



THE EU-ISRAEL FORUM

Summary and Report

of the

Annual International Conference

**The European Union and Israel:
From Commonalities to Partnership-Building**

14-15 September 2003, Stresa, Italy

Executive Summary

The EU-Israel Forum held its annual international conference, with Promos, the special agency of the Milan Chamber of Commerce for International Activities, at Stresa, Italy at September 14th-15th, 2003.

The conference addressed the relations of the European Union and Israel from commonalities to partnership building through discussing four main themes:

- Europe and Israel's common heritage as building blocks of the relationship;
- Role of instrumentalities : Furthering economic and technological cooperation;
- Political and diplomatic hindrances and interests;
- Future of EU-Israel relations.

Participants in the conference represented a wide span of influential European and Israeli officials in their private capacity, academia, business people and public figures.

The conference was opened by **Mr. Shlomo Gur**, Executive Secretary of the EU-Israel Forum and was followed with the greetings of **Lord George Widenfeld**, Vice President of the EU-Israel Forum, **Dr. Sandro Bicocchi**, Vice President of Promos, **Mr. Ivan Guarducci**, President of the County of Verbano Cusio Ossola, and was followed by dinner and opening remarks of **H.E. Mr. Ehud Gol**, Ambassador of Israel to Italy.

The four sessions dedicated to the conference theme, begun the next day with greetings by **Mr. Bruno Ermolli**, President of Promos, and **Senator Alfredo**

Mantica, Under Secretary of State at the Italian Ministry of Foreign Affairs. The sessions highlighted the following topics:

Session I: Europe and Israel's Common Heritage as Building Blocks of the Relationship

Chair : M.K. Ambassador Colette Avital, Chairperson, Knesset Committee on Immigration, Absorption, and the Diaspora ; Member of the Board, EU-Israel Forum (Israel)

Speakers :

Senator Alfredo Mantica, Under-Secretary of State, Ministry of Foreign Affairs (Italy)

Mr. Bruno Ermolli, President of Promos, Milan Chamber of Commerce (Italy)

Mr. Theo Klein, Advocate, Former President of CRIF (France)

Ambassador Prof. Elie Barnavi, Tel Aviv University ; Member of the Board, EU-Israel Forum (Israel)

■ The peoples of Europe and Israel share common Judeo-Christian heritage and culture, founded on values and principles such as monotheism, universalism, freedom, justice, humanism, the rule of law and democracy. This common heritage and past were shaped during history in an ongoing dialectical process, which was at times positive and fruitful, but also had horrific and negative periods.

■ Israelis and Europeans can positively build on their common heritage on two levels. On the first level, sharing their past and contemporary experiences can lead to progress and development. Israel for an

example, can learn from the European experience of reaching beyond violence and border disputes through sincere dialogue, and consider its adaptation to the regional Mediterranean reality. On the second level, Jews and Europeans can overcome the sediments of the past, as well as current resentments and negative attitudes, by applying their shared history and heritage as building blocks for mutual social and cultural trust, that can be facilitated through civil society, NGOs, academia, etc.,

Session II: The Role of Instrumentalities: Furthering Economic and Technological Cooperation

Chair :Dr. Orna Berry, Venture Partner, Gemini Capital Fund ; Member of the Board, EU-Israel Forum (Israel)

Speakers :

Prof. Avishay Braverman, President, Ben Gurion University of the Negev (Israel)

Mr. Zeevi Bregman, CEO, Comverse (Israel)

Mr. Alfonso Gutierrez, Project Director, Finland Software City, Technopolis Innopoli (Finland)

Ing. Antonio Emmanuelli, President, SMAU (Italy)

Ing. Paola Carrea, Director, FIAT Research Centre (Italy)

Mr. Sachi Gerlits, Partner, APAX (Israel)

■ The technological dimension of the relations, which is only a part of a wide span of economic and commercial relations and possible benefits, was the focus of discussions.

- ❏ Cooperation in the field of technology and innovation is not only natural and possible, for Europe and Israel, it also vital against the high competitiveness that prevails on the global scene. Creation of strategic alliances between Israeli and European companies can help meeting global market's conditions and bring local industry to global competitiveness, as well as attract foreign investment.
- ❏ Europe and Israel can benefit from creating strategic alliances for various reasons. First, Europe can benefit from Israel's successful experience in global competitiveness, which is the result of its high entrepreneurial spirit, share of scientists and engineers in its population, presence of multinational enterprises and other aspects of supporting technological, economical and educational variables. Secondly, Europe is Israel's biggest trading partner and the latter depends on the former for exports and imports. A country with a small market, like Israel, needs to penetrate large markets, such as that of the European Union. Europe and Israel can also leverage their potential in other markets, and in particular in the US, by creating strategic alliances, which will enhance their unique advantages in R&D, innovation and marketing as well as to stimulate employment.
- ❏ Learning from success stories of collaboration between Israeli and European companies can serve as a tool in fostering deeper relations. Comverse, Finland Software City initiative, Centro Ricerche Fiat and APAX, were demonstrated as positive examples of cooperation in various fields, such as R&D, technology and venture capital.

■ The important correlation between demography and technology in economic development was highlighted as well. Demographic dynamics in Israel, dominated by expanding birthrate of Jewish Ultra Orthodox and Muslims, can result in the year 2040 in a population of 20 million people. In order to overcome these dynamics, Europe and Israel should place an emphasis on the two most influential variables of demography: economic income and women's education. In order to achieve it, Israel on its account, should achieve peace with the Palestinians, and simultaneously incentivise and invest in infrastructure building. Europe should support these activities by helping Israel to further tie its small and open economy to Europe's economy.

