of public institutions to draft, implement, and supervise policies addressing the needs of economic and social development, and from third-sector organizations' involvement in these processes.

⁴ OECD Investment Policy Reviews: Israel, September 2002, p.9.

Israel's resource management is open to scrutiny and subject to controls. This transparency entails accountability and effective procedures and systems for monitoring the management and allocation of resources. In the Reports on the Observance of Standards and Codes (ROSCs), the IMF and the World Bank summarize the extent to which Israel observes such codes of good practice and other internationally recognized standards and codes:

- a. The 2003 Report on **the Observance of Standards and Codes – Monetary and Financial Policy Transparency, Banking Supervision, Securities Supervision, and Payment Systems**⁵ provides an assessment of the consistency of monetary policy in Israel with the Code of Good Practices on Transparency in Monetary and Financial Policies (MFP Code approved by the IMF Executive Board on July 9, 1999, and its three supporting documents). The assessors concluded that Israel fully observed most of the principles in the MFP Code:

1. The **Basle Core Principles** for Effective Banking Supervision (Israel, along with other countries, is currently undertaking a series of supervisory measures designed to apply the Basel II principles);
2. **CPSS Draft Core Principles** for Systemically Important Payment Systems;
3. **IOSCO Principles** of Securities Supervision;
4. **IAIS Core Principles** of Insurance Supervision.

⁵ Israel: Report on the Observance of Standards and Codes – Monetary and Financial Policy – Update, IMF Country Report No. 03/76, March 2003.

- b. The 2004 Report on the **Observance of Standards and Codes – Fiscal Transparency Module**⁶ provides an assessment of fiscal transparency practices in Israel in relation to the requirements of the IMF Code of Good Practices on Fiscal Transparency. Israel meets the requirements of the fiscal transparency code in many areas. Central government internal accounting and control functions are effective. The external audit function includes performance audits, which attract much public interest. Information on the fiscal operations of the central government in the aggregate is available monthly. Taxpayer rights and obligations are transparent. The passage of a Freedom of Information Act in 2000 has enhanced all aspects of fiscal transparency. Also, the recent decision to publish a detailed macroeconomic framework with the budget will foster budgetary transparency.
- c. The 2005 Report on the **Observance of Standards and Codes (ROSC) – FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism**⁷ provides a summary of the assessment of Israel's observance of the FATF's 40 Recommendations for Anti-Money Laundering and 8 Special Recommendations on Combating the Financing of Terrorism (FATF 40+8 Recommendations). Since 2000, Israel has made significant progress in strengthening its procedures on anti-money laundering and combating the financing of terrorism (AML/CFT).

⁶ Israel: Report on Observance of Standards and Codes – Fiscal Transparency Module, IMF Country Report No. 04/112, April 2004.

⁷ Israel: Report on the Observance of Standards and Codes – FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism, IMF Country Report No. 05/211, June 2005.

Human rights

Israel is a democratic state with associated political rights, respect for the rule of law, and a flourishing civil society.

Israel's commitment to human rights has been part of its credo and ethic since long before the actual establishment of the State in 1948. Indeed, the principles of fundamental human rights find expression in Israel's Declaration of Independence, adopted on May 14, 1948, in the following words: *"It [The State of Israel] will rest upon foundations of liberty, justice and peace as envisioned by the Prophets of Israel. It will maintain complete equality of social and political rights for all its citizens, without distinction of creed, race or sex. It will guarantee freedom of religion and conscience, of language, education and culture. It will safeguard the Holy Places of all religions. It will be loyal to the principles of the United Nations Charter."*

Human rights, whether civil and political or economic, social, and cultural in nature, are respected and promoted. Israel has ratified a series of International Human Rights Treaties: International Covenant on Civil and Political Rights, International Covenant on Economic, Social, and Cultural Rights, Convention against Torture, Convention on the Elimination of Discrimination against Women, Convention on the Rights of the Child and the International Convention on the Elimination of Racial Discrimination. Israel has ratified all the ILO's Fundamental Conventions. Israel has no formal constitution as yet. Instead, it has chosen to enact Basic Laws dealing with different components of its constitutional regime; these Basic Laws, taken together, comprise a "constitution-in-the-making". In 1992, the "constitution in the making" was supplemented

by several Basic Laws referring to human rights: **Basic Law: Human Freedom and Dignity, Basic Law: Human Dignity and Liberty and Basic Law: Freedom of Occupation.** They are interpreted broadly by the Supreme Court, encompassing the guarantee of freedom of religion, freedom of expression, and freedom of movement, as well as other accepted rights.

NGOs play a key role in protecting human rights in Israel by initiating court cases, drafting proposed legislation, lobbying in the Knesset, and handling individual complaints.

**Active
participation
in other
relevant
international
and regional
organisations**

Israel is a member of a number of international organizations, including the United Nations, the World Bank Group, the International Monetary Fund, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. Israel has been a signatory to the General Agreement on Tariffs and Trade (GATT) of 1947 since 1962, and is a founding member of the World Trade Organization (WTO), since its inception in 1995. *"Israel is a party to several international agreements, which commit the economy to open trade in goods and services and open capital accounts. Adherence to these agreements has served to anchor domestic reforms into long-term legally binding undertakings and has helped Israel overcome a difficult regional economic environment."* (Footnote no. 4). In addition, Israel actively participates in multilateral initiatives conducted within the framework of the WTO, such as the Government Procurement Agreement (GPA) and the Information Technology Agreement (ITA).

Israel benefits from strong ties with the world's major economic powers and trading blocs. Israel has concluded free trade agreements (FTAs) with its major trading partners and belongs to a small group of states having free trade agreements with the United States and the European Union. In addition, Israel has free trade agreements with the EFTA countries, Turkey, Canada, Mexico, Bulgaria, and Romania.

On December 8, 2005, a FTA Framework Agreement was signed between Israel and the Mercosur countries.

Israel is actively participating in the process of elaboration of the Pan-European system of cumulation of origin. The network of free trade agreements that Israel has already concluded with the EU accession candidates and other countries will allow it to benefit substantially from entering the Pan-European system.

In recent years, Israel, together with its two major trading partners, the US and the EU, has developed new regional trade agreements that stimulate economic cooperation between Israel and its neighbors in the Middle East. Israel signed a Qualified Industrial Zones (QIZ) agreement with Jordan in 1997 and a separate QIZ agreement with Egypt in December 2004. These agreements provide duty free market access to the United States for products of joint ventures between Israeli companies and their counterparts in Jordan and Egypt.

In order to promote its international economic cooperation, and in particular, to promote Israeli investments in

emerging markets, Israel has entered into 35 Agreements for the Promotion and Protection of Investment and 38 Agreements on the Avoidance of Double Taxation, largely based on OECD models.

***Provision of
development
assistance
initiative***

Israel has undertaken to share its experience in nation-building with other states, by way of cooperation programs and technology transfer as well as by active participation in international fora:

- Israel joined the World Bank Group in 1954 and is currently a member of the IBRD, IFC, MIGA, IDA, and ICSID. It is also a member of EBRD, IADB (including FSO, IIC), and various agencies of the UN which assist countries by providing knowledge and technical assistance to International Financial Institutions projects.
- MASHAV⁸ – Israel's foreign assistance programme – cooperates with developing countries and countries in transition striving to eradicate poverty through sustainable development. MASHAV's programmes focus on technical training and technology transfer, with emphasis given to human and institutional capacity building. In 2004, MASHAV was active in 114 countries and trained 8,390 professionals in courses conducted in Israel and abroad.
- Israel became a member of the CGIAR⁹ in 2002. The Ministry of Agriculture and Rural Development operates

⁸ MASHAV is the Hebrew acronym for the Centre for International Cooperation within the Ministry of Foreign Affairs. Courses for professionals are taught in English, French, Spanish, Russian, and Arabic. The courses reflect a wide range of disciplines including agriculture, education, health, etc.

⁹ The Consultative Group on International Agricultural Research (CGIAR) is a strategic alliance of countries, international and regional organizations, and private foundations, supporting 15 international agricultural centers that work with national agricultural research teams/organizations and

the Center for International Agricultural Development Cooperation (CINADCO), which trains people from developing countries in modern agriculture and irrigation methods.

- Israel is an IDA contributor and is involved in determining its aid policy.
- Israel participates in the HIPC (Heavily Indebted Poor Countries) program of the World Bank and the IMF, assisting certain states in reducing their debt.
- Israel participates in the GDLN program¹⁰.
- Israel is a Paris Club participating creditor country.
- USAID/CAR¹¹ has a unique partnership with MASHAV in the implementation of a number of activities in several Central Asian Republics (Up to September 2005).

Since 2002, Israel's data has been included in the **OECD's Development Assistance Committee (DAC) report**, which publishes statistics on Official Development Assistance (ODA) from DAC donors and non-DAC donors. Israel's figures include aid for sustenance expenses for persons arriving from developing countries (many of which are experiencing civil war or severe unrest) and individuals who have left due to humanitarian or political reasons.

civil society organizations, including the private sector. The alliance mobilizes agricultural science to reduce poverty, foster human well being, promote agricultural growth, and protect the environment.

¹⁰ The Global Development Learning Network (GDLN) is a global partnership of learning centers (GDLN Affiliates) that use advanced information and communication technologies to connect people around the world working in development. Applying technologies and services developed in the area of "distance learning", GDLN Affiliates help organizations, teams, and individuals to communicate so that they can share knowledge and learn from each others' experiences.

¹¹ Due to the large numbers of technical specialists with Russian language abilities, Israel is in a good position to implement activities in the region. Funded through each of USAID/CAR's sector programs, MASHAV is working in the areas of water resource management, nursing education, technical assistance to small and medium agribusiness, and women's development.

**Observance
of "OECD
acquis"**

On September 19, 2002, Israel signed the **OECD Declaration on International Investment and Multinational Enterprises** and its related Decisions and Recommendations. Israel's adherence was preceded by a full examination of its foreign direct investment (FDI) policies. *"The development of the business environment in Israel towards a modern and open one for foreign investment has been underpinned by comprehensive deregulation across all sectors of the economy. Apart from the introduction of a Companies Law in 1999, the legal frameworks in other areas that affect the conditions for operating a business have also been reformed. Intellectual property laws, competition laws, and those dealing with the fight against corruption and money laundering have all been substantially revised over recent years."* (OECD Investment Policy Reviews: Israel, September 2002). These regulatory reforms and strong international commitments have created a generally enabling, transparent and non-discriminatory environment for domestic and foreign investment.

