

First in Free Trade



*THE U.S.-ISRAEL
ECONOMIC ALLIANCE*

A New Beginning

On April 22, 1985, the United States Trade Representative and the Israeli Minister of Industry and Trade signed the U.S.-Israel Free Trade Agreement (FTA). The FTA was the United States' first bilateral free trade agreement and Israel's second (following Israel's free trade agreement with the European Community, which was signed in 1975).

The Agreement entered into force in September 1985 after it was approved by the U.S. House of Representatives by a 422-0 vote and by a voice vote in the U.S. Senate. In his remarks after the FTA was signed, President Ronald Reagan said that, "the Free Trade Area Agreement symbolizes once again our two countries' deep community of interest and our shared values and aspirations for a better future. It underscores the importance of Israel to the United States as an ally, as a trading partner, and as a friend."

Prior to the FTA, Israel benefited from the Generalized System of Preferences (GSP). In addition, beginning in the early 1970s, Israel was a recipient of U.S. economic aid. The FTA resulted in the mutual liberalization of bilateral trade and the eventual elimination of U.S. economic aid to Israel.

Israel is one of the United States' largest export markets. On a per capita basis, the U.S. exports more to Israel than it does to Australia, the United Kingdom, Germany, Japan, France, Italy, or Spain.



1985: Israeli Prime Minister Shimon Peres and U.S. President Ronald Reagan, who were in office when the FTA was signed, meet in the Oval Office.

The Free Trade Agreement in a Nutshell

Under the FTA, the U.S. and Israel implemented phased tariff reductions culminating in the complete elimination of duties on manufactured goods on January 1, 1995. The FTA permits the U.S. and Israel to maintain certain import restrictions, such as quantitative restrictions and fees on agricultural products, based on agricultural policy considerations. Nonetheless, the overwhelming majority of bilateral trade in agriculture between the U.S. and Israel is duty free.

To qualify for preferential treatment under the FTA, manufactured goods must be:

1. grown, produced, or manufactured entirely in the U.S. or Israel; or
2. substantially transformed in the U.S. or Israel and contain at least 35 percent U.S./Israeli content. To meet the 35 percent content requirement, up to 15 percent of the product's value may originate in the other country. Goods must also be shipped directly from one country to the other.

The FTA, despite being thirty-five years old and only twenty pages long, provides a stable business environment and a flexible platform to further enhance the commercial relationship. The FTA established a bilateral Joint Committee (JC) in order to provide a structure for discussing the enhancement of trade and issues of concern to either side. The JC meets periodically and is headed by the Office of the United States Trade Representative (USTR) and the Foreign Trade Administration of Israel's Ministry of Economy and Industry. The JC's broad mandate has provided the forum to further liberalize trade in agricultural products and establish cooperation on standardization.



Continuing Progress

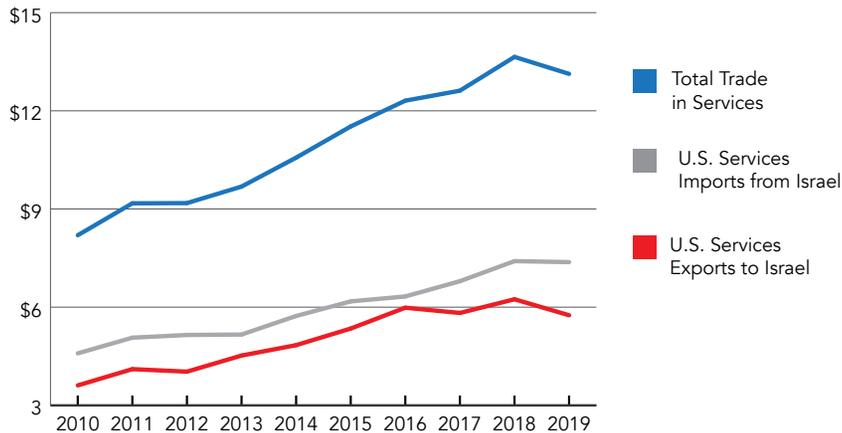


In August 2011, Israel and the United States established a work plan to ensure that the benefits of the economic relationship are further shared and sustainable. The work plan aims to enhance regulatory cooperation and seeks to further liberalize trade in agriculture and services. As initial steps under the work plan, the parties negotiated a Mutual Recognition Agreement for conformity assessment of telecommunications equipment, which entered into force and became operational in December 2013.