Session III: Political and Diplomatic Hindrances and Interests

Chair :Ambassador Joachim Bitterlich, Executive Vice-President, International Affairs, Veolia Environment (Germany)

Speakers :

On. Gustave Selva, President of Foreign and European Community Affairs, Chamber of Deputies (Italy)

Dr. Yossi Beilin, Former Minister of Justice ; Senior Adviser, Economic Cooperation Foundation (Israel)

Dr. Uzi Arad, Director, Institute for Policy and Strategy, Interdisciplinary Center Herzliya ; Member of the Board, EU-Israel Forum (Israel)

Prof. Alexandre Defay, Prof. Agrégé Hors Classe, Enseignant-chercheur à l'Ecole Normale Supérieure (France)

*H.E. Mr. Marc Otte, Ambassador, European Union Special Representative
to the Middle East Peace Process*

- ✚ The session dealt with increasing mutual understanding of respective European and Israeli positions, as well as considered new and improved avenues for overcoming political hindrances and differences.
- ✚ It was suggested that Europe can play an important and active role in the Israeli-Arab Peace Process. Europe's role should not substitute that of the US, but rather complete it. As the US is involved brokering the bilateral track, the European Union can lead the multilateral negotiations in areas such as economics, trade, water and regional disarmament.
- ✚ On the other hand, it was suggested that the European Union cannot play a decisive role in the Peace Process, since it is not able at arriving in common positions regarding crucial Middle East issues. This creates a paradox in which, when the Mediterranean conflict needs Europe at its most, it is unable to reach a hand to help.
- ✚ From a dynamic analysis, there is a window of opportunities for political cooperation between Israel and the European Union. Understanding that the Common Foreign and Security Policy is not the developing of a single foreign policy, but is about safeguarding common interests, is vital in order to see that the European Union is moving closer to sharing interests with Israel, in a changing world. In the aftermath of September 11th, it is in the European Union's interest to cooperate in fields of counter-terrorism and fight against non-conventional weapons and arms of mass destruction.

Session IV: The Future of EU-Israel Relations

Chair :Ambassador Dr. Anita Gradin, Chair of the Sweden-Israel Chamber of Commerce and Former Minister of International Trade and European Affairs (Sweden)

Speakers :

H.E. Dr. Oded Eran, Ambassador of Israel to the European Union (Israel)

Dr. Stefano Sannino, Cabinet Minister (G7/G8 Sherpa, External Relations, External Trade, Security and Defence), Office of the President of the European Commission

On. Marco Pannella, Member of the European Parliament Delegation for Relations with Israel (Italy)

Prof. Rafi Melnick, The Interdisciplinary Center Herzliya (Israel)

- The concluding session, drawing on previous sessions' discussions, portrayed the main deterrents of future relations and the different forms they can take.
- Upgrading of relations and allowing cooperation and dialogue in areas not covered by the current agreement or the actual mode of bilateral relation, by building on the Wider Europe initiative, was seen as the best alternative for future relations. Such a framework, of sharing everything but institutions, can meet the various interests of both the European Union and Israel. Although it was suggested that Israel will be integrated in the European Union as a full member, it was mostly agreed that neither full membership nor maintaining the current framework of relations, is either feasible or desirable.

- It was proposed that joining the European Monetary Union, had the possibility arise will benefit Israel. Based on the theory of Optimal Currency Areas, it was argued that Israel, as a small and open economy, will suffer from monetary and economic instability and asymmetric shocks, in a world that will be shaped by three major currency blocs of the Euro, Dollar and Yen. Joining the European Monetary Union will also benefit Israel in fiscal consolidation, through the Maastricht criteria.

The Conference ended in a dinner where the participants were greeted by **Mr. Michael Federmann**, Vice President of the EU-Israel Forum, **Mr. Giuseppe Moroni**, President of the Verbano Cusio Ossola Chamber of Commerce, and **Arch. Giorgio Diverio**, Mayor of the county of Stresa. **H.E. Mr. Giancarlo Chevallard**, Ambassador and Head of the delegation of the European Commission to Israel, gave his concluding remarks.

Summary Notes

Session I: Europe and Israel's Common Heritage as Building Blocks of the Relationship

The session chaired by MK Ambassador *Colette Avital* addressed the common heritage of Israel and Europe and its potential contemporary role. The aim of the session was to seek and define common values and heritage, which can serve as a foundation for future relations. Opening the session were Senator *Alfredo Mantica*, Under Secretary of State at the Italian Ministry of Foreign Affairs, and Mr. *Bruno Emolli*, President of Promos at the Milan Chamber of Commerce.

Senator Mantica emphasized the special relations between Europe and the State of Israel which are based upon common heritage and culture. These commonalities are the cornerstone for the creation of a prospering Mediterranean area, to which Europe is committed economically, commercially and socially. Italy proudly sees its hosting the next European Mediterranean Partnership (EMP) meeting in Naples, as Presidency of the European Union and wishes to strengthen Europe's strategic, as well as bilateral ties with Israel. Mantica had also pointed out the Italian Presidency's efforts to foster peace throughout the Mediterranean region, and to fight against terror. Bruno Emolli highlighted the selection of the common heritage issue as the first topic of the discussions, shows the deepness of the ties and the key role it plays as a cornerstone for the relations between Israel and Europe, which builds upon the economy, joint ventures and mutual trade layers. Despite the intensification of the commercial and cultural relations between Italy and Israel, realizing the full potential is only at its beginning stages and much can be done through regional and intra-

regional agreements, conferences, establishment of bilateral funds dedicated for Italian-Israeli joint ventures, promotion of Small and Medium Enterprises (SMEs), utilization of the European Investment Bank (EIB) and other multilateral institutions, as well as bilateral peer study. The European integration project has a symbiotic relationship with Israel. The possibility of European failure to integrate will reflect on the Mediterranean basin as a whole, while on the other hand the European project will not be complete without incorporating Israel.