As signatory of the OECD Declaration and Decisions on International Investment and Multinational Enterprises, Israel participates in Investment Committee meetings relating to the Declaration and Decisions. As part of its commitment, a **National Contact Point** (NCP) has been established to encourage observance of the Guidelines for Multinational Enterprises in the local context and to ensure that the Guidelines are well known and observed by the Israeli business community and by other interested parties.

On August 2, 2000, the Israeli Knesset enacted the Prohibition on Money Laundering Law. The law establishes the Israel Money Laundering Prohibition Authority as a Financial Intelligence Unit (FIU). This step indicates that Israel meets all the criteria identified by the Financial Action Task Force (FATF), with respect to the international standards for combating money laundering and complies with OECD norms and practices.

On January 18, 2006, Israel was admitted by the Committee of Ministers' Deputies of the Council of Europe to take part as an active observer in MONEYVAL'S (Committee of Experts on the Evaluation of Anti-Money Laundering Measures) mutual evaluation process.

An inter-ministerial judicial team is conducting a legal review on Israel's compliance with the OECD Declaration, Conventions, and Codes. The team's work process includes mapping the various regulatory spheres in Israel with regard to the Organization's legal codes, examining compatibility and existing discrepancies, and deriving the legal and economic implications that would result from the full or partial adoption of these codes.

Other major international agreements:

- **United Nations Convention against Corruption:** On November 29, 2005, Israel signed the UN Convention against Corruption that shares many of the basic premises and definitions of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Most of Israel's international environmental activities are carried out within the framework of the United Nations Environmental Program (UNEP). In recent years Israel has quadrupled its contribution to UNEP and upgraded its participation in UNEP activities.

Israel has participated in negotiations leading to numerous international and regional environmental agreements. It has signed and/or ratified nearly all of the major environmental conventions, and it ensures its national legislation's conformity to international obligations. Following are some of the major conventions to which Israel is a party:

- **United Nations Framework Convention on Climate Change and Kyoto Protocol:** Israel ratified the Climate Change Convention in September 1996 and the Kyoto Protocol on February 12, 2004. In order to implement its obligations under the convention, the government established an inter-ministerial committee to formulate policy guidelines for the reduction of greenhouse gas emissions. Israel has prepared its first national greenhouse gas inventory, options for reducing emissions, and a preliminary assessment of vulnerability and adaptation measures to climate change. It submitted its First National Communication to the UN Framework Convention on Climate Change in November 2000 and has completed its second greenhouse gas inventory. A 2001 government decision calls for steps to limit/reduce greenhouse gas emissions on the basis of the findings and conclusions of the inter-ministerial committee on climate change.

- **Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal:** Israel ratified the Basel Convention in 1994. National regulations on the import and export of hazardous substances, coupled with national legislation on hazardous substances in general, incorporate the principle of "cradle to grave" management and supervision of hazardous waste, and enable Israel to fully implement the provisions of the Basel Convention.

- **Convention for the Protection of the Ozone Layer and Montreal Protocol:** Israel ratified the Vienna Convention for the Protection of the Ozone Layer and the Montreal Protocol on Substances that Deplete the Ozone Layer, as well as the London, Copenhagen, and Vienna Amendments. In order to comply with all provisions, Israel prohibits or restricts the import of ozone depleting materials.

- **Convention on Biological Diversity:** Israel ratified the Convention on Biological Diversity in August 1995.

- **Convention to Combat Desertification:** Israel was one of the first nations to sign and ratify the Convention to Combat Desertification in March 1996. Israel has taken an active part in the Asian regional conferences and has presented national papers on measures to combat desertification. In line with its accumulated experience and its commitments under the Convention, it has

established an International Center for Combating Desertification in Sde Boker in the Negev desert.

- **Convention for the Protection of the World Cultural and Natural Heritage:** Israel ratified the World Heritage Convention in 1999. The UNESCO World Heritage Committee has listed the following properties as the World Heritage List:
 - Masada (2001)
 - Old City of Acre (2001)
 - White City of Tel-Aviv – Modern Movement (2003)
 - Biblical Tells – Megiddo, Hazor, Beer Sheba (2005)
 - Incense Route – Desert Cities in the Negev (2005).

- **Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES):** The Nature and National Parks Protection Authority is responsible for the implementation of this convention in Israel. Enforcement of the CITES provisions is highly efficient in Israel, due to its comprehensive nature protection legislation and monitoring system.

- **Convention on Wetlands of International Importance, Especially as Waterfowl Habitats:** Israel ratified the Ramsar Convention in May 1996. Two Israeli sites were designated as "Wetlands of International Importance" in the Ramsar List: the Hula Reserve and the En Afeq Reserve.

B. Significant Player –

"According to the World Development Report (1999/2000), Israel holds the 36th and 32nd position in terms of GNP and GNP per capita respectively. It is defined as an "advanced economy" by the IMF World Economic Outlook and a "high income economy" by the World Bank Atlas"¹²..."Israel is among the world leaders in hi-tech/start-up industries. Currently there are about 4000 hi-tech companies in Israel – the largest concentration in the world outside California."¹³

Industry Strengths

Israel has developed into one of the world's leading technology hubs. Home-grown innovations in high tech industries — especially software, telecommunications, and Internet technologies — and bioscience have driven the country's economy over the past two decades.

- ⇒ Israel has more companies traded on the technology-heavy NASDAQ stock exchange than any other country outside North America.
- ⇒ Israel participates in 28 different international and bi-national industrial research and development joint ventures, of which four are with the United States, three with the EU, two each with Canada and India, and one each with Australia, Germany, China, France, Belgium, Italy, Turkey, Hong Kong, the United Kingdom, Japan, Taiwan, Singapore, Spain, Portugal, Sweden, Finland, and the Netherlands.

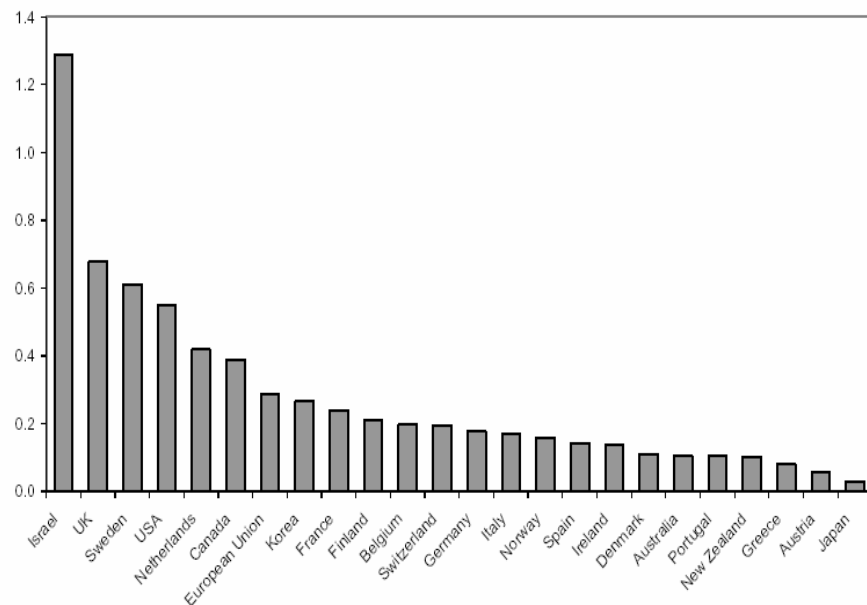
¹² OECD Investment Policy Reviews: Israel, September 2002, p.15

¹³ OECD Investment Policy Reviews, p.37

Venture Capital

Israel has a higher level of venture capital as a share of GDP than any OECD country. Most Israeli venture capital is channeled to early-stage companies, particularly start-ups in sectors based on information and communications technology (ICT) and biotechnology. *"On average, Israel ranked ahead of the United Kingdom, Sweden and the United States in terms of venture capital raised and invested relative to its size. Several factors help explain Israel's success in fuelling high-technology start-ups through venture funding: a risk-taking culture, wide-ranging technological know-how partly associated with military-related developments, and a large supply of skilled human resources and intellectual capital based on international immigration."*¹⁴

Figure 1. Israeli and OECD venture capital investment as a share of GDP, 1998-2001



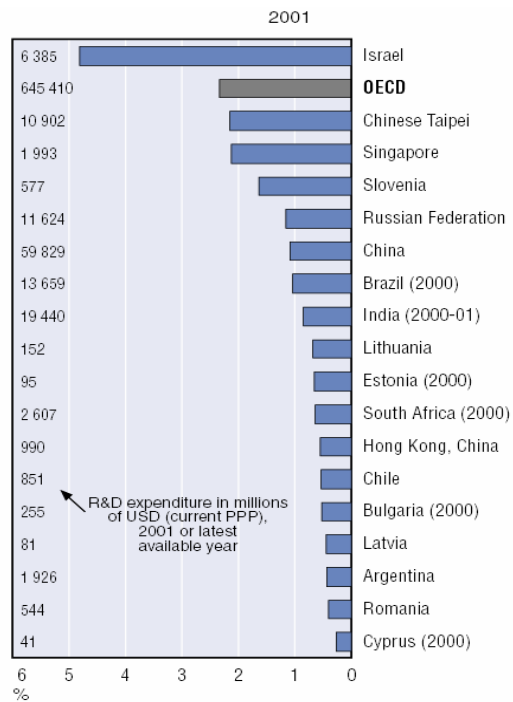
Note: The definition of private equity/venture capital tends to vary by country.
Source: IVA, 2002; OECD venture capital database, 2002.

¹⁴ **Venture Capital Policy Review: Israel**, STI Working Paper 2003/3 Industry Issues, by Günseli Baygan [DSTI/DOC(2003)3, 28-Jan-2003].

Israeli spending on research and development

Israel increased its spending on research and development, calculated as a percentage of GDP, from 2.74% to 4.6% of the GDP between 1995 and 2004, a rate higher than that of any OECD country.

Figure 2. GDP expenditure on R&D as % of GDP



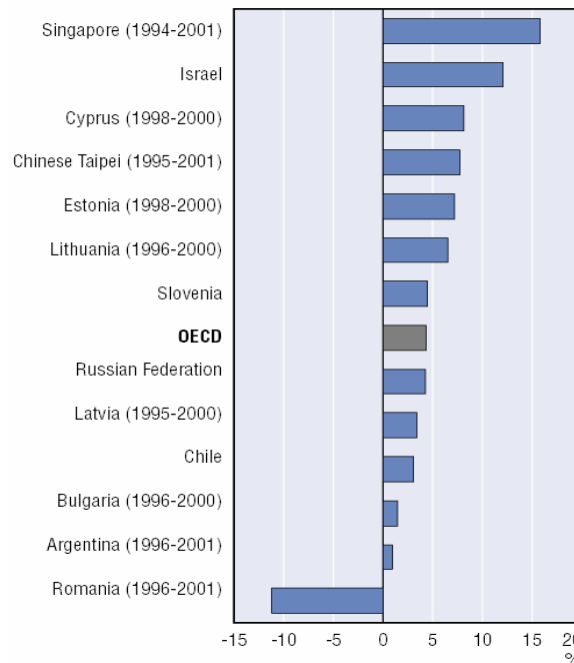
1. Gross domestic expenditure on R&D as a percentage of GDP.