In addition, the Joint Committee reached a decision in 2018 to facilitate trade by replacing the FTA's requirement to submit a physical certificate of origin with a requirement to submit an invoice declaration, which can be submitted electronically.

US-Israel Bilateral Trade in Services 2010 - 2019

In billions of U.S. dollars



Mutual Benefits of the Economic Relationship

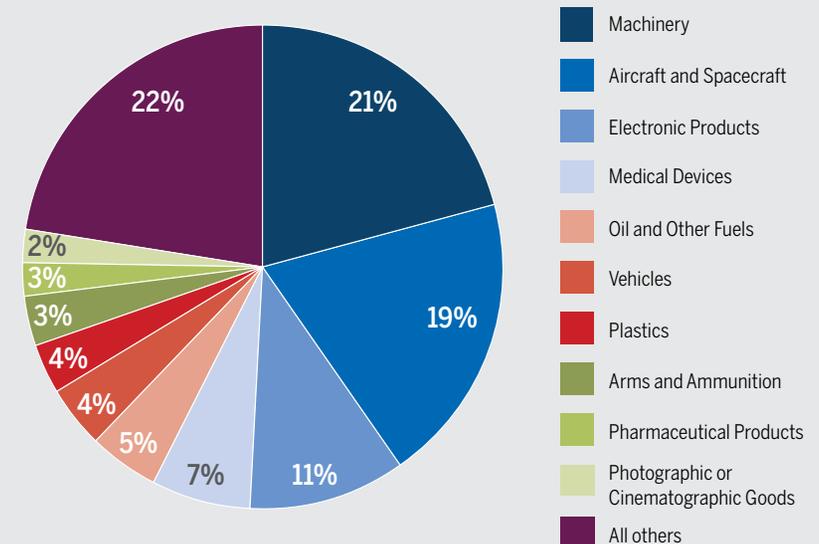
Both countries benefitted, and continue to benefit, from the FTA, as evidenced by the exponential growth of the U.S.-Israel economic relationship since its signing in 1985. Between 1984 and 1995, one year after the FTA was fully implemented and a decade after it was signed, bilateral trade in goods more than tripled from \$3.9 billion to \$12.4 billion, with U.S. exports to Israel totaling \$6 billion and Israeli exports to the U.S. totaling \$6.4 billion.

According to the U.S. Department of Commerce, total bilateral trade in goods and services stood at \$47 billion in 2019.

Despite having a population of only 9.1 million people, Israel was the United States' 24th largest export market for goods in 2019. It was the third largest export market in the Middle East, after the United Arab Emirates and Saudi Arabia. U.S. goods exports to Israel grew by **17 percent** in 2018 and by **15 percent** in 2019, reaching \$16.1 billion.

