The Knesset

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The Department of Budget Control

Analysis of the Possible Outcomes of an Economic Boycott against Israel

Submitted to the Finance Committee

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9 of Tevet, 5775

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This document is submitted as per the request of the Chairman of the Finance Committee on the Analysis of the possible outcomes of an economic boycott against the State of Israel. The document contains a description of boycotts against Israel, data on the Israeli economy's potential exposure to an economic boycott, emphasizing the exportation of goods and services and foreign investments, and an estimate of their effect thus far.

1. General Background: Economic Boycotts[1]

Economic boycotts or sanctions against states are sometimes used, albeit not without controversy, as a tool in the foreign policies of states or international organizations. This tool has been used against another country in response to what the boycotters perceive as an inappropriate policy or as policy opposed to their worldview. Economic boycotts or sanctions may be classified according to their economic consequences in an ascending order as follows: boycotts by business companies, voluntary organizations, such as consumer unions and labor unions; boycotts by single states; boycotts by inter-state organizations (such as the Arab League or the European Union); binding boycotts by international organizations (such as the UN Security Council). In addition, boycotts may sometimes be imposed directly (primary boycott) or indirectly, that is to say, against entities who trade with the country (secondary and tertiary boycott).[2]

Throughout the twentieth century and the beginning of the twenty first century, various states have utilized boycotts against states and organizations to pressure them into changing their policy on various areas. Many dozens of cases when economic sanctions were imposed are documented in that period, from sanctions Britain imposed on Germany during World War I, through the extensive boycott against South Africa, to the placement of sanctions against Iraq, Iran, North Korea and Sudan in the last decade. A comprehensive study suggests[3] that imposing economic sanctions between 1914 and 2000 (about 174 cases) has contributed to partial success in 34% of the incidents, meaning to a change in the boycotted state's policy. However, according to the study, when the boycott's objectives were limited (such as to release political prisoners), the success rate was high (50%), and when the boycott's objective was broader (such as change to the regime type), the success rate was lower (30%). For example, in 1960, the USA imposed an extensive embargo against Cuba with the broad aim of changing the type of regime, which has failed as of the date of publishing the said study.

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1 Economic Sanctions Reconsidered, 3rd edition, Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, and Barbara Oegg, Peterson Institute for international Economics, November 2007; U.S Department of State, Congressional Research Service, Arab League Boycott of Israel, Martin A. Weiss, December 2013.

2 For more information, see: the Knesset Research and Information Center, Prohibition on Imposition of a Boycott and Participation in a Boycott, written by: Adv. Gilad Nave, September 2010.

3 Economic Sanctions Reconsidered, 3rd edition, Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, and Barbara Oegg, Peterson Institute for international Economics, November 2007.

The history of boycotts of Israel's economy started before the state was established, including the following events:[4]

- In 1946, the Arab League decided to impose a boycott against the Jewish Community in Eretz Israel. The Arab boycott continued after the state was established, administered by the Boycott Office in Damascus. Over the years, the Arab States have initiated impositions of boycotts against the State of Israel, directly (primary boycott) and indirectly by boycotting organizations and businesses that traded with Israel (secondary boycott). In an attempt to end the Arab boycott, the US Congress passed a law in 1977 to outlaw cooperation with the boycott by American companies, and civil and criminal penalties were stipulated against violators of the law.[5]
- In recent years, the European Union has published policy guidelines on trade and other economic ties with settlements in Judea, Samaria, East Jerusalem and the Golan Heights (hereinafter: across the Green Line), according to which, agreements between Israel and the Union do not apply to these settlements. Hence, the European Union does not consider products that are made in these regions as part of the trade agreement between the sides, meaning the export of products from these regions to the European Union shall be subject to customs, and they will have to be marked.[6]
- In the past decades, there have been initiatives to impose a boycott against Israel by organizations (such as [7]BDS) in economics, culture and education.[8] It is noteworthy that public pro-boycott activities (such as protests in stores and shopping centers) may have an indirect influence on individuals, organizations and businesses, by making them avoid contact with Israeli businesses and organizations in the first place out of concern that they may suffer reputational harm or financial harm. This phenomenon is referred to as "the silent boycott". The effect of the silent boycott is unknown due to the major difficulty of estimating it.[9]

The Israeli economy's exposure to economic boycotts may be manifested in the **real economic** area (especially **export** and **foreign direct investments**) and in the **financial** area (such as financial

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[4] Additional incidents of sanctions against Israel are described in a study by the Institute for National Security Studies, Oded Eran, Lauren G. Klein, The Effectiveness of Sanctions Against Israel, January 2014.