Source: OECD, MSTI database, May 2003; Eurostat, NewCronos database, May 2003; 15

Figure 3.

Evolution of gross domestic expenditure on R&D

Average annual growth rate, 1993-2001



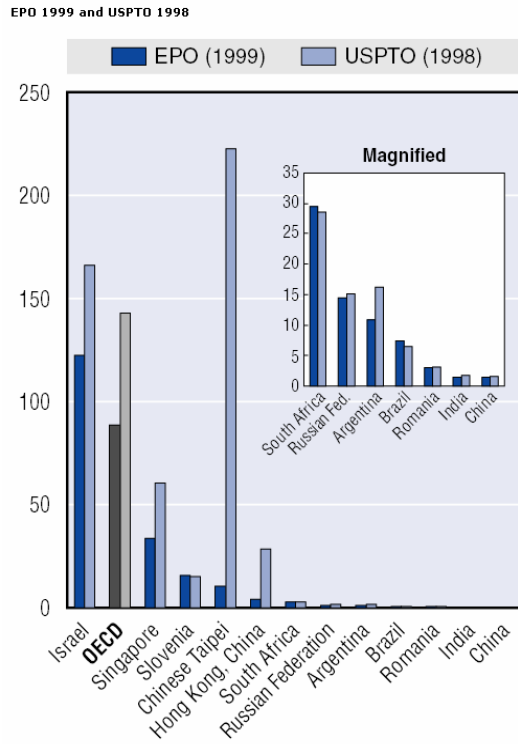
Source: OECD, MSTI database, May 2003; Eurostat, NewCronos database, May 2003;

¹⁵ In 2001, Israel allocated 4.8% of GDP to R&D (excluding R&D for defence), more than Sweden, which has the highest R&D intensity in the OECD area, at 4.3%.

Towards a knowledge-based economy

In 1999, Israel – at 122 patent applications per million population – was the only non-member economy whose number of patent applications at the European Patent Office (EPO) exceeded the OECD average of 88. Israel also had 166 patents per million

Figure 4. Patent applications per million population

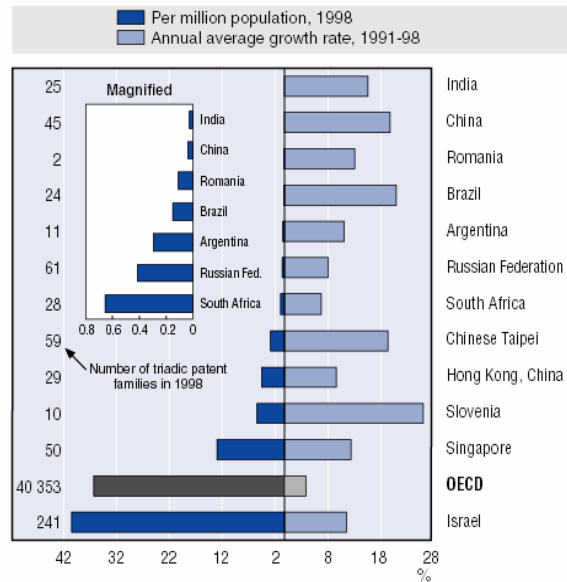


Source: OECD, Patent database, May 2003.

population granted by the United States Patent and Trademark Office (USPTO) in 1998, also above the OECD average (143).¹⁶

Figure 5. Triadic patent families, 1998

Among the non-OECD economies, Israel was responsible for the highest number of patent families. It ranked 16th worldwide, with 241 families, far ahead of Russia (61) and China (45).



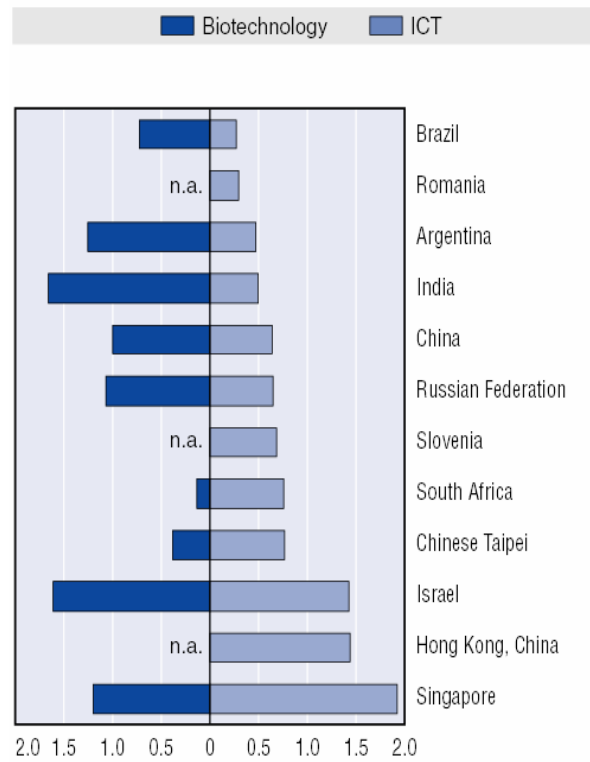
Source: OECD, Patent database, May 2003.

¹⁶ Source: OECD Science, Technology and Industry Scoreboard 2003.

Figure 6. EPO specialisation indices, 1999

(OECD = 1)

Singapore, Israel, Hong Kong, and China have a strong comparative advantage in information and communications technology (ICT). Data for Israel and India show a strong specialisation in technology.



Source: OECD, Patent database, May 2003.

***Skilled
workforce***

One of Israel's most important resources is its experienced and highly educated workforce. In 2004, according to Israel's Central Bureau of Statistics approximately 32% of the Israeli population over age 15 had thirteen or more years of schooling. With this highly educated population, Israel has developed an export-oriented, technology-based industrialized economy. In 2004, 28% of the Israeli workforce consisted of scientific, academic, and other professional, technical, and related workers, while 24% consisted of administrative or managerial workers. These percentages compare favorably with the percentages of such workers found internationally. The employment qualifications of recent immigrants have been consistent with the high quality of the Israeli workforce, with two-thirds of the immigrants from the former Soviet Union having been employed there as professionals, scientists, engineers, and technical staff.

Educational system

The 2005 edition of *Education at a Glance: OECD Indicators* enables Israel to be seen in the perspective of other countries' education systems' performance¹⁷:

- The national expenditure on tertiary education is 2.1 percent of the GDP, which places Israel second (after the United States) in international comparisons with developed countries.
- Third in the world, after the United States and Norway, in the percentage of population aged 25-64 that has attained tertiary education.
- Seventh with regard to the number of science graduates per 100,000, employed between the ages of 25 - 34.
- According to the OECD database in 2002/3 Israel ranked seventh in the rate of Ph.D recipients relative to the size of the workforce.
- According to the Science and Engineering Indicators published by the US National Science Foundation (NSF) in 2004, Israel ranked third in the world in the number of scientific publications relative to the population, following Switzerland and Sweden.

These figures are the result of a clear policy and ongoing national investment in education at all levels, especially in higher education.

¹⁷ These rankings are based on data provided by the OECD, and according to the data submitted by the Planning and Budgeting Committee to the Israeli Central Bureau of Statistics.

*Israel's
space
program*

On September 19, 1988, Israel launched its first satellite, Ofeq-1, using the Israeli-built Shavit three-stage launcher. By independently building and launching its own satellite, Israel joined an exclusive club, which includes the United States, Russia, England, Japan, India, France, and China.

Israel has made large enough strides to have been accepted into the international community of space researchers, and it has formal space research cooperation agreements with the US, the EU¹⁸, France, Germany, Russia, and the Netherlands. The projects that these agreements have yielded will enable Israel to maintain its place in the vanguard of space research in the years to come.

Since the launch of its first satellite, Israel has developed into a significant player in the commercial space arena. In 1989, Israel launched Ofeq-2; in April 1995, it took a leap forward with the launch of Ofeq-3, which carried an advanced electro-optical payload built by Israeli industry for local purposes. Ofeq-3 has been functioning without a hitch. Following a setback with Ofeq-4, Ofeq-5 was successfully launched in May 2002. In 2003, the Israeli "Amos 2" communications satellite was launched.

In 2003, Israel's first astronaut, Col. Ilan Ramon, was a member of the Space Shuttle Columbia (STS-107) which was carrying Israeli scientific experiments. Tragically, Columbia broke apart during reentry into the atmosphere.

¹⁸ The European Commission signed an agreement with Israel in July 2004 allowing for its participation in the EU's Galileo project for a Global Navigation Satellite System. Galileo is a joint initiative by the European Union and the European Space Agency (ESA).

Chapter 2 Israel – Assessment

A. Mutual benefit –

1) The country has the willingness and the capacity to contribute to the peer learning/influencing process: As a member of several United Nations agencies, Israel participates in United Nations conferences, prepares national reports, and contributes its expertise.

⇒ Significant research into generic biotechnology – infrastructure technologies that serve the development of new products or processes – is underway in Israeli laboratories as part of the government's research funding program. Israel is one of the few countries that have developed a unique hybrid seed for export. In 2000, the Israeli delegate to the **OECD Schemes for the Varietal Certification of Seed Moving in International Trade** initiated the adoption of new rules for seeds, for intra-specific and inter-specific hybrids of cotton. Following these initiatives, the EU amended its directive to include rules equivalent to those of the OECD¹⁹.

⇒ Under the aegis of the Committee for Science and Technological Policy (CSTP), the group of **National Experts in Science and Technology Indicators (NESTI)** has engaged in bridging the gap between R&D data and the system of national accounts (SNA).

¹⁹ Commission Directive 2003/45/EC of 28 May 2003 (L138/40 - 5.6.2003).

Israel is the only country to collect data required for closing the gap between R&D and SNA:

1. Sale or transfer of fixed assets originally acquired for R&D;
2. Acquisition of land for R&D (separated from buildings);
3. Acquisition of software and large databases as part of capital expenditure for R&D;
4. Sales of R&D, total amount and, if possible, breakdown by type of buyer (business, government, other domestic, export).