■ ***MK Ambassador Colette Avital*** talked about the ups and downs of the relationships between Europe and Israel, which resulted from a lack of dialogue. She pointed out that in the beginning these relationships were based on solidarity and sympathy for the newly established state, however later these feelings were changed. Avital stressed that despite the sediments of the Jewish past in Europe, both peoples should build upon their common Judeo-Christian heritage, which is founded on the rule of law, democracy and humanism. Shaping modern Europe was done heel to toe with the Jewish culture. The launching of Wider Europe Initiative, based on geographical proximity and cultural criteria, opens a window of opportunities and enables both Europe and Israel to rethink and shape their future relationship.

■ ***Adv. Theo Klein*** addressed the issue of common heritage through the symbiotic learning process between Europe and the Jewish people throughout history. The Jews had brought to Europe, at a time of Roman paganism, the idea of universality and monotheism. They also brought

other values, which were to be foundation for common heritage, like the legacy of the rule of law, mutual respect and hospitality, all based on morality and justice that can be traced to the days of Abraham.

Jews, on the other hand, as those who questioned the very basics of life, were the people who were easy to be blamed for all society's ills and faults. Yet, despite their often persecutions, the Jews always returned to Europe, since they had no other alternatives to it, and since Europe itself needed them for its development. For that part, Jews played a role in Europe's history, with which Europe is not fully aware.

Today, the Jewish people in the State of Israel can learn from European experience as well. Israel can benefit from absorbing values of democracy, separation of religion and state, coexisting in harmony with other peoples, the ability to reach beyond the ethnic heritage to be able to enjoy the regional experience (in that respect, learning from the European Convention process is extraordinary and unique since it is trying to form an institution on which every nation will be able to express itself through a common project). Klein pointed out that in particular, as Israel has non-Jewish citizens, it should allow them to enjoy equal rights and to launch a dialogue on a regional level as well as on a bilateral level with Palestinians. For that matter, Europe can play an important role. Imitating European experience of reaching beyond violence, maintaining sincere dialogue (rather than preaching) between societies, can help Israel achieve peace.

■ *Ambassador Prof. Elie Barnavi* talked about the evolution of the common heritage and historical ties between the Jews and Europe, which nowadays had gone astray. The Jews were always an integral part of Europe, reflected by the number of Jews living in Europe during the World Wars, which amount to approximated 11 million people. Jews were part of Europe's innovations and played a prominent role in all spheres of life, from philosophy to psychology and literature. What enabled this cultural and creative flourishing was the dominant European culture that allowed Jews to be actively absorbed. Today, Jews still maintain key roles in European societies, but as Europeans rather than as Jews.

Zionism was Europe's gift to the Jews, since it relies on European foundations and is the final episode of the revival of European nationalism. Zionism's founding fathers struggled with the issue of European culture and Hertzl himself could not imagine a non-European cultural Jewish state. Zionist ideology was radical and integrated European ideas and values, like the creation of a new man who can influence his own future. It debated ideas of communism, fascism and others, eventually to become a democracy among non-democratic nations. Thus lays the paradox of Zionism: turning away from Europe while maintaining it at the same time.

Europe's sympathy toward Israel during the establishment of the Jewish state was not only guilt-ridden, but also respectful of the innovative enterprise of a young nation seeking independence and recognition.

This situation had changed and Europe and Israel had embarked on separate ways. Europe negatively views in Israel, issues of democracy, the role of the army, the linkage between religion and state, the occupation and others. In many ways, as Israel gradually became a nation, it had lost much of its European identity.

From an Israeli standpoint, this should be alarming, since Europe cannot be ignored, nor can Israel exclusively rely on the United States. Barnavi concludes that only through cross-levels dialogue, better relations can be formed and the basis for this should be learning and building on common heritage and values.

In the discussion that followed views were expressed that the immigration of more than a million Jews to Israel from the former Soviet Union, makes Israel more European. It was also mentioned that Europe and Israel share joint responsibility in the "cultural war" in the Mediterranean region between Western civilization and other civilizations. Another view was expressed that building on common heritage is not sufficient and that the relationship should focus on the mutual defining of future concerns and their solutions, such as the issues of Jews and Arabs, multiculturalism, and the role of Islam. Certain views were expressed that Israel should define what it is today and what it to be in the future, and that the feeling in Israel is that Europe's interest in Israel is minimal and results from guilt-feeling, and that the way Israel is being judged is not according to its merits and problems, but according to a European fixed model. On the question of religion, views were expressed whether it is possible

for Israel to decouple politics and religion. Applying history and culture as building blocks for mutual societal and cultural trust was proposed. This can be facilitated through civil society, NGOs, universities and the like, by joint learning of applied history, which will foster cultural intimacy. Views varied in opposite directions, as to the possibility of separating politics and economics from the Euro-Israeli relationship. While on the one hand, it seemed that unbundling the issues can be fruitful for future dialogue, on the other hand, participants thought it was neither feasible nor desirable. The issue of joint European – Israeli (Jewish) culture was questioned whether it should not be altered to common western culture, thus pointing out that Europe's experience with the Jews should not differ much from the one it has with United States or South America. A more radical view was that Israel is more American by nature than European, and that Europe can offer more to Israel than Israel can to Europe.

Session II: The Role of Instrumentalities: Furthering Economic and Technological Cooperation

This session focused on the aspect of cooperation between Europe and Israel, in particular, in the field of Research and Development (R&D). The Chair, Dr. *Orna Berry*, Venture Partner and Member of the Board at Gemini Capital Fund, highlighted that cooperation between Israel and Europe is not only natural due to its high added value, but is also vital against the high competitiveness that prevails in the R&D global scene. According to Berry, the knowledge-based economy is fundamental for a country to become a global player, and that can be achieved by developing breakthrough technologies, which stimulates competitiveness that results in higher exports and investment in an increasingly more demanding and competitive global

environment. In order to meet the global market's conditions, it is vital to create strategic alliances, and to bring local industry to become globally competitive, as well as incentivize and retain multinational corporations locally. Europe and Israel can benefit from creating strategic alliances because Israel maintains global competitiveness due to its entrepreneurial spirit, high number of scientists and engineers and the presence of major multinational corporations. Berry emphasized the correlation between Israel's security needs, which are the driving forces for its defense R&D, and the existence of a supporting technological and economic environment, as well as advanced education.