Top Ten U.S. Exports to Israel, 2019

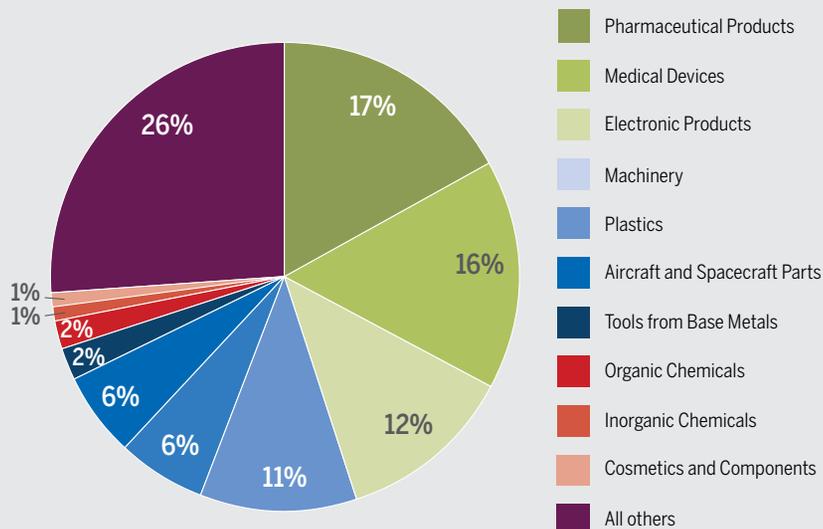
excluding diamonds



Source: International Trade Administration, U.S. Department of Commerce

Top Ten U.S. Imports from Israel, 2019

excluding diamonds



Source: International Trade Administration, U.S. Department of Commerce

The FTA has served as a platform to spur significant levels of bilateral foreign direct investment (FDI). Over the life of the U.S.-Israel FTA, Israeli FDI in the U.S. has increased dramatically, from \$0.52 billion in 1984 to \$36.6 billion in 2019. In absolute terms, Israel had the 21st largest FDI stock in the U.S. in 2019, putting it ahead of India, Taiwan, the United Arab Emirates, Hong Kong, and Norway. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Israeli investments in the U.S. supported roughly 28,600 American jobs in 2017 (latest available data).

Binational Research and Development

To date, the United States and Israel have established three binational research and development foundations.

- The Binational Industrial Research and Development Foundation (BIRD) (www.birdf.com)
- The Binational Science Foundation (BSF) (www.bsf.org.il).
- The Binational Agricultural Research and Development Foundation (BARD) (www.bard-isus.com).

BIRD's mission is to stimulate, promote, and support industrial R&D of mutual benefit to the U.S. and Israel. Since its establishment in 1977, the BIRD Foundation has provided over \$360 million (nominal) in grants to over 1,000 projects. These projects have directly and indirectly generated more than \$10 billion in sales. A recent impact study, covering the years 2002-2018, shows that startup companies that received BIRD grants were able to raise, on average, \$6 for every \$1 received from BIRD. The study also shows that, in recent years (2013-2018), about 20 percent of U.S. recipients were startups, 55 percent were small and medium enterprises, and 25 percent were large companies.

Well-known U.S. recipients of BIRD grants include Dell, EMC, General Dynamics, General Electric, Honeywell, John Deere, Procter & Gamble, Rapiscan, and Texas Instruments. BIRD's Board of Governors is comprised of officials from the United States' Department of Commerce (NIST), Department of State, and Department of Treasury, as well as Israel's Ministry of Economy & Industry and Ministry of Finance. The BIRD Foundation also manages sector specific programs, such as BIRD Energy and the U.S.-Israel Energy Center (stakeholders: Department of Energy, Ministry of Energy, and the Israel Innovation Authority), as well as BIRD Homeland Security (stakeholders: Department of Homeland Security and Ministry of Public Security).

BARD is a competitive funding program for mutually beneficial, mission-oriented, strategic and applied research of agricultural challenges. BARD projects are conducted jointly by American and Israeli scientists. Over the past 40 years, BARD has provided \$315 million (nominal) in grants to more than 1,330 research projects. An external analysis completed in 2020 determined that BARD's top 20 projects alone have generated a benefit-cost ratio of 1:16.5 (after being compounded to reflect the interest rate and the U.S. Consumer Price Index). BARD's Board of Directors is comprised of officials from Israel's Ministry of Agriculture, Israel's Ministry of Finance, the United States' Department of Agriculture, and leading university officials from both countries.

In 2019, Israel's \$36.6 billion of FDI in the United States accounted for nearly half the total FDI in the U.S. from the Middle East and North Africa.



The FTA – A Platform for Regional Economic Cooperation

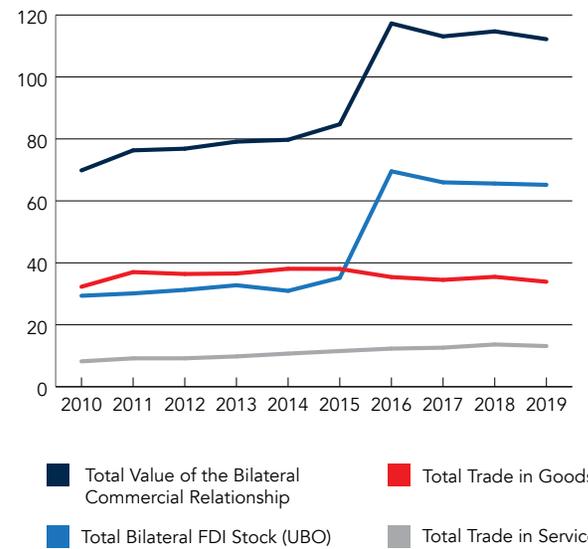
The FTA was amended in 1996 to serve as the platform for the Qualifying Industrial Zone (QIZ) initiative, which seeks to encourage regional economic integration and promote prosperity and stability in the Middle East. Only factories in designated Jordanian and Egyptian QIZs that meet the minimum Israeli input requirement may export duty free to the U.S. through the QIZ initiative.