In 2002, Israel was invited to be a leading country of the **R&D-SNA Task Force**, which aims to examine the methodological issues raised by the accounting of R&D in an SNA framework, to investigate the needed adaptation of data constructed in the Frascati framework, and to estimate their impact on R&D figures. In a subsequent Israeli report (Mandler and Peleg, 2004a)²⁰ to NESTI, the task force concluded that it is feasible to construct bridge tables between the Frascati system²¹ and the national accounts, and that most of the additional data are obtainable from R&D surveys.

²⁰ Mandler, P. and S. Peleg (2004a), "Proposal for Simplified Bridge Tables between FM and SNA", paper for the Canberra II Group on Measurement of Non-financial Assets, Washington D.C., March, 2004.

²¹ The Frascati Manual – In the 1950s and 1960s S&T policy analysts demonstrated that the level of financial and human inputs to R&D activities were good indicators of national S&T development. In 1963 the OECD established a group of experts on S&T indicators, the National Experts on S&T Indicators (NESTI), which at a meeting at the Vila Falconari in Frascati, Italy, produced the first draft

- ⇒ Israel is a signatory to three Implementing Agreements (IA) with the International Energy Agency (IEA) for cooperation in research and development.
- a. The **IEA SolarPACES Implementing Agreement** – The parabolic mirror technology proven at the Small Solar Power Systems (SSPS) project in Spain was developed in Israel – the absorber tube, plant concept, and collector design.²²
 - b. The **IEA Photovoltaic Power Systems Implementing Agreement** – Israel was admitted to the IA in 1994, due to its reputation in the field of solar energy. Photovoltaics may form the basis of some of the power stations of the future. Israel's principal potential interest in VLS-PV (Very Large Scale Photovoltaic) systems would be in using the Negev desert as a potential site for a future system; using Israeli components and/or system design know-how; and especially the use of very large parabolic dishes to irradiate comparatively small areas of CPV (Concentrator Photovoltaics) material.
 - c. The **IEA High Temperature Superconductivity Implementing Agreement** – The contribution of Israel to this Agreement concerns the preparation and evaluation of new superconducting materials and their use in a number of new devices, such as fault current limiters and energy storage facilities. A specific project under consideration within the framework of the Agreement concerns water desalination. The project

of "The Proposed Standard Practice for Surveys of Research and Experimental Development", or the "Frascati Manual" as it is usually known.

²² International Technology Collaboration and Climate Change Mitigation Case Study 1: Concentrating Solar Power Technologies [OECD – COM/ENV/EPOC/IEA/SLT (2004) 8].

would consist of a test site to be established in Israel that would include a superconducting energy storage device or devices, such as flywheel energy storage using superconducting bearings. Efficient energy storage would allow better use of renewable energies such as wind and/or solar energy, while conventional water desalination is performed using non-renewable energy sources, such as fossil fuels. Prof. Guy Deutscher of the School of Physics and Astronomy at Tel Aviv University serves as chairman of the Executive Committee.

- ⇒ Israel was officially invited by the OECD Directorate for Education to take part in **Indicators of Education Systems (INES)** as a full participant rather than an observer.²³ Israel has been an observer in INES for several years and has the capacity to carry out and contribute to the INES data collection program. Israel, as a full member, will contribute to the development and improvement of INES instruments and to the design of the INES program of work.

- ⇒ Israel was the first non-European country to be associated with the European Community's Framework Programme for **Research and Technical Development (RTD)**. Israel's special status comes as a result of its high level of scientific and research capability.

²³ Indicators of Education Systems (INES) – The work is governed by the Education Committee and the CERI Governing Board, meeting in joint sessions, and undertaken by the Education Indicators and Analysis Division. CERI and INES are together investigating the ways in which learning can produce social outcomes, and the best methods for pursuing the measurement of how this occurs.

2) The country's participation and commitment to rule making will help contribute to the quality and global influence of the outcome:

⇒ Israel's adherence to the **Declaration on International Investment and Multinational Enterprises** and its related Decisions and Recommendations will contribute to its program for greater participation in OECD work. As an adherent to the Declaration, which is directed at the improvement of the business environment and the promotion of good corporate behaviour, Israel will be entitled to participate in work related to the Declaration and Related Acts, as a counterpart to the obligations undertaken under these instruments. It will share its experiences with other key investment players, also signatories to the Declaration, contributing to the mutual benefit from Israel's adherence.

⇒ Israel adherence to the **OECD's Mutual Acceptance of Data for the evaluation of chemicals (MAD)** demonstrates acceptable standards of compliance of laboratories with the **OECD Principles of Good Laboratory Practice (GLP)**. The recognition of test data generated in accordance with the OECD principles of GLP by the authorities in several countries avoids duplicate testing, which is beneficial to animal welfare and reduces costs for industry and governments. Moreover, common principles for GLP facilitate the exchange of information and prevent the emergence of non-tariff barriers to trade, while contributing to the

protection of human health and the environment. It also opens up the possibility for manufacturers in OECD countries to have safety tests for their chemicals performed in Israel.

3) The country's membership will contribute to strengthening the global character of the OECD:

⇒ Israel's ratification of scientific cooperation agreements with the European Union²⁴ and neighbouring Arab countries has created new research opportunities. Today, members of the Israeli academic community are **forging global and regional partnerships** and developing interdisciplinary projects in basic, applied, and industrial research. For example, Israeli scientists are collaborating on projects in the fields of environmental management and disease prevention and treatment.

⇒ In line with Israel's accumulated experience and its commitments under the Convention to Combat Desertification, Israel established the **International Center for Combating Desertification** at Sde Boker in the Negev desert. In April 1997, under UN auspices, Israel hosted a three-day meeting of experts on "Potential Synergies in the Implementation of the Convention on Combating Desertification and Drought, Biodiversity, Climate Change and the Forest Principles," conducted at the Institute for Desert Research at Ben-

²⁴ During the 5th Research and Development Framework Program, Israel has been involved in a total of 623 projects, 149 of them being coordinated by Israeli partners.

Gurion University of the Negev. Today, more than ever, Israel is committed to advancing its cooperation with the world community in order to build a future in which global resources are protected for the benefit of all of the world's citizens.

⇒ Following the successes of its science-based electronics, software, and communications industries, Israel has strong potential for taking a **leading place in the world of biotechnology**. Israel ranks as a top country in scientific publications per capita, and almost 60% of its scientific publications are in biology and related medical or agricultural fields. Life sciences represent about 35% of Israeli civilian research activities, mainly in its seven universities and five medical schools, and in agricultural research at the Volcani Institute and at the Hebrew University's Faculty of Agriculture. Strong basic research is a prerequisite for industrial applications of biotechnology, so that both research and transition to industry require the support of government and university institutions.

Starting with three or four young companies in 1980, the biotech sector in Israel has grown to 160 industrial enterprises active in the various fields of therapeutic pharmaceuticals, diagnostics, bio-informatics, and agrobio, including plant and farm animal products. The biotech workforce has grown from 400 in 1988 to 4,000 today. Sales of products developed by the Israeli biotech sector, which totaled \$15 million in 1988,

reached more than \$1 billion in 2001, with exports comprising about 80%. Israel represents approximately 2.5% of total world biotechnology sales.

⇒ Israel has achieved a **global leadership position** in numerous areas, particularly in knowledge-intensive industries:

- **Chemicals** – Israel is the world's leading exporter of potassium nitrate, with 50% of the global market; it is the largest exporter of generic agro-chemicals, and controls 30% of the global bromine market and 10% of the global market for metallic magnesium.

- **Information & Communication Technology** – Israel is the worldwide leader in Internet security. It is the confirmed worldwide market leader in both virtual private networks (VPN) and wireline networks (voice messaging, multimedia messaging, unified messaging). Over 400 wireline and wireless network operators in more than 100 countries around the world rely on Israeli solutions.

Israel is a global leader in business technology optimization (BTO), exporting a variety of BTO software and services, including offerings in application delivery and application management. In the automated software quality and performance testing market segment, Israeli software firms enjoy a market share of over 50% worldwide.

Israel is a world leader in hi-tech inspection and imaging solutions for printed circuit boards (PCB), flat panel displays, PCB assembly, and integrated circuit packaging manufacturers around the globe.

- **Diamonds** – Israel is the international hub for the import of rough diamonds and the export of cut and polished stones. Israeli companies purchase approximately 50% of the world's rough diamonds, and approximately half of the world's polished diamonds are exported from Israel.

 - **Plastics** – Israel is estimated to be one of the top five exporters of plastic consumer products. Specifically, Israel is a leading player in the garden furniture and do-it-yourself markets.
- ⇒ Israel is an important center for **international scientific conferences**, hosting over 100 such gatherings annually.

The extent of the relationship between an applicant country's economy and those of OECD countries may also be considered as a **Mutual Benefit** criterion, measured by the value of trade between the country and the OECD as a whole.

Table 1. Extent of non-OECD countries' connection with OECD economies, proxied by leading non-OECD trade partners.

Trade in goods (2004)				
Rank	Top 15 destinations of extra-OECD exports	% of total extra-OECD exports	Top 15 origins of extra-OECD imports	% of total extra-OECD imports
1	China	17.3	China	28.3
2	Hong Kong, China	7.3	Russian Federation	6.7
3	Chinese Taipei	7.0	Chinese Taipei	5.3
4	Singapore	4.9	Malaysia	4.2
5	Russian Federation	4.9	Saudi Arabia	3.3
6	Thailand	3.1	Brazil	3.2
7	Malaysia	3.0	Thailand	3.1
8	India	2.9	Singapore	3.1
9	Brazil	2.8	Indonesia	2.9
10	United Arab Emirates	2.7	India	2.4
11	Israel	2.1	Hong Kong, China	2.0
12	South Africa	2.1	South Africa	1.8
13	Saudi Arabia	2.1	United Arab Emirates	1.8
14	Philippines	1.9	Algeria	1.6
15	Indonesia	1.8	Venezuela	1.6
Trade in services (2002)				
	Top 15 destinations of extra-OECD exports	% of total extra-OECD exports	Top 15 origins of extra-OECD imports	% of total extra-OECD imports
1	China	9.1	China	9.2
2	Singapore	7.7	Hong Kong, China	7.5
3	Hong Kong, China	7.3	Singapore	7.5
4	Russian Federation	4.6	Russian Federation	3.6
5	Chinese Taipei	3.9	Chinese Taipei	3.0
6	South Africa	3.2	Thailand	3.0
7	Venezuela	3.1	Egypt	2.1
8	Thailand	2.5	South Africa	2.1
9	Brazil	2.5	Malaysia	2.0
10	Malaysia	2.1	Brazil	1.8
11	India	2.1	Croatia	1.6
12	Indonesia	1.8	Indonesia	1.6
13	Israel	1.6	India	1.5
14	Croatia	1.2	Saudi Arabia	1.4
15	Slovenia	1.1	Philippines	1.3