■ **Prof. Avishay Braverman** talked of the importance of the demographic and technological dimensions in economic development. According to Braverman, the demographic problem that confronts Israel is a major hindrance to Israel's ability to maintain an innovative and entrepreneurship successful environment based on peace and security.

Judging by statistics, the population in Israel and Palestine totals 11 million people and should reach as high as 20 million people by the year 2040. The driving forces behind this expanding birthrate are Muslims and Ultra-Orthodox Jews. To overcome these dynamics, Israel and Europe should emphasize the two most influential variables of demography: economic income and female education. Europe's involvement in changing the demographic dead-end path is important since it will influence and reflect on Europe as well. What is needed, according to Braverman, is cooperation between Europe and Israel in

creating a supporting and economic environment based on appropriate rules of the game. Israel on its side, should reach peace with the Palestinians in order to attract investment to both sides. It should also create, at the same time, incentives, such as low taxation, and invest in infrastructure building, such as building an international airfield in the Negev. Europe's role should be in supporting these activities, which can take place in many ways. Israel, for example, as a small and open economy, can align itself to the European Monetary Policy since it will benefit from joining a strong system and adopting monetary discipline.

Materializing the historical opportunities for creating peace between Israel and the Palestinians, which will enable both nations to coexist within secure boundaries, necessitates great decisions and great leaders; this should be the first item on Europe's and Israel's agenda.

■ **Mr. Zeevi Bregman** started by showing the importance of Europe to Israel's economy. This can be reflected by statistics, as Israel's imports from Europe accounts for 41% of its total imports, and its exports to Europe reach 25% of its total exports. Bregman has suggested to learn from success stories, like the one of Comverse, in fostering future and deeper relations between Europe and Israel.

Comverse, which is a leading company in the field of enhanced services for telecommunication service providers and employs 4700 workers (2800 employees in Israel), has a well-leveraged presence in

Europe. Europe accounts for 45% of Comverse Technology Group global revenue, while North America accounts for 33%. It employs 400 workers in Europe and its twenty European offices cut across the continent. Comverse's European presence involves 170 Telecom operators and 160 million end-users.

Comverse strategy is based on acting locally in a global competitive market. This is done through local offices, which deal with sales, sales support, local marketing, customer support, project management, and customization. Comverse's presence in Europe is maintained through local management and staff with minimal key relocations.

Europe is a natural market for Israeli hi-tech industries due to the geographical proximity that eases time and distance. The cultural similarity and the heterogeneous environment of Europe and Israel, create excellent conditions for a strong joint commercial environment. Against the backdrop of these conditions, challenges are still to be met. Present barriers for increased and improved commercial and economic activity results from Israel's political image in Europe, the security concern that discourages people from traveling to Israel, the problem of career development of European employees and the current dispute on rules of origin.

In order to tackle the challenges, Israelis should focus more on Europe in all levels of activity and also improve Israel's image in Europe.

Europeans on the other hand, should ensure fair chance and rules for Israeli products, assist in networking and visit Israel in order to realize the economic and commercial potential.

■ *Mr. Alfonso Gutierrez* spoke on promoting economical and technological cooperation and exploring new possible avenues of cooperation between Europe and Israel from the point of view of Finland and Israel, as two hi-tech expert countries partnering to succeed in international markets.

Gutierrez outlined Finland's and Israel's successful technological environment. Finland, the home country of LINUX creator, is also home to Nokia's global headquarters, which employs in Finland alone, about 25,000 people. International competitiveness reports rate Finland among the most competitive markets in the world. The driving force behind Finland's success is its R&D environment. R&D expenditure of GDP reaches 3.5%, with 22 science and hi-tech parks and the Centers of Excellence Program (which creates an optimal hi-tech business environment through incorporating on the same premises business and personal services as well as development services and programs). Finland bases itself on foundations of solid infrastructure and innovation network and educational systems.


Israel's success story can be reflected through its software exports, which exceeded USD 3 billion of which 37% were directed to Europe.

It is also the home for many R&D centers of European, American and Asian companies. Israel also has more than 10 successful years in venture capital and more than 150 Israeli startup firms established in the United States. A leading tool in Israel's entrepreneurial success was achieved through the Incubator Accelerator programs.

Pointing to the competitive and complicated global arena, Gutierrez said that in order to succeed, successful countries like Israel and European states, need good and reliable partners, to jointly overcome a complex world which is full of complex requirements and demands. Key international R&D, technology and business players are extremely significant in the value chain of expert countries and companies. For that sake, Israel should share and promote its global knowledge and international experience with key partner countries in the European Union.


Focus was drawn to the Finland Software City (FSC) Initiative, which is now being developed. The aim of the program is to establish a "Win-Win" relationship between Israeli and Finnish companies, by combining expertise, innovations and strengths and creating new strategic international partnerships, which will meet the needs of leading global companies and their customers. Achievement of the FSC initiative is to be realized by meeting three targets: (1). Joint R&D and technological cooperation – between Israeli and Finnish companies of all sizes, creating new solutions such as new products, services,

technologies and applications, and focusing on selected technologies; (2) Joint international business development – between Finnish and Israeli companies to jointly develop and explore new business opportunities in the global market; (3) Exchange and share the best practices and learning – in all possible fields, such as innovation, research, training and internationalization; The FSC will brokerage and partner events like R&D and technology cooperation forums, business development forums, international venture capital activities and global corporate and networking. It will also hold international business training and technological cooperation seminars. Finland is committed to the success of this initiative from both the government and the private sector.