When the first QIZ was created in Jordan in 1998, Jordanian exports to the U.S. were only \$16.4 million. Within 6 years exports from the QIZs peaked when they accounted for 85 percent of Jordan's \$1.1 billion in exports to the U.S. in 2004.

The QIZ initiative was expanded to Egypt in 2004 and Egypt began exporting to the U.S. under the program in the following year. Exports from Egypt to the United States under the QIZ program have grown from about \$266 million in 2005 to almost \$1.1 billion in 2019. The QIZ share of Egypt's total exports to the United States also has grown during this time period, from about 13 percent in 2005 to 31 percent in 2019.

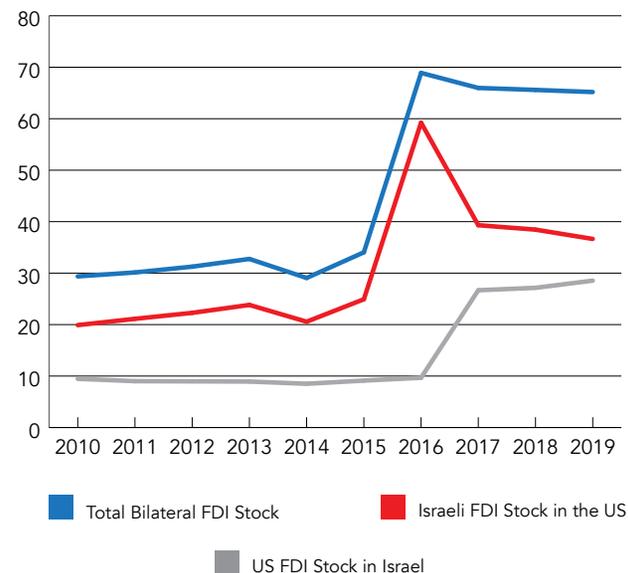
Microsoft, Cisco, Intel, Apple, IBM, and Facebook all opened their first research and development centers outside the United States in Israel. Google, Lockheed Martin, EBay, and General Electric are among the other Fortune 500 companies operating major R&D facilities in Israel.

**Bilateral Commercial Relationship
2010 - 2019**
In billions of U.S. dollars



After China, Israel has the highest number of NASDAQ listed companies outside North America.

**Bilateral FDI Stocks
2010 - 2019**
In billions of U.S. dollars



Between the FTA's entry into force in 1985 and its full implementation in 1996, bilateral trade in goods nearly tripled, reaching \$12.4 billion. Between 1996 and 2019, it nearly tripled again, reaching \$34.4 billion.

Noteable Companies

Israeli companies, such as Teva Pharmaceuticals, Tower Semi-Conductors, Elbit, IDE Technologies, and Strauss (known for its Sabra brand of hummus), operate significant manufacturing facilities in the U.S. and collectively employ tens of thousands of Americans.

Israeli companies have developed hardware and software used in most computers and cell phones, and pioneered the USB flash drive, the ingestible micro-camera, drip irrigation, and the portable MRI. Other notable Israeli innovations include: Waze, the social navigation system purchased by Google; Mobileye, the autonomous vehicle technology purchased by Intel; and Wix, a website design platform.

Israel is a global leader in semiconductor innovation and chip design. In the past two years, American firms such as Intel, Nvidia, and KLA-Tencor have spent more than \$12 billion to acquire Israeli technologies in this space, which allows these U.S. companies to offer improved products and services, thereby maintaining their lead over competitors.

Berkshire Hathaway's first acquisition outside the United States occurred in Israel in 2006, when Warren Buffett directed the conglomerate to purchase Iscar, an Israeli company specializing in precision tools for the automotive and aerospace industries.





Ministry of Economy and Industry
Foreign Trade Administration

For more information please visit
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