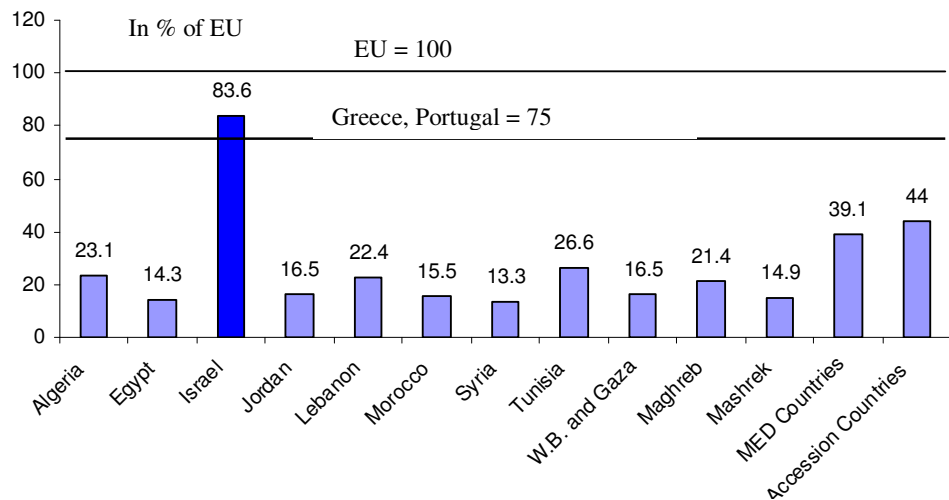
Source: OECD International Trade Statistics.

B. Global considerations –

Income level

Israel stands out economically among its Mediterranean neighbors in terms of its high income level (GDP per capita in PPP terms amounted to 84% of the EU level in 2001):

Figure 7. MED GDP per capita in PPP terms (in % of EU average)

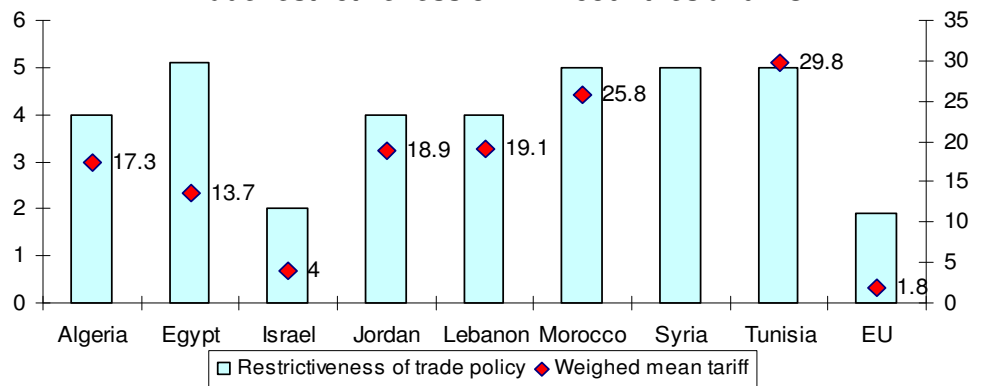


Source: Economic Review of EU Med. Partners, DG-ECFIN, January 2003.

Level of trade freedom

Israel is exceptional as the largest economy of the region (in nominal terms), displaying a high degree of openness:

Figure 8. Trade restrictiveness of MED countries and EU



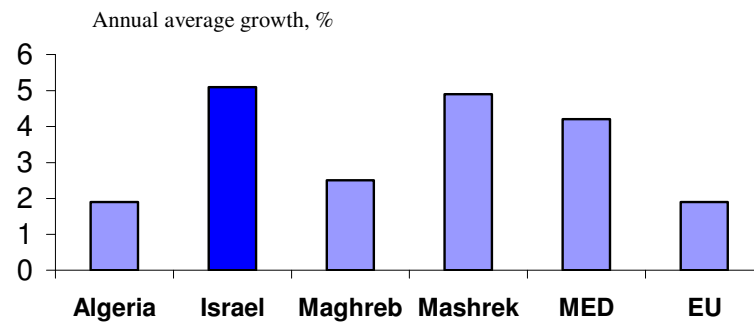
Note: Restrictiveness index: less than 2 = free trade policy, 4 and 5 = restrictive trade policy.

Source: Heritage Foundation (Gwartney et al., 2003) World Bank Development Indicators (2002).

Growth performance

Israel's overall GDP growth is the highest in the region, mainly due to the strong performance of high-tech industries and the export sector:

Figure 9. Average growth performance 1990-2000



Source: Economic Review of EU Med. Partners, DG-ECFIN, January 2003, p.19.

Foreign direct investment

Statistics on foreign direct investment (FDI) provide information on one of the main aspects of globalisation. Unlike traditional trade in goods and services, FDI reflects readiness to make a lasting commitment to a specific market. In 2003, Israel collected one third of FDI flowing into the southern Mediterranean region, followed by Morocco (22%) at a total value of \$10 billion.

Table 2. FDI flowing into the southern Mediterranean region

Med Country	1998	1999	2000	2001	2002	2003
Algeria	501	507	438	1196	1065	634
Cyprus	264	685	804	652	614	830
Egypt	1076	1065	1235	510	647	237
Israel	1887	3111	5011	3549	1721	3745
Jordan	310	158	787	100	56	379
Lebanon	200	250	298	249	257	358
Malta	267	822	622	281	-428	380
Morocco	417	850	215	2825	481	2279
Syria	82	263	270	110	115	150
Tunisia	668	368	779	486	821	584
Turkey	940	783	982	3266	1038	575

Source: World Investment Report 2004 (UNCTAD, FDI/TNC database).

Trade

According to World Trade Organization trade statistics, Israel ranks 29th in exports and 25th in imports of merchandise worldwide. Among the MENA countries Israel ranks fourth in exports and first in imports of merchandise.

Table 3. Leading MENA exporters and importers in world merchandise trade [excluding intra-EU (15) trade], 2003

(Billion dollars and percentages)

World Rank	Exporters	Value	Share	World Rank	Importers	Value	Share
14	Saudi Arabia	88.5	1.6	25	Israel	36.3	0.6
19	U.A.E.	65.8	1.2	26	Saudi Arabia	36.3	0.6
28	Iran	36.2	0.6	27	U.A.E.	36.0	0.6
29	Israel	31.6	0.6	29	Iran	25.5	0.4
31	Algeria	24.6	0.4	36	Morocco	14.2	0.2
38	Kuwait	19.4	0.3	42	Algeria	13.0	0.2
41	Libya	15.0	0.3	44	Tunisia	10.9	0.2
44	Iraq	12.7	0.2	45	Egypt	10.9	0.2
46	Qatar	12.6	0.2	48	Kuwait	10.8	0.2
48	Oman	11.6	0.2	Above 70	Iraq	7.9	0.1
Above 60	Morocco	8.7	0.2	Above 70	Lebanon	7.2	0.1
Above 60	Tunisia	8.0	0.1	Above 80	Oman	6.6	0.1
Above 70	Bahrain	6.4	0.1	Above 80	Qatar	5.9	0.1
Above 80	Egypt	6.2	0.1	Above 80	Jordan	5.7	0.1
Above 80	Syria	5.5	0.07	Above 80	Libya	5.1	0.1
Above 80	Jordan	3.1	0.04	Above 80	Bahrain	5.1	0.1
Above 80	Lebanon	1.5	0.02	Above 80	Syria	5.0	0.1

Source: WTO, International Trade Statistics.

In trade in services, Israel is ranked first in the region

Table 4. Leading MENA²⁵ exporters and importers in world trade in commercial services [excluding intra-EU (15) trade], 2003

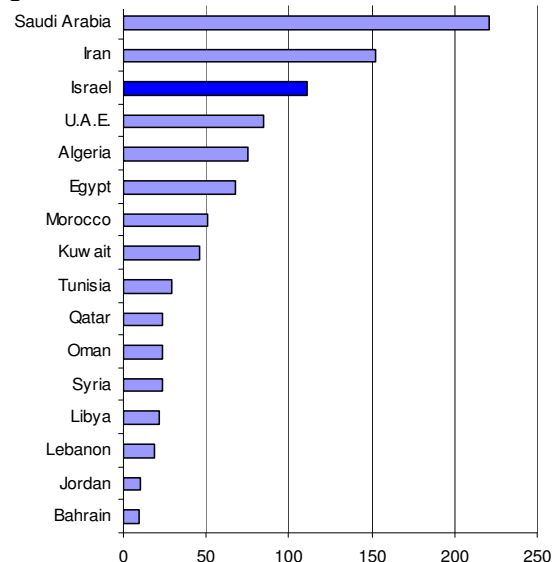
(Billion dollars and percentages)

World Rank	Exporters	Value	Share	World Rank	Imp.	Value	Share
20	Israel	12.2	0.9	20	Israel	11.6	0.9
21	Egypt	10.8	0.8	21	U.A.E.	11.4	0.9
29	Saudi Arabia	5.3	0.4	24	Saudi Arabia	7.9	0.6
32	Morocco	5.1	0.4	28	Egypt	6.0	0.5
Above 50	Tunisia	2.6	0.2	30	Kuwait	5.5	0.4
Above 50	Kuwait	1.6	0.1	Above 50	Morocco	2.4	0.2
Above 50	Jordan	1.5	0.1	Above 50	Jordan	1.5	0.1
Above 50	Bahrain	1.1	0.08	Above 50	Tunisia	1.4	0.1
				Above 50	Bahrain	0.9	0.06

Foreign trade plays a vital role in Israel in both absolute and per capita terms. Exports plus imports of goods and services stood at 97% of the GDP in 2005.

More importantly, trade comprised \$17,302 of per capita

Figure 10. Gross domestic product - 2004, US\$ bn



²⁵ MENA – Middle East & North Africa countries.

income in Israel, out of an average \$17,838 per capita in 2005. Israel is far more productive and far more integrated into the global market than its much larger neighbors in both absolute and per capita terms.