 **Ing. Antonio Emmanuelli** addressed the special features of the digital society, their impact on Europe and Israel and the need for strong leadership.

Digital society's characteristics demand developing unique skills that do not exist in other kinds of innovative sectors. It is a highly competitive sector that requires combining efforts through cooperation, geographical proximity and financial facilitation. Today, Europe lacks the appropriate leadership that can take on these challenges. The speed of the integration process in Europe, attaches an even more growing importance to this absence of leadership and in such conditions, Israel can be an arrowhead for success. Combining forces needs greater

efforts on behalf of both sides. Israeli companies should try to place emphasis on penetrating European markets, participate in business events such as commercial fairs (taking into account the need for large market exposure) and bring business delegations to Europe. Business promotion should also be done in the Mediterranean basin, but first market structure should be further developed with an emphasis on small and medium enterprises and the quality of administration.

 **Ing. Paola Carrea** presented the fruitful and successful cooperation between the Centro Ricerche Fiat (CRF) and Israeli companies, through the European Union's Framework Programs. The collaboration, which begun seven years ago in 1996, progressed from one approved project in the first year, to 18 approved projects today, with 1 project still pending and 3 more projects in preparation. Cooperation areas vary from telematics and sensors to materials engineering, aeronautics, batteries, micromechanical systems and statistical and optical methodologies. Carrea described specific cases of successful collaboration in these spheres of cooperation and went on to show the strong and weak points of collaboration between the CRF and Israeli companies. The strong side of cooperation lays in the outset of a world full of ideas, proposals as well as scientific and business enthusiasm. Technological breakthrough is possible within different industrial sectors. Europe and Israel are also hosts to the most important worldwide silicon and information technology industries. Moreover, success is achieved by the availability of a number of spin-

off industries, which facilitate access to several services, opportunities and cross fertilization. Observing the empty half of the glass, shows that there is a need to move from cooperation on components to full systems, reduced management and industrial costs, and improving the capacity of application engineering in different industrial sectors. Carrea also said that focus should be on the opportunities based in Israeli universities with an emphasis on overlapping between universities, industrial research and industries in the fields of basic and applied research, as well as development.

■ **Mr. Sachi Gerlitz** started by presenting APAX, a global private equity firm, and analyzed the framework of company formation and the basis for its success.

APAX has 30 years of investment experience with a global reach (11 offices around the world) and 12 billion Euros under its management. It had invested in over 330 portfolio companies and since 1995 had a record of 62 IPO's on stock markets around the world. In 2000, APAX Israel merged with APAX Europe and two years later APAX Partners merged its European and USA operations.

According to Gerlitz, APAX sees Israel as a major harbor for investment because it has quality education and it is a "Silicon Wadi" and serves as a proxy to the United States in value creation in technology and healthcare. For this reason, APAX's target is to deploy

10-15% of the fund's capital in Israel. Statistics shows that investment rate in Israel was among the highest in Europe between 2000-2003, before France, Switzerland, Sweden and the Netherlands and only second to the UK and Germany. Observing the second quarter of 2003, Israel is considered to be leading European countries in amounts investment.

Gerlitz explained the differences between European and Israeli venture capital models. While the European venture capital model addresses a Pan-European market of 522 million people, Israel's population amounts only to little more than 6 million people. Israel's small market serves as an incentive for its industry's drive to develop US business and front-end, which will enable it to penetrate large markets. The Israeli model also concentrates on developing management teams that are able to commercialise US and Israeli operations. On the other hand, European Venture Capital focuses on issues of Pan-European reference accounts, localisation and harmonisation.

Four main drivers are behind Israel's success in hi-tech. First, R&D expertise is the result of research in cutting-edge defense industry and innovation-driven investment. Second, Israel's outstanding human resources benefit from world class educational institutions, strong entrepreneurial culture and the highly educated immigration from the former Soviet Union, which arrived during the 1990s. The third reason for success is the strong venture funding, significant multinational

M&A activity and trade in international stock exchanges of companies, all of which fuels growth. Lastly, hi-tech benefits from Government support in the forms of R&D grants, tax benefits and special programmes (e.g. Yozma programme).

Gerlitz pointed out that contrary to US companies' trust in investing in Israel, Europeans tends not to invest in Israel hi-tech due to the political and security climate, as well as the Arab boycott to a certain degree. However, it is important to notice that successful US-European collaboration stories were also invested in Israel. European companies can benefit more from investing in Israel because of the hi-tech success and the ability to learn how to succeed in the US. Israeli companies' success in the US market is the result of the previously mentioned huge investment in defense technology, proximity to universities that result in first grade technology, the basic understanding that the US is the target market and not the local market, and an experienced business model that combines technology creation in Israel and marketing in the US, with large number of entrepreneurs and executives with global orientation and a focus on development of cooperation and marketing channels with large global corporations.

Session III: Political and Diplomatic Hindrances and Interests

The third session addressed the political and diplomatic spheres. Chaired by ambassador *Joachim Bitterlich*, Executive Vice-President, International Affairs, Veolia Environment, the session dealt with increasing mutual understanding of the

respective positions and outlooks and consideration of new and improved avenues for overcoming political differences.

■ **Dr. Uzi Arad** started by reflecting on the fruitful security cooperation between Israel and Europe, during his days as the head of the Israeli Mosad in Europe, to show that cooperation in sensitive issues can succeed when joint interests and professional work interlink.