[5] U.S Department of State, Congressional Research Service, Arab League Boycott of Israel, Martin A. Weiss, December 2013.

[6] Tal Schwartzman and Ben Hoffman, the Ministry of Finance, Department of International Ties, Export in the Shadow of the De-Legitimization Campaign, e-mail, November 4 2014.

[7] **B**oycott, **D**ivestment, and **S**anctions: a coalition of 171 Pro-Palestinian non-government organizations that formed in 2005 aiming to promote boycotts, withdrawals of investments and sanctions, that is mostly active in Europe but is also active outside it. Ben Hoffman, the Ministry of Finance, Area Manager, the Ministry of Finance, the Department of the Economist General - International Ties, e-mail, December 23 2014.

[8] Ben Hoffman, Area Manager, the Ministry of Finance, the Department of the Economist General - International Ties, e-mail, November 4 2014.

[9] Amir Rom, Manager of the Department for Civil Society, the Ministry of Foreign Affairs, phone call, November 4 2014.

transfers to and from Israel). In this document, we shall focus on the exposure to the **real economic** in the boycott attempts by organizations (such as BDS) and the revocation of the customs exemption on products manufactured across the Green Line by the European Union. The analysis of the impact of the boycott attempts is carried out at the macro level, not at the level of individual businesses or specific foreign investments.

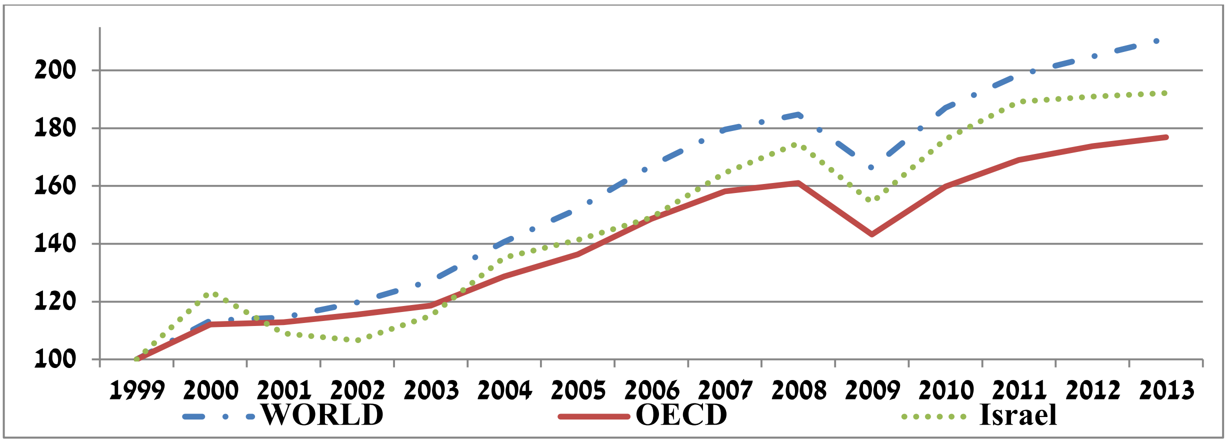
2. Export of Goods and Services

International trade contributes to economic growth significantly, by expanding the local market's possibilities and breaking into international markets, especially in relatively smaller economies like Israel's. The scope of Israeli export is about a third of the GDP (Gross Domestic Product), hence its importance to the Israeli economy. The sections below present data on the export and foreign investments in Israel in the past decade, which may indicate the scope of the boycott attempts' effect thus far, and the Israeli economy's level of exposure. The data mostly focuses on states in the European Union, as attempts by organizations (such as BDS) and the revocation of the customs exemption on products manufactured beyond the Green Line by the European Union, are mostly made in states in this area.