Figure 11. Gross domestic product per head - 2004, US\$

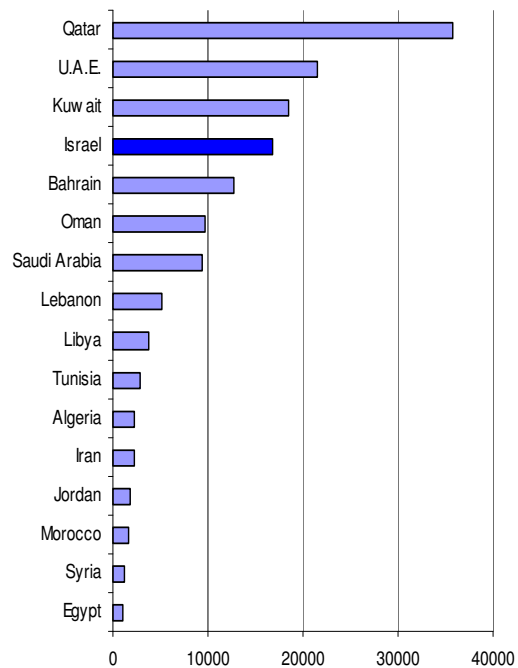


Table 5. MENA Business Environment Ranking

	Overall Ranking (out of 60 countries)		Value of the Index (scores out of 10)	
	1996-2000	2001-05	1996-2000	2001-05
Israel	25	24	6.75	7.63
Egypt	39	44	5.44	6.07
Saudi Arabia	40	42	5.43	6.13
Turkey	43	46	5.35	6.02
Algeria	57	57	4.02	5.07
Iran	60	60	3.24	4.16

Note: The index takes values from 0 to 10, where 0 denotes the worst performance and 10 denotes the best performance.

Source: EIU, Country Forecast Reports, 2001

The Economist Intelligence Unit's Business Environment Index measures the quality or attractiveness of the business environment in 60 countries, including six in the Middle East. Except for Israel, every MENA country lags behind most other countries in the world.

Chapter 1 Government Ministries:

1. Ministry of Finance:

The Ministry of Finance participates in the activities of three of the OECD's Directorates:

- ◆ Public Governance and Territorial Development Directorate;
- ◆ Directorate for Financial and Enterprises Affairs;
- ◆ Center for Tax Policy and Administration.

- International Department

Coordinates and manages Israel's activity with the Organization. Within this framework, the Department maintains ongoing contact with the Organization and coordinates the activity of government ministries and various authorities with the Organization. The International Department also coordinates the Inter-ministerial Steering Committee for Israel's Accession to the OECD, in which the issues discussed in 2005 included diplomatic preparation for Israel's entry into the Organization and the appropriate strategies, structural changes in the Organization and their consequences for Israel, Israel's various activities within the Organization, meeting reports, observers on new committees, and more. The International Department is also a member of the Legal Subcommittee on OECD issues.

- Budget Department

- **Working Party of Senior Budget Officials – SBO**

The Budget Supervisor participates in discussions of the Working Party of Senior Budget Officials once a year. The SBO is an international forum in which budget and public expenditure issues are discussed. The Work Group meetings are held at the level of

budget department's managers, with separate networks for specific components of the budget cycle:

- Network on Financial Management;
- Network of Parliamentary Budget Committee Chairpersons;
- Network on Organizational Structures;
- Network on Performance and Results.

The Working Party of Senior Budget Officials manages regional work plans as well as bilateral work plans with non-member states.

- **Capital Markets, Insurance & Savings Department**

- **Insurance and Private Pensions Committee (IPPC)**

On October 14, 2005, the OECD Council decided to invite Israel to participate in the Insurance and Private Pensions Committee as a regular observer until December 31, 2007.

- **Working Party on Private Pensions (WPPP)**

On October 14, 2005, the OECD Council decided to invite Israel to participate in the Working Party on Private Pensions as a regular observer until December 31, 2007.

- **OECD Conference on Catastrophic Risks and Insurance**

The Senior Deputy Head of the Capital Market, Insurance, and Savings Department participated in the conference, which was attended by representatives of insurance companies, governments, and academic institutions from OECD states, as well as representatives of emerging markets.

- **Task Force on Terrorism Insurance**

The Senior Deputy Head of the Capital Market, Insurance, and Savings Department and the Deputy Manager of the Property Tax

Department in the Tax Authority participated in a discussion on the subject of insurance against terrorism, and submitted two presentations, one concerning the Property Tax and Compensation Fund Law, and the other on Terrorism Damage Insurance in Israel.

- **Accountant General Department**

- **OECD Global Forum on Governance Fighting Corruption and Promoting Integrity in Public Procurement**

The Senior Deputy Accountant General and a representative of the Attorney General participated in the forum, which was attended by representatives of states, international organizations, the private sector, and NGOs, with the aim of formulating practical methods of increasing integrity in government expenditures.

The Accountant General Department's activity with the OECD enables receiving varied information about methods of preventing corruption in public purchasing and in the employment of personnel in government ministries. The exchange of information with the Organization and the benefit of the experience it has accumulated are useful to the Accountant General in formulating policy on this subject and ways in which the government may enter into contracts.

- **Working Party on Debt Management**

In late 2004, Israel was admitted as an ad-hoc observer to the Working Party on Public Debt Management. The Head of the Government Debt Management Unit is a member of the steering committee for the website, which is one of the world's leading virtual forums for subjects related to government debt management, including issuance, trading, clearing, risk management, derivative instruments, repo, and more. Investors and rating companies for the size, liquidity period and other characteristics of the public debt consider the website highly significant.

- **State Revenue Department and Israel Tax Authority**

- **OECD Global Forum on Taxation**

Representatives from the State Revenue Department and the International Taxation Unit of the Israel Tax Authority, participate in the annual OECD Global Forum on Taxation and in events at the OECD Centres in Budapest and Vienna.

2. Ministry of the Environment:

The Ministry of the Environment participates in the activities of two OECD's Directorates:

- ◆ Environment Directorate;
- ◆ Directorate for Financial and Enterprise Affairs.

- **Meeting of the OECD Environment Policy Committee at Ministerial Level**

In 2004, a representative of the Minister of the Environment (the Minister of the Interior), the Director-General of the Ministry of the Environment, and the Head of the International Relations Department participated in a conference for environmental ministers of OECD member states. Israel was invited to participate in the environment ministers' forum for the first time, following the active participation of Ministry of the Environment representatives in the Chemicals Committee.

Subjects discussed included:

1. Climate changes and energy;
2. Globalization;
3. Trade and environment;

4. Development of technology to cope with environmental challenges.

It was agreed that Israel will increase its activity in the Organization at the professional level, and will continue to examine, adopt, and implement the Organization's decisions and directives on environmental matters that pertain to Israel.

- **Hazardous Substances Department**

- **Working Party on Chemicals, Pesticides and Biotechnology**

The Head of the Hazardous Substances Department participated in the 36th and 37th meetings of the Working Party on Chemicals and Pesticides.

- **Solid Waste Department**

- **Observer in a sub-group of the Working Party on National Environmental Policies of the Environment Policy (Committee Group on Waste Prevention and Recycling)**

The Head of the Solid Waste Department participated in a meeting of the subcommittee for the first time in February 2005.

- **Economics and Regulation Department**

- **Working Party on the OECD Declaration on International Investment and Multinational Enterprises**

In 2004, the Supervisor of Environmental Economy participated in meetings of environmental experts on the topic of "Environmental Components of Guidelines for International Enterprises". OECD guidelines for international enterprises are part of the OECD Declaration on International Investment and Multinational

Enterprises, which Israel has signed. The objective of the guidelines is to encourage responsible behavior by national and multi-national corporations, including voluntary environmental reporting, with the goal of “*contributing to economic, social and environmental progress, aimed at attaining sustainable development...*” (from the OECD guidelines for international enterprises).

3. Ministry of Foreign Affairs:

The Ministry of Foreign Affairs has led the efforts on the diplomatic level towards Israel’s future accession to the OECD and its ongoing integration into the Organization’s various activities, through the deployment of Israel’s representatives abroad assigned to the member states. The Ministry has also held meetings in Israel with representatives of foreign embassies, and raised the subject in meetings with official visitors to Israel.

On March 15, 2004, the Minister of Foreign Affairs and the Minister of Finance issued a joint letter to their colleagues in OECD member states, with a copy to the Organization’s Secretary-General, in which they stated the importance attached by Israel to joining the OECD as a full member, and a request to support its candidacy.

Meetings were also held between representatives of Israel and non-member states which are likely to join the Organization in the future.

Activities with the Organization’s Secretariat in Paris and the embassies accredited to the OECD were coordinated by the embassy’s Counselor for Economic Affairs. This activity includes monitoring the Organization’s work, holding meetings, and coordinating the activity of Israeli participants in the Organization’s bodies.

The Ministry of Foreign Affairs is a member of the Inter-ministerial Steering Committee for Israel’s Accession to the OECD and a member of the legal sub-committee on OECD issues.

4. Ministry of Education, Culture & Sport:

The Ministry of Education participates in the OECD's Directorate for Education.

- **Meeting of the OECD Education Committee at Ministerial Level – Raising the Quality of Learning for All**

The Minister of Education, Culture, and Sport participated in a conference held in Dublin.

The ministers' conference focused on the following areas:

1. Raising students' level of performance;
2. Improving teachers' quality and efficiency;
3. Democracy education;
4. Social education and cohesion.

- **Development Administration**

- **PEB: Program on Educational Building**

The Head of the Development Administration of the Ministry of Education participated in a conference in Canada, organized by the OECD's PEB program and the Canadian Ministry of Education, on the topics of planning, construction, maintenance, and management of educational institutions worldwide, using information and communications technologies.

- **Education Workers Training Department**

- **Education Committee**

The Head of the Education Workers Training Department participated in a conference organized by the OECD's Education Committee on the topic, *"Teachers Matter: Attracting, Developing and Retaining Effective Teachers"*. The conference was attended by

representatives of the twenty five states that participated in a joint study of material problems in teaching.

A lecturer from The Hebrew University of Jerusalem spoke on the topic, "Student Achievement, Resources, and Teachers' Incentives: What are the Policy Lessons?"

- **Society and Youth Administration**

- **CERI: Centre for Educational Research and Innovation**

The Head of the Youth Advancement Section in the Society and Youth Administration participated in an event held by CERI on Promoting Partnership for Inclusion.

- **Economics and Budgeting Administration**

- **INES: Indicators of Education Systems Technical Group**

The Head of the Economics and Statistics Section participated in two meetings of the professional group on indicators in the educational system – the first in Stockholm (with the CBS and PBC representatives), and the second in Ankara.

The group meets twice a year, and in each session it discusses the development of new indicators and the improvement of existing measures.

The goals of the Israeli representatives' participation in the technical group's meetings were:

1. To broaden Israel's participation in editions of the OECD's "Education at a Glance";
2. To broaden the areas of comparison between Israel and other states in the subjects of the educational indicators.

5. Ministry of Agriculture and Rural Development:

The Ministry of Agriculture and Rural Development participates in the activities of the Directorate for Food, Agriculture and Fisheries.