According to Arad, Europe misused the opportunities it had in playing an important and effective role in the Israeli-Arab peace process, due to its struggle to assume the position already maintained by the US, while not realising its own special role. The first missed opportunity was at the Oslo Process, which was based on two tracks: bilateral and multilateral. Europe unsuccessfully tried to act as a broker on the bilateral track, a position already filled by the Americans, thus leaving the US-neglected multilateral track without a broker.

The multilateral track consisted of five channels: water, refugees, economics and trade, environment, and arms control. While Europe acted more as payer than as a player in the bilateral track, due to American involvement or direct negotiations between Israel and the Palestinians, it failed to take the role of leadership in any of the multilateral programmes, including economics. This failure also persists in the Euro-Mediterranean process.

Europe is still able to play an important role if it will seize the multilateral option in the Roadmap Plan. Europe can lead the regional talks over water, economics and regional arms control, which should also include Libya and Iran, leaving refugees and environment issues to be dealt by Japan and Switzerland. If the Roadmap Plan is not the appropriate way for solving the Israeli-Arab conflict, Europe should try to seek a new route where it can lead with the same multilateral content.

■ *Prof. Alexandre Defay* differentiated between the ties of Jews and Europe and the relations of Israel and Europe. Culture, sports, society, common heritage, all links between Jews and Europe. What is alarming is the political dialogue between the two political entities of the European Union and Israel. This dialogue is constantly filled by fear and mutual accusations. Israel is being accused by Europe of abusing the Palestinians, which in many cases is the outcome of over coverage of the conflict in the media, hence European perception of the Mediterranean basin and of Palestinian-Israeli relations. On the other hand, Europe is being blamed by Israel of being only sensitive to Palestinian suffer, neglecting Israeli grief.

For Israel, it was easy not to pay attention to European criticism regarding its policy and relations with its neighboring Arab countries, until the beginning of the seventies. This was because it took advantage of Europe's post-colonialism and holocaust experiences and

traumas, which did not enable Europe to criticize Israel in public. However, the situation changed after the Six Days War of 1967, when Israel turned to be an occupier, controlling the West Bank and the Gaza Strip. Viewing Israel's geographic expansion was, Europe begun loudly speaking over the right of the Palestinians people to be free.

Europe is needed in the Mediterranean, as a new player who can overcome the various differences. For that sake, the European Union should concentrate more towards the south, as well as realise the inherent difference between its being a specific goal-oriented entity and Israel as a national and Zionist enterprise.

■ **Dr. Yossi Beilin** said that after years in which Israel tried to get closer to the European Union, the latter gets closer with the enlargement process, hence turning the Mediterranean basin a close neighbor rather than just another region in the world arena.

The 1990s mark a change in the European Union approach towards Israel and the Mediterranean, due to the Oslo Peace Process, which made Europe more interested in the region. In recent years, this course had changed again, and the European Union's role gradually diminished.

Europe could have been involved during the 1990s in the peace process because the political process was already underway and

Europe itself was not a part of the hard and technical parts of the negotiations. This left Europe a Win-Win solution game with only gains to be made and no hardcore differences. However, when the crisis ensued in the second Intifada, the European Union could not properly deal with it because it was unable to arrive at a common position regarding Middle East issues. Thus lays the European Union-Mediterranean paradox: when the Mediterranean conflict needs Europe at its most, Europe is not there to extend a helping hand. There is also a political element to this paradox, since all those who wants to halt the peace process, find it easier to disregard Europe as a mediator, than it is to disregard the US, and only those who long for mediators can feel Europe's absence. This is the reason why only non-European Union countries can play a crucial role in the peace process, like Norway or Switzerland.

■ *H.E. Ambassador Marc Otte* pointed out that effective discussion over the political dimension of European Union-Israeli relation requires a dynamic analysis, rather than a static one.

According to Otte, the world is undergoing major changes, which will bare their effects also on the relations between Europe and Israel. As these changes slowly occur, they affect the European Union. Therefore, the European Union's foreign and defense policy should not be mistakenly taken as a single foreign policy, but as a common foreign and security policy. The aim of this policy is to protect

common interests, rather than to implement a single interest. When it comes to relations with Israel, the core problem is that while Europe advanced in its attitude towards peaceful conflict-solving and human rights, it sees Israel, an advanced democracy, standstills at the same place where Europe was decades ago. But today the European view point is also transforming due to the changing international environment in the aftermath of September 11th.

The events of September 11th highlights that conventional war, did not only disappear from Europe but also from the Mediterranean, to be replaced by threat of, terrorism and weapons of mass-destruction. The European Union understands that terrorist action is terrorism, disregarding the location it takes place. The European Union decisions to declare the Hamas movement as a terrorist group and to issue an ultimatum to Iran regarding its nuclear warfare programme reflect this position. It shows that Europe links between what happens in Israel and the Mediterranean and what happens at Europe.

The Wider Europe initiative can serve as a tool to civilianize the relations between the various countries in the Mediterranean region, and Europe can harness its unique relations with Arab countries for that purpose.

In the following discussion, some pointed out that Europe's involvement in the Israel-Arab conflict is not of a third side, and that Europe can be involved in many ways

apart from mediating. Europe should not be forced to act in the Mediterranean; European involvement would benefit its own political and economical interests. Others argued that Europe does not have to carry out a separate policy towards the Mediterranean, from that of the US, since the US is not one-sided toward Israel. Europe should try and work in cooperation with the US, rather than develop an Arab-biased policy. Acting in such a manner, will produce a more balanced international approach to Mediterranean problems.

European Union's policy will also be influenced by the enlargement process, which on the one hand will weaken the process of Common Foreign and Security Policy, and on the other hand will incorporate more pro-Israeli countries. The outcomes of the European Constitution making will also bear an effect. Another view was that European foreign policy does not suffer from impotency, since the European Union has the Membership tool. According to this view, the European Union has strong influence over Eastern European countries by offering them the possibility of European Union membership. Membership is an effective tool as it binds the sides in a catholic marriage and is not reversible like initiatives of the sort of Wider Europe or the Barcelona Process.