2.1. Export Data

Figure 1 below demonstrates the development in the export of goods and services index in Israel, in the developed states and in all states of the world between 1999 and 2013.

Figure 1 - Development in the Export of Goods and Services Index in Israel, in the Developed Nations and in the World between 1999 and 2013[10]



The data in the figure indicates that the export of goods and services in Israel has increased by 92.2% between 1999 and 2013, compared with 76.9% in the developed states, and 111% in all

[10] **Data on Israel:** the Bank of Israel, Report 2013, Chapter B, Export and Import - the Quantitative Change, 1965 to 2013, Table B-N-7, March 31 2014, **Data on the World and the Developed States:** OECD statistics, International Trade, access: 15 December 2014.

states of the world. It must be mentioned that during the global economic crisis (2008-2009), export volumes have decreased in all studied states. Table 1 below specifies the exportation of goods and services and the gross domestic product in ILS billions in 2000 and in 2010 to 2013.

Table 1 - Export of Goods and Services and the Gross Domestic Product in Israel (in ILS Billions, in 2010 Prices)[11]

Year	2000	2010	2011	2012	2013	Change 2000-2013
Export of goods and services	214.0	305.2	325.1	328.2	333.2	55.7%
Gross domestic product	626.6	870.8	907.3	934.5	964.9	54.0%
The share of export in GDP	**34.1%**	**35.0%**	**35.8%**	**35.1%**	**34.5%**	**0.4 percentage points**

The share of export in GDP in Israel in 2013 was about 34.5%, as the data in the table above indicate. This share is comparable to the share in 2000 and between 2010 and 2013, and it's relatively high, expressing Israel's economy high level of exposure to foreign trade.

However, it ought to be noted that the ratio of export to the gross domestic product does not give the full picture, as export is measured as **gross income** (meaning, including import components), whereas the gross domestic product is measured in terms of **added value**, meaning deducting the import components. One may measure export in terms of added value by deducting the import components. In such measurement, the GDP's rate of exposure to changes in export is lower, but it is still relatively higher compared with other states (among other things, due to the high component of local added value in the hi-tech sector in Israel).[12]

Table 2 below specifies the exportation of goods and services in Israel between 2010 and 2013.

Table 2 - Export of Goods and Services in 2010-2013 (in ILS Billions, in 2010 Prices)[13]

Year	2010	2011	2012	2013	Aggregated change 2000-2013
Export of goods	210.6	225.9	216.9	214.3	1.8%
Change rate in %	*16.1%*	*7.3%*	*-4.0%*	*-1.2%*	
Export of services	94.6	99.2	111.6	119.3	26.1%
Change rate in %	*13.0%*	*4.9%*	*12.5%*	*6.9%*	
Total	**305.2**	**325.1**	**328.5**	**333.6**	**9.3%**

[11] The Central Bureau of Statistics, Statistical Yearbook 2014, Table 14.2 - Gross Domestic Product between 1995 and 2013, September 2014.

[12] The weight of the hi-tech sector in the product is significantly higher than its rate in employment. For more information: Yaakov Chertoff, Utilizing the Hi-Tech Sector's Potential and Government Assistance to Hi-Tech Companies in the Marketing and Business Development Stages, the Knesset Research and Information Center, May 2010.