- **Plant Protection and Inspection Services**
 - **Annual Meeting of Representatives of the National Designated Authorities for the Implementation of the OECD Schemes for the Varietal Certification of Seed Moving in International Trade**

The Supervisor of Propagation Materials in the Plant Protection and Inspection Services participated in a meeting held in September 2004, at which the issue of setting standards for seeds was discussed, with an emphasis on hybrid cotton seeds.

Most of the developed countries permit trade only in high-quality seeds grown according to an agreed protocol and supervised during their production and growth period. Israel is one of the only countries that produces hybrid cotton seeds intended for export. In 2000, the Supervisor of Propagation Materials at the Plant Protection Services Administration, Mr. Raul Kleinerman, initiated a discussion on the topic of **seed regulations in international trade**, at the **annual meeting of representatives of national authorities for implementation of the OECD plan**, in order to establish standards for trade in hybrid cotton seeds. As a result, new standards for the production of cotton seeds were established in 2003, which also include regulations for the production of hybrid seeds (OECD Seed Schemes). The regulations established within the framework of the OECD were adopted and included in the European Union legislation (Commission Directive 2003/45/EC on the marketing of seed of oil and fiber plants).

- **Plenary Meeting of the OECD Scheme for the Application of the International Standards for Fruit and Vegetables**

The Plant Protection and Inspection Service's representative participated in a meeting of the plenum in October 2004, at which the issue of quality standards for fruits and vegetables was discussed.

- **On July 4-9, 2005, Israel's representative participated as National Expert in the OECD Evaluation Mission in Albania.**

6. Ministry of Science & Technology:

The Ministry of Science and Technology participates in the activities of the OECD's Directorate for Science, Technology and Industry.

- **Meeting of the OECD Committee for Scientific and Technological Policy at Ministerial Level**

The Director-General of the Ministry of Science and Technology participated in the annual conference held in January in Paris.

The conference focused on the following topics:

1. Improving relations between public and private research;
2. Means to ensure scientists' training, development, and mobility;
3. Science and technology's coping with global challenges, including safety and security.

At the conclusion of the conference, Israel adopted two declarations:

- ◇ Declaration on Access to Research Data from Public Funding;
- ◇ Declaration on International Science and Technology Co-operation for Sustainable Development.

- **Committee for Scientific and Technological Policy**

The Director-General of the Ministry of Science and Technology participated, with the status of an observer, in the discussions of the Committee for Scientific and Technological Policy.

- **Ad Hoc Working Group "Steering and Funding of Research Institutions"**

Israel is a member, with the status of an observer, of the SFRI.

7. Ministry of Transport:

The Ministry of Transport participates in the activities of the OECD's Directorate for Science, Technology and Industry.

- **Administration of Shipping and Ports**

- **OECD Workshop on Maritime Transport**

The Head of the Administration of Shipping and Ports participated in the annual workshop of the Maritime & Transport Committee in November.

8. Ministry of Industry, Trade & Labor:

The Ministry of Industry, Trade & Labor participates in the activities of the following three OECD's Directorates:

- ◆ Directorate for Financial and Enterprise Affairs;
- ◆ Directorate for Science, Technology and Industry;
- ◆ Environment Directorate;
- ◆ Trade Directorate.

- **Foreign Trade Administration**

- **Trade Committee**

In December 2004, Israel has become an ad hoc observer at the Trade Committee, enabling it to take part in certain meetings upon invitation.

- **Working Party of the Investment Committee**²⁶

The NCP (National Contact Point) was established in May 2004, in the Foreign Trade Administration, in accordance with Israel's commitment to the OECD Declaration on International Investment and Multinational Enterprises.

A website has been constructed for the NCP, which posts relevant information in Hebrew and English. The website can also be reached via links from the websites of the Manufacturers' Association of Israel and the Investment Promotion Center. Letters were sent and meetings were held with the Manufacturers' Association of Israel, the Israel Consumer Council, IFTRIC, and the Federation of Israeli Chambers of Commerce, with the aim that these organizations should disseminate information concerning the NCP.

The **National Contact Point** (NCP) is responsible for disseminating the OECD's guidelines, their absorption by the business community, and their implementation in Israel. The NCP is to handle questions and converse with those interested in all areas covered by the guidelines agreed upon by the OECD.

The **guidelines** and the OECD Declaration on International Investment and Multinational Enterprises were first released by OECD members in 1976. They comprise a voluntary framework of "good behavior principles" for multinational corporations. The guidelines include recommendations by governments aimed at helping multinational businesses operate harmoniously with the policy in effect within their borders, subject to common principles of social responsibility. The principles are non-legislative and integrate a broad range of business and ethical topics, including employment, industrial relations, environment, disclosure, financing, competition, and more.

²⁶ On September 20, 2004, the Working Party of the Investment Committee was established, replacing the Working Party on the OECD Declaration on International Investment and Multinational Enterprises.

- **Financing Administration**

- **Working Party on SMEs & Entrepreneurship**

The Deputy Director-General of the Ministry of Industry, Trade, and Labor and Head of the Financing Administration represented Israel at the Working Party on SMEs & Entrepreneurship, at the following meetings:

- ◇ A ministers' conference held in Istanbul in June 2004. The conference discussed two main topics: entrepreneurship and innovation. Israel's success in attracting venture capital fund investments was presented at the conference.
- ◇ A series of discussions to draw conclusions from the ministers' meetings, in December 2004. Participants were asked to prepare a profile of small and medium-sized businesses in their countries. The Israeli profile was submitted to the OECD in early 2005.
- ◇ In 2005, Israel's representative participated in the 25th and 26th sessions of W.P. on SMEs and Entrepreneurship discussing the following topics: Enhancing the Role of SMEs in Global Value Chains, Removing Barriers to SME Access to International Markets and has submitted two questionnaires on Bankruptcy and on Entrepreneurship Education at Higher Educational Institutions.

- **Planning, Research, and Economics Administration**

- **Committee on Industry and Business Environment**

The Ministry of Industry, Trade, and Labor initiated a statistical survey of the biotechnology industry in Israel, within the framework

of the Special Subcommittee on Biotechnology Surveys, which is a joint subcommittee of the Committee on Industry and Business Environment and the OECD Committee on Research and Development. The survey was conducted while learning and adopting OECD criteria. The survey's findings on behalf of Israel were released as an official publication of the OECD, under the title, "Biotechnology Statistics Israel".

- **Chief Scientist**

- **TIP: Working Party on Innovation and Technology Policy**

The Head of MAGNET (Generic Technological R&D) participated in a workshop held in Oslo, titled, "Workshop on Innovation Policy Benchmarking". He was invited to speak on Israel's policy in enhancing the science-industry relationship (the transfer of technologies from academic settings to the industry).

The MAGNET Program: Generic Technological R&D – the framework for aid provided by the Chief Scientist Office in the Ministry of Industry, Trade, and Labor, which handles the technological infrastructure for Israeli industry, operating since 1994.

The MAGNET program is unique as an instrument for efficient, purposive utilization of national resources allocated to industrial research and development. This advantage is achieved through genuine collaboration among industrial companies, and between these companies and research institutions, in R&D of pre-competitive technologies and their absorption.

- **Israel Laboratory Accreditation Authority**

- **WGGLP: Working Group on Good Laboratory Practice**

An accreditation test was conducted in 2004 by representatives of OECD states at the Israel Laboratory Accreditation Authority. The test was conducted following a presentation of the Israeli

accreditation system, and participation in work groups and GLP tests in Europe and the United States. At its conclusion, a meeting was held with industrialists and representatives of research facilities, with the aim of expanding GLP activity in Israel and training OECD states at Israel's research facilities.

The Head of the Strategic Customers and GLP Division participated in the meeting of the work group, held in Paris in May 2004.

In December 2004, the Minister of Industry, Trade, and Labor received notification from the Secretary-General of the OECD about Israel's admission to the following activities:

- **MAD: OECD System for Mutual Acceptance of Chemicals Safety Data** - Within the work of the Chemicals Committee of the OECD and WGLLP, in which Israel will participate, with the status of an observer and a full member, respectively;

- **Compliance with principles of good laboratory practice**
Within WGLLP.

9. Ministry of Tourism:

- **OECD Conference on "Global Tourism Growth: Challenges for SMEs"**

On September 6-7, 2005, Mr. Ho Kyoung Park, Director of the Israel Government Tourist Office in Korea, participated in the OECD Conference held in Gwangju (Korea).

10. Ministry of Communications:

The Ministry of Communications participates in the activities of the OECD's Directorate for Science, Technology and Industry.

- **Director-General's Office**

- **OECD Workshop on Developing Broadband Access in Rural and Remote Areas**

The Director-General of the Ministry was invited to speak on the subject of "The Development of Broadband Infrastructures in Israel" during the workshop held in Portugal in October 2004.

- **Economics and Budget Department**

- **Committee for Information, Computer and Communications Policy**

Since July 1996, Israel has been an active member of the ICCP and its working parties. Israel's representatives participate effectively and actively in the debates and activities of the Committee and provide quantitative and qualitative data which member countries are regularly invited to communicate.

- **Working Party on Telecommunication and Information Services Policies**

Israel has been an active member of the TISP where it has enthusiastically participated in workshops. Israel has contributed to the Outreach strategy of the ICCP mainly through TISP activities where through its participation Israel has "increased acceptance of coherent policy frameworks" [DSTI/ICCP(2005)13] especially in the telecommunications area.

Israel has been cooperative in adhering to requests for data and adopting WPIIS methodological standards (e.g. definition of ICT).

11. Ministry of National Infrastructures:

The Ministry of National Infrastructures is a signatory to three agreements with the International Energy Agency (IEA) for cooperation in research and development.

- **SolarPACES** – Solar Power and Chemical Energy Systems – focuses on the utilization of direct radiation from the sun in concentrating thermal systems. Israel officially joined in 1993. The representative institution is the Weizmann Institute of Science. Mr. Michael Epstein serves as Deputy Chairman of the program.
- **PVPS** – Photovoltaic Power Systems – engages in planning, setup, operation, and promotion of photovoltaic electrical systems (solar cells). Twenty states and the European Union are currently participants in the program. Israel was admitted to the program in 1994, due to its reputation in the field of solar energy. The program began in 1993, and in 1998, following an examination, the IEA decided to extend it by five additional years.
- **HTS** – High Temperature Superconductivity – provides a forum for the exchange of information and joint evaluation of the effects of developments in the field of high-temperature superconductivity on the electricity sector. Israel joined the program in 1993. There are several centers in Israel that excel in research in this area, some of which have ties with the industry. Professor Guy Deutscher of Tel-Aviv University serves as Chairman of the managing committee.