Taking on the issue of Europe's missed opportunities in the Peace Process, some viewed that the political dimension cannot be decoupled from the multilateral issues. It was also mentioned that the Oslo Process was invented in Europe.

Session IV: The Future of EU-Israel Relations

Ambassador Dr. *Anita Gradin*, Chair of the Swedish-Israeli Chamber of Commerce, chaired the concluding session. Gradin emphasized that the main deterrents of the future of European Union relations with Israel, are the enlargement of the Union, the European Constitution making, its adoption and the way future decisions to be taken, as well as the way the EU will cooperate in its external relations.

■ *Prof. Rafi Melnick* raised the pros and cons of a possible invitation of Israel to join the European Monetary Union. According to Melnick, there is no clear answer in the economic literature to the question whether Israel ought to join the monetary union or not. Although the question is not a foreseeable reality, economists would probably answer that it may be good to do so, but only in the far future, while the Bank of Israel, as a conservative institution, will totally reject it.

After the Second World War, the number of different currencies increased along with the number of newly established nation states. The creation of the European Monetary Union, however, changes the situation, thus creating a mismatch between the number of states and currencies. This disproportion along with possible trade benefits and the growing need for financial and monetary stability will create in the future three major currency blocs: Dollar, Yen and Euro.

Drawing on the theory of Optimal Currency Areas (OCA), developed by Robert Mundell, currency differences and monetary arrangements

hinder possibilities to exhaust economic potential. Money can be portrayed as a language – the more people talk at the same language, the more communication is easier. Israel, which is a poor resources and inputs country, is dependent on Europe for supplies. This is also true for exports, as Israel cannot exploit its hi-tech comparative advantage, without exporting to the rest of the world. The world today, is much different than it was when Mundell developed his theory. Then, in the 1960s, markets were relatively closed and exchange rates were fixed. Nowadays, there is greater potential to Mundell's theory since exchange rates are floating and markets are more open than before. Joining a currency area enhances currency stability, financial stability and accelerates trade.

According to Melnick, it is important to distinguish between formal monetary independence and de-facto monetary independence. European Monetary Union created a situation with low monetary independence combined with low cost. It had also created a situation where a small and open economy, close and linked to a wide currency bloc, suffers from many problems and asymmetry. In this reality, Israel, as a small and open economy, faces a trap since its monetary independence can only be formal. It can either maintain stability by high interest rates, which will undermine growth and employment, or have low interest rates that will cause financial instability and inflation. The answer to the above-posed question of whether Israel should join

the European Monetary Union in the light of this future reality, should therefore be a definitive yes.

Another aspect of consideration when joining the European Monetary Union is the fiscal dimension. A monetary union demands fiscal consolidation, an issue that was not dealt effectively until today in Israel and will have to be tackled seriously, due to the Maastricht Criteria, as well as the Stability and Growth Pact.

■ **On. MEP Marco Pannella** proposed the incorporation of Israel into Europe. He stated that Zionism is based on universal ideas such as human rights, morality and freedom, which are similar to European values, culture and heritage. Pannella pointed out that radical idea can be transformed into reality, and one such reality is the ongoing enterprise of European integration, which eliminates physical and perceptual borders between states and people. Incorporating Israel to the European Union goes hand in hand with the European project, which in the future will succeed the nation-state. Integrating Israel to a European super-state should also include the Palestinians under its current rule and will enable to overcome the stage of the Palestinians seeking their nation-building.

■ **Dr. Stefano Sannino** proposed the Wider Europe Initiative as the framework for future relations between the European Union and Israel. According to Sannino, the European Union is much more than a free

trade area, and is based on a community of states with shared values, geography, political will and policies. Therefore, enlargement should not be considered a foreign policy tool, despite the European Union's will to develop better relations with its old and new neighbors.

The Wider Europe Initiative meets the challenges of strengthening bonds with neighboring countries and meeting their various interests with the European Union, without sharing institutions. The programme's geographical sphere extends from Russia to Morocco. It is based on extending the freedom of movement of persons, goods, services and capital ("the four freedoms") and opening a wide range of European Union programmes and projects to the non-EU neighboring countries and it is based on common values. The differentiation principle plays an important key in the initiative as different neighbors have different characteristics and different needs.

The European Union plans on introducing financial elements to the Wider Europe Initiative towards 2007 and to build on the Barcelona Process. The fundamental framework will be custom-made relations vis-à-vis each country. It is still premature to define the concrete Wider Europe framework of future relations between the European Union and Israel, as the work on the issue is still at premature stages and further cooperation is needed from both sides.

■ H.E. Ambassador Oded Eran tackled the issue of Israel–Europe future relations, by focusing on a past event between the two entities, which had shaped their relations so far. This event was the French and British Embargo on arms sales to Israel at a time when it was in dire straits. For Israel, this embargo was a decisive factor shaping its suspicious view of Europe.

The future Israeli-European Union relations will have to be predicated on solutions to questions of substance and structure. Structure does not only refer to the legal framework of relations, but is also a code word for questions such as what is the Europe with which Israel will have future relations with? Will it be a cohesive political, economy and security union or just a mere confederation? On the same token, the questions arise as to what sort of Israel is Europe getting into relations with? Is it a cohesive society, which solved its relations with its Arab neighboring countries or not?