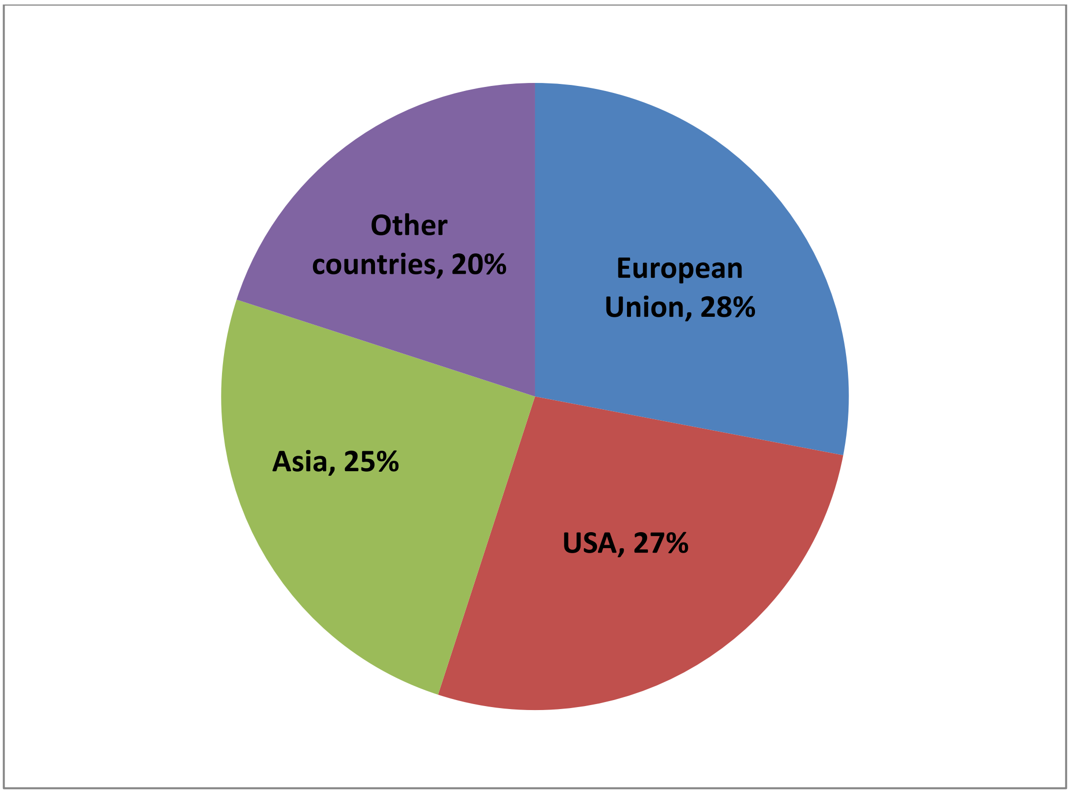
[13] The Central Bureau of Statistics, Quick Estimates for National Accounts for 2014, October 20 2014.

The data in the table indicates that the total export of goods and services increased by a cumulative rate of 9.3% between 2010 and 2013, however the export of goods increased by a moderate 1.8% while the export of services increased relatively steeply by 26.1%. An annual examination of the change rates indicates a decrease in the export of goods' growth rate, from 16.1% in 2010 to 7.3% in 2011, and to a decrease of 4.0% and 1.2% in 2012 and 2013, respectively.

2.2. Export of Goods by Trade Areas

Figure 2 below demonstrates the mix of export of goods by trade areas between January and August 2014.

Figure 2 - The Mix of Export of Goods by Trade Areas (January- August 2014)



The data in the figure shows that the weight of export of goods to the European Union between January and August 2014 was 28% of the total export, forming the largest segment of export. Moreover, the weight of export to the US out of the total export was 27%, the weight of export to Asia was 25% of the total export, and the weight of export to other countries was 20% of the total export.

Table 3 below shows the mix of Israel's export of goods by continent for 2000, 2007 and 2013.

Table 3 - The Mix of Israel's Export of Goods by Continent for 2000, 2007 and 2013 (in USD Millions)[14]

Year	2000		2007		2013	
	Amount	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
Europe	10,429	33%	19,193	35%	24,028	36%
Out of this: the European Union	9,214	29%	15,003	28%	18,286	27%
America	12,933	41%	21,267	39%	20,830	31%
Asia	5,817	19%	9,771	18%	16,726	25%
Unclassified countries	1,434	5%	2,092	4%	3,060	5%
Africa	546	2%	1,202	2%	1,495	2%
Oceania	245.1	1%	567.3	1%	650	1%
Total	**31,404**	**100%**	**54,092**	**100%**	**66,788**	**100%**

The data in the table shows that the share of export of goods to European countries in 2000 was 33% of Israel's total export of goods, and it increased to 36% in 2013. Moreover, between 2000 to 2013, the share of export of goods to Asian countries increased by 6 percentage points, from 19% in 2000 to 25% in 2013. The share of export of goods to American countries decreased from about 41% in 2000 to about 31% in 2013. The share of export to the European Union decreased moderately during that period, from about 29% in 2000 to about 27% in 2013. These data may indicate that there was a change in Israel's export mix **between 2000 and 2013** and the Israeli export's **years-long flexibility** in locating new export targets. However, the share of export to the European Union had a moderate decrease during those years despite of the relatively high increase of export to Asia. This trend may be attributed, among other things, to trade agreements (comprehensive customs exemptions) that promote trade between Israel and the European Union, the geographical proximity and Europe's relatively developed markets (compared with developing countries), that are more suitable for export of technological products from Israel. Table 4 below displays Israel's export of goods by technological strength in 2005 and in 2013.

Table 4 - Export of Goods by Technological Strength (in Current USD Billions)[15]

Technological Strength	2005	In %	2013	In %
High Technology	10.6	41.4%	20.1	43.7%
Medium-High Technology	8.8	34.1%	17	36.9%
Medium-Low Technology	3.7	14.3%	6	13.1%
Low Technology	2.6	10.2%	2.9	6.3%
Total	**25.7**	**100%**	**46.0**	**100%**

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14 The Central Bureau of Statistics, Statistical Yearbook 2014, Export by Target State, Table 16.5, September 22 2014.

15 The Central Bureau of Statistics, Statistical Yearbook 2013, Table 16.11 - Industrial Export by Strength, September 2014.

The data in the table shows that the share of export of hi-tech goods out of the total export of goods (not including diamonds) was 43.7% in 2013, compared with 41.4% in 2005.

Table 5 below shows the export of goods by trade areas in 2000, 2012 and 2013.

Table 5 - Export of Goods by Trade Areas and Selected Countries in 2000, 2012 and 2013 (in USD Millions)[16]

Year	2000	Weight	2012	Weight	2013	Weight	Change 2000-13	Change 2012-13
Europe	**10,429**	**33%**	**21,444**	**34%**	**24,028**	**36%**	**130%**	**12%**
The European Union	9,214	29%	17,159	27%	18,286	27%	98%	7%
EFTA[17]	549	2%	1,222	2%	1,451	2%	164%	19%
Russia	146	0%	1,053	2%	1,036	2%	608%	-2%
Turkey	434	1%	1,421	2%	2,516	4%	479%	77%
The rest of Europe	84	**0%**	588	**1%**	740	**1%**	**776%**	**26%**
Asia	**5,817**	**19%**	**15,888**	**25%**	**16,726**	**25%**	**188%**	**5%**
China	1,645	5%	7,641	12%	8,265	12%	402%	8%
India	557	2%	2,495	4%	2,238	3%	302%	-10%
The rest of Asia	3,615	12%	5,752	9%	6,223	9%	72%	8%
Africa	**546**	**2%**	**1,548**	**2%**	**1,495**	**2%**	**174%**	**-3%**
America	**12,933**	**41%**	**20,985**	**33%**	**20,830**	**31%**	**61%**	**-1%**
The USA	11,734	37%	17,562	28%	17,501	26%	49%	0%
Canada	283	1%	768	1%	635	1%	124%	-17%
Brazil	320	1%	1,139	2%	1,042	2%	226%	-9%
The rest of America	596	2%	1,516	2%	1,652	2%	177%	9%
Oceania	**245.1**	**1%**	**738.0**	**1%**	**650.3**	**1%**	**165%**	**-12%**
Unclassified countries[18]	**1,434**	**5%**	**2,543**	**4%**	**3,060**	**5%**	**113%**	**20%**
Total	**31,404**	**100%**	**63,145**	**100%**	**66,788**	**100%**	**113%**	**6%**

The data in the table above demonstrates that the total export of goods was **USD 66.8 billion** in 2013, 6% higher than the total export of goods in 2012 which was USD 63.1 billion, and 113% higher in comparison with 2000. Moreover, one may see that the weight of export of goods to the

[16] The Central Bureau of Statistics, Statistical Yearbook 2014, Export by Target State, Table 16.5, September 22 2014.

[17] EFTA - the European Free Trade Association which includes Iceland Norway and Switzerland.

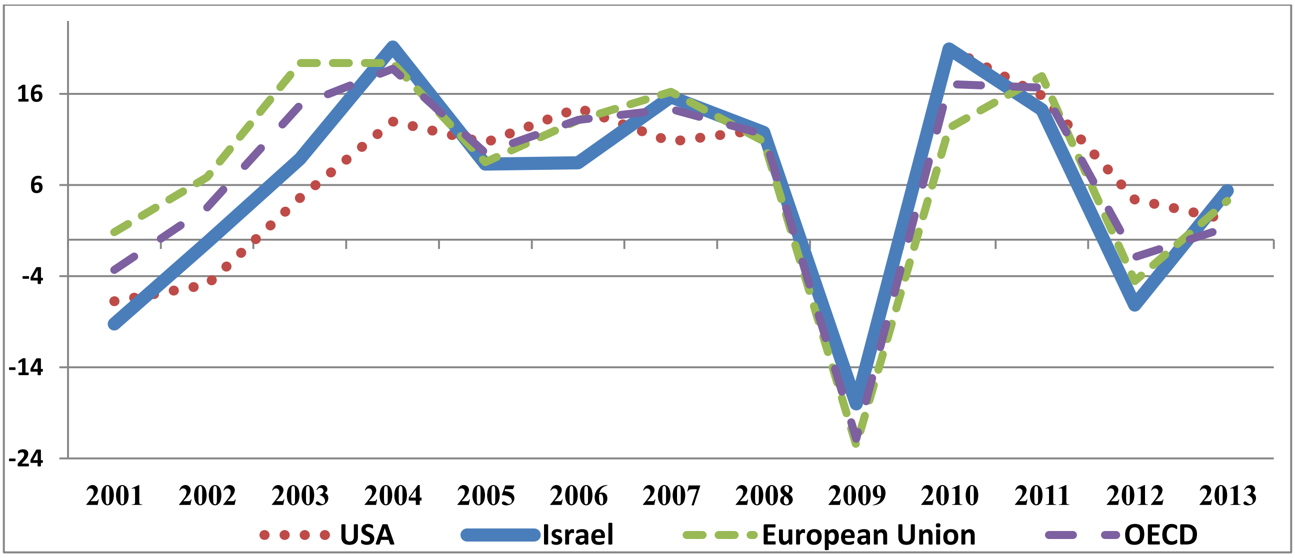
[18] In accordance with the classification by the Central Bureau of Statistics.

European Union and the USA constitutes about 27% and 26%, respectively, of Israel's total export of goods in 2013. In addition, the total export of goods to European countries increased by 12% in 2013 compared with 2012, while the most substantial increase in 2013 was a 77% increase in the scope of export to Turkey compared with the scope of export in 2012. The comparison between the mix of export in 2013 and 2000 indicates a relatively sharp increase in the weight of export of Asia (from 19% in 2000 to 25% in 2013), a relatively moderate increase in the weight of export to European countries (from 33% to 36%), and a relatively high decrease in the weight of export to American countries (from 41% to 31%).

2.3. Trends in the Developed Countries' Export of Goods

Over the recent years, trends in the export of goods in the developed countries have changed. Figure 3 below shows the rate of annual changes in the developed countries, in the European Union, the USA and Israel, between 2001-2013 by percent change.

Figure 3 - Trends in the Developed Countries' Export of Goods (2001-2013, by % Change)[19]



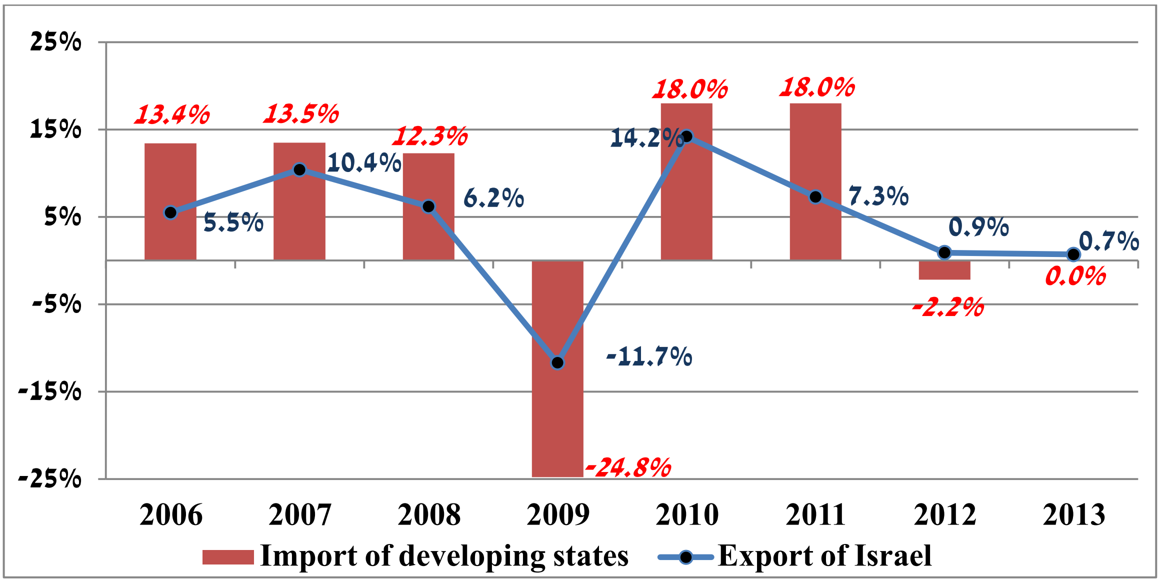
The data in the Figure 3 demonstrates that in 2009, there has been a decrease in the rate of export of goods in the developed countries. This decrease also affected Israel's export of goods, albeit at a slightly more moderate rate. Moreover, one may see that since the middle of 2010, there has been a further decrease in export of goods in the developed countries and this decrease intensified in 2011 and 2012. Since the middle of 2012, the trend began to change, and an increase in the export of goods in the developed countries began. Israel's growth rate of export of goods follows the trends in export of goods by developed countries.

[19] OECD statistics, International Trade, access: 27 October 2014

One of the main explanations for the change in Israeli export (in addition to the exchange rate, the level of competition in the market, and other factors) is **the scope of global trade in general and the import of Israel's main target states for export in particular.**

Figure 4 below demonstrates the change in Israeli export and in the import by Israel's main export target states.

Figure 4 - the Change in Israeli Export and Import by Developed Countries (2006-2013)[20]



The data in the figure 4 shows that in most years, there is a high correlation between the change rate in import by developed countries (Israel's main target states for export) and the change rate in Israeli export.

3. Investments in Israel by Foreign Residents

Investments in the country by foreign investors indicate the market's attractiveness and they influence the market's capability for growth and potential GDP.[21] **Foreign investments indicate the investor's level of trust in local companies, specified sectors or the entire economy, and it is acknowledged as a main lever for economic growth.** Foreign direct investment (FDI) is an investment in a company by a foreign resident. FDIs are performed by buying shares and/or giving

[20] Israeli export data: Bank of Israel, Bank of Israel Report 2013, Chapter B, Table B-N-7, March 31st 2014. Developed countries' import data: OECD statistics, International Trade, access: 2 November 2014.

[21] **Potential product:** the economy's gross domestic product had all production factors (labor and capital) been utilized.