Chapter 2 Authorities and Institutions:

1. Bank of Israel

The Bank of Israel participates in the activities of the OECD's Directorate for Financial and Enterprise Affairs.

- **Working Party of the Investment Committee**

The Working Party of the Investment Committee assists in the interpretation and implementation of the OECD Declaration on International Investment and Multilateral Enterprises and the OECD's Code of Liberalization of Capital Movements.

- **Workshop on International Investment Statistics of the OECD Investment Committee**

During the workshop, issues were raised concerning the definition of direct investments, and proposals by a joint group of experts of the IMF and the OECD were adopted.

- **Working Party on Financial Statistics**

The Head of the Department for Economic Activity in Foreign Currency, participated in the discussions of the work group, to which the Bank of Israel was admitted with the status of ad-hoc observer.

Since 2003, the W.P. on Financial Statistics has held its meetings jointly with the Group of Experts on National Accounting. Experts from the Bank of Israel and the Central Bureau of Statistics participate in the work group's discussions.

Israel's participation contributes extensively to the establishment of international standards and to the implementation of these standards in the Israeli economy.

2. Israel Antitrust Authority

The Israel Antitrust Authority participates in the activities of the OECD's Directorate for Financial and Enterprise Affairs.

- **Fourth OECD Global Forum on Competition**

In February 2004, the Chief Economist participated in the Global Forum.

- **Competition Committee roundtable discussion**

In June 2004, representatives of the Authority participated in discussions of the Competition Committee, on the subject of impairment of market competitiveness by the public sector. During the discussions, a work paper was presented on the subject, "Regulating Market Activities by the Public Sector". The paper reviews two examples of application of the Restrictive Trade Practices Law to government-owned companies, and the involvement of the Antitrust Authority in privatization processes in the economy.

- **Competition Committee**

An annual report was presented on developments in competition policy in Israel: The Annual Report on Competition Policy Developments in Israel – 2004. The report reviews the activities of the Authority and the courts in Israel in the area of restrictive trade practices, and provides a view of the restrictive trade practices field in Israel.

3. Central Bureau of Statistics (CBS)

The CBS has participated in OECD's activities since 1995, through the work of four of the Organization's Directorates:

- ◆ Directorate for Science, Technology and Industry;
- ◆ Directorate for Education;
- ◆ Development Co-operation;
- ◆ Statistics Directorate.

The CBS routinely provides statistics to the first three Directorates listed above, and Israel's data are included in official OECD publications. Israel's data is not yet included in publications of the OECD's Statistics Directorate, with the exception of comparisons of purchasing power.

Thus far, Israel's status as an observer in the OECD Statistics Directorate has not been formally defined, and CBS representatives are only invited to meetings because Israel is a member of the UN/ECE. Israel is often invited to participate in work groups due to CBS representatives' professional knowledge on various subjects. The Statistics Directorate has initiated a work plan to coordinate statistical activities which are distributed throughout the Organization's Directorates. In April 2004, the Committee on Statistics (CSTAT), to which the Central Bureau of Statistics has applied to be formally admitted, was established.

- **Macro-Economics Department**

- **Working Party on National Accounts – WPNA**

- The Head of the Macro-Economics Department participates in the annual meeting of the Working Party on National Accounts, which is subordinates to the Statistics Committee and operates under fixed regulations.

- **The Canberra II International Working Party on Assets in National Accounts**

The National Account Department in the OECD's Statistics Directorate operates several international Working Parties. Since 2002, Israel has been a member of the Canberra II International Working Party, which handles the subject of assets in national accounts. This Work Party performs most of the preparatory work for updates of the international guidebook on national accounting (the System of National Account – SNA93), due for release in 2008. Israel's main contribution is in the area of research and development in national accounts. CBS representatives were invited, together with a representative of the R&D office of the OECD, to prepare the discussions on R&D within the Canberra II group, with the aim of considering recording R&D as an asset. Over the last three years, the CBS has prepared a large number of articles and papers in order to advance work in this area.

- **The Bi-Annual Joint Conference on National Accounts of the OECD, the ECE, and the Eurostat**

The conference discussed various methodological improvements, and the update of the international guidebook SNA93.

During the national accounts conference, Israel joined two additional work groups:

1. Task Force on Harmonization of Public Sector Accounting;
2. Task Force Meeting on Financial Services.

- **Working Party of National Experts on Science and Technology Indicators**

At the conference, an article by the CBS was presented, on conclusions of the first attempt at conciliation between R&D statistics and national accounts, as well as recommendations for required changes in order to allow the preparation of R&D supply and demand charts, as required in national accounts. In addition, an article was presented at the conference, prepared by the CBS together with the secretariat of the Directorate for Science, Technology, and Industry, on the benefits of coordination between the R&D statistics system and the national accounts system.

Since 1998, the CBS has reported to the OECD on national expenditures for research and development, and the data are included in the Organization's database. Since 2002, the OECD has also started to include Israel's data in the publication, "Main Scientific Indicators".

In 2002, Israel was invited to serve as the leading state in the Working Party on R&D and national accounts (SNA-R&D).

Israel is the only state which has prepared R&D statistics within the framework of national accounts for many years, and is thoroughly familiar with both systems.

- **Official Development Assistance – ODA**

Each year, CBS reports to the Development Assistance Committee (DAC) of the OECD on the assistance granted by Israel to developing countries. Since 2002, Israel's data is included in OECD publications on this subject with the Deputy Head of the Macro-Economic Department as its contact person.

- **6th OECD International Trade Statistics Expert Meeting (ITS)**

In September 2005, CBS representatives participated for the first time in the meeting that was held in Paris.

- **OECD-Eurostat Meeting of Experts in Trade in Services Statistics (TIS)**

In September 2005, CBS representatives participated for the first time in the meeting that was held in Paris.

- **Business-Economics Department**

- **The Fifth Ad Hoc Biotechnology Statistics Meeting**

The Head of the Industry Section participated in a meeting of the work group on biotechnology statistics held in France, in May, 2004. Israel was one of the first states to carry out a survey on biotechnology. The survey was concluded in early 2004, and its findings were sent to the OECD.

- **Balance of Payments Section**

- **Working Party on Statistics – SWIC**

In November 2004, a representative of the CBS participated in a seminar held in Paris on the subject, "Measuring Globalization", at which several measures of globalization were identified, including indicators of:

- ◇ Direct investments and activities by multi-national corporations;
- ◇ Internationalization of technology;
- ◇ Impacts of multi-national corporations on international trade.

A review of the globalization survey carried out by the CBS during 2004 was submitted. A summary of this survey was published in the Handbook on Economic Globalization Indicators.

- **Consumer Prices Department**

- **Eurostat-OECD PPP Programme**

Since 1996, Israel has participated in the international project on product and price comparison, since the OECD collaborates with the UN-ECE on this project. In the project, ongoing data are collected, and a full comparison of the entire product basket is carried out among all the countries every three years. Findings of the full comparison for 2002 were published in January 2005. The CBS regularly participates in work meetings of the OECD with the North American states, Australia, and New Zealand. Data supplied by the CBS usually comply with the OECD's requirements.

- **Education Department**

- **Indicators of Education Systems Technical Group**

The Education Department participates in the routine activities of INES, as well as in one-time activities related to various aspects of education system (pre-primary and primary education, lower and upper secondary education, post secondary education and tertiary education). This activity is carried out jointly with the Planning and Budgeting Committee of the Council of Higher Education and the Economics and Statistics Section of the Ministry of Education, Culture, and Sports.

As of the year 2006, Israel is a full participant in Indicators of Education Systems (INES)

4. Council for Higher Education

The Council for Higher Education participates in the activities of the OECD's Directorate for Education.

- **Planning & Budgeting Committee (PBC)**

- **Indicators of Education Systems Technical Group – INES**

Since 1996, a representative of the Planning and Budgeting Committee of the Council for Higher Education has participated in INES discussions, with the status of an observer.

- **Institutional Management in Higher Education Governing Board – IMHE**

Since 2002, a representative of the Planning and Budgeting Committee has participated, with the status of an observer, in discussions of the Institution Management Governing Board, which convenes biannually in Paris.

Annex I

Bodies/Groups sorted by Member

1. Chemicals Committee
2. Plenary Meeting of the OECD Scheme for the Application of International Standards for Fruit and Vegetables
3. Programme for International Student Assessment Governing Board (PISA)
4. Scheme for Cereals
5. Scheme for Crucifer Seed and other Oil or Fiber Species
6. Scheme for Grass and Legume Seed
7. Scheme for Maize and Sorghum
8. Scheme for Vegetables
9. Working Group of National Co-ordinators of the Test Guidelines Programme (WNT)
10. Working Group on Good Laboratory Practice (WGGLP)
11. Working Party of the Investment Committee
12. Working Party on Chemicals, Pesticides and Biotechnology
13. Working Group on Indicators of Education System (INES)

Annex II

Bodies/Groups sorted by Observer

1. Ad Hoc Working Group on Steering and Funding of Research Institutions
2. Centre for Educational Research and Innovation Governing Board (CERI)
3. Chemicals Committee
4. Committee for Information, Computer and Communications Policy
5. Committee for Scientific and Technological Policy
6. Committee on Industry and Business Environment
7. Competition Committee
8. Education Committee
9. Institutional Management in Higher Education Governing Board (IMHE)
10. Insurance and Private Pensions Committee (IPPC)
11. Network of Parliamentary Budget Committee Chairpersons
12. Network on Financial Management
13. Network on Organisational Structures
14. Network on Performance and Results
15. OECD Global Science Forum
16. Task Force on Biological Resource Centres
17. Task Force on Biotechnology for Sustainable Industrial Development
18. Task Force on Spam
19. Working Group on Human-Health-Related Biotechnologies
20. Working Group on Pesticides
21. Working Party No. 2 on Competition and Regulation (COMPWP2)
22. Working Party No. 3 on Co-operation and Enforcement (COMPWP3)
23. Working Party of National Experts on Science and Technology Indicators (NESTI)

24. Working Party of Senior Budget Officials (SBO)
25. Working Party on Biotechnology
26. Working Party on Chemicals, Pesticides and Biotechnology
27. Working Party on Indicators for the Information Society (WPIIS)
28. Working Party on Information Security and Privacy (WPISP)
29. Working Party on Innovation and Technology Policy
30. Working Party on SMEs and Entrepreneurship
31. Working Party on Statistics (SWIC)
32. Working Party on Private Pensions (WPPP)
33. Working Party on Telecommunication and Information Services Policies (WPTISP)
34. Working Party on the Information Economy (WPIE)

Annex III

Bodies/Groups sorted by Ad hoc Observer

1. Trade Committee
2. Working Party on Debt Management
3. Working Party on Financial Statistics