Structure is also a question of legal framework. Three major options exist for such framework:

1. Maintain the current status of Free Trade Area agreement with unique additions such as R&D agreement and possible implementation of the dead-letter chapters of the current agreement.
2. Upgrading of relations and allowing cooperation and dialogue in areas not covered by the current agreement or the actual

mode of bilateral relations. As a basis for upgrading relations, Israel and the European Union must first define spheres of mutual interest and then agree on questions of rules and parameters. Eran believes that there is a mutual interest in strengthening the political dialogue beyond the discussion of security or strategic topics. This mutual interest can only be materialized through an open dialogue. Israel's interest in upgrading relations in the economic domain is almost self evident and clear, but can go beyond trade and projects. Israel can increase its economic stability and security by joining the European Monetary Union with its institutions. Being a part of an association will also have impact on the way Israel is being perceived by other countries, in particular Arab countries, and does not imply weakening of US-Israeli relations.

3. Full European Union membership. This option does not exist in reality as it was practically ruled out in the European Union document of March 11th, 2003 on the Wider Europe Initiative. It is clear from the document that Wider Europe is not a corridor for future membership. Membership is a theoretical option since the European Union cannot be expected to decide on negotiating membership with Israel, when it has to finalise the accession of Romania and Bulgaria, decide on Turkey, and take into account the implications for on Arab countries, as well as Russia and the Ukraine. Membership is also a major problem for Israel as it will be expected to conclude a

comprehensive agreement with its neighbors and to debate over questions like the Law of Return, other aspects of the Israeli judicial system, which are contrary to Article 6 of the Treaty of Rome and the Charter of Fundamental Rights.

Judging these three options, Eran clearly suggests preferring the second option, which is the closest possible one to membership but offers negotiating the attributes of membership and not membership itself.

The discussion ending the session touched the broad issues of future relations, as well as specific options. Over the broad aspect of relations, views were expressed that while Europe managed to create an entity beyond the nation-state paradigm, Israel still seeks its sovereignty. Views were also expressed that the proposition of transforming Israel and the Palestinians to become a part of the European Union super state, is impossible since the way for super-state creation must first pass through the stage of nation state.

On specific options for future relations it was expressed that a European Economic Area (EEA) option will enable Israel to participate in decision shaping. It was also expressed that joining the European Monetary Union at this stage carries major problems. Another option was to tie Israeli Universities to their European counterparts, through programmes such as Erasmus. Such a connection will influence the shaping of European and Israeli future leaders.

Conference Program

SUNDAY, SEPTEMBER 14, 2003

Official Opening of the Conference

Welcome:

Mr. Shlomo Gur

Executive Secretary, European Union-Israel Forum

Greetings:

Lord George Weidenfeld

Vice President of the European Union-Israel Forum

Dr. Sandro Bicocchi

Vice President of Promos, Special Agency of the Milan Chamber of Commerce for International Activities

Mr. Ivan Guarducci

President of the County of Verbano Cusio Ossola

Opening Remarks:

H.E. Mr. Ehud Gol

Ambassador of Israel to Italy

MONDAY, SEPTEMBER 15, 2003

Opening

Greetings:

Mr. Bruno Ermolli

President of Promos, Special Agency of the Milan Chamber of Commerce for International Activities

Senator Alfredo Mantica

Under Secretary of State, Ministry of Foreign Affairs, Italy

First Session

Europe and Israel's Common Heritage as Building Blocks of the Relationship

Chair:

MK Ambassador Colette Avital,

Chairperson, Knesset Committee on Immigration, Absorption, and the Diaspora;
Member of the Board, EU-Israel Forum

Speakers:

Dr. Jacques Attali

President, PlaNet Finance; Former President of the European Bank of Reconstruction and Development (EBRD)

Ambassador Prof. Elie Barnavi

Tel Aviv University; Member of the Board, EU-Israel Forum

Second Session

The Role of Instrumentalities: Furthering Economic and Technological Cooperation

Chair:

Dr. Orna Berry

Venture Partner, Gemini Capital Fund; Member of the Board, EU-Israel Forum

Speakers:

The Hon. Letizia Morrati

Minister of Education, Universities and Scientific Research, Italy

Prof. Avishay Braverman

President, Ben-Gurion University of the Negev

Mr. Zeevi Bregman

CEO, Converse

Mr. Alfonso Gutierrez

Project Director, Finland Software City, Technopolis Innopoli

Ing. Antonio Emmanuelli

President, SMAU

Ing. Paola Carrea

Director, FIAT Research Centre

Mr. Sachi Gerlitz

Partner, APAX

Third Session

Political and Diplomatic Hindrances and Interests

Chair:

Ambassador Joachim Bitterlich

Executive Vice-President, International Affairs, Veolia Environment

Speakers:

Mr. Elmar Brok, MEP

Chairman of the European Parliament Committee on Foreign Affairs, Human Rights, Common Security and Defence.

On. Gustavo Selva

President of Foreign and European Community Affairs, Chamber of Deputies, Italy

Dr. Yossi Beilin

Former Minister of Justice; Senior Adviser, Economic Cooperation Foundation.

Dr. Uzi Arad

Director, Institute for Policy and Strategy, Interdisciplinary Center Herzliya; Member of the Board, EU-Israel Forum

Concluding Session

The Future of EU – Israel Relations

Chair:

Ambassador Dr. Anita Gradin

Chair of the Sweden-Israel Chamber of Commerce and Former Minister of International Trade and European Affairs of Sweden

Speakers:

H.E. Dr. Oded Eran

Ambassador of Israel to the European Union

H.E. Mr. Marc Otte

Ambassador, European Union Special Representative to the Middle East Peace Process

Dr. Stefano Sannino

Cabinet Minister (G7/G8 Sherpa, External Relations, External Trade, Security & Defence), Office of the President of the European Commission

On. Marco Pannella, MEP

Member of the European Parliament Delegation for Relations with Israel

Prof. Rafi Melnick

The Interdisciplinary Center Herzliya

Farwell

Greetings:

Mr. Michael I. Federmann

Vice-President of the European Union-Israel Forum

Concluding Remarks:

H.E. Mr. Giancarlo Chevallard

Ambassador, Head of the Delegation of the European Commission to Israel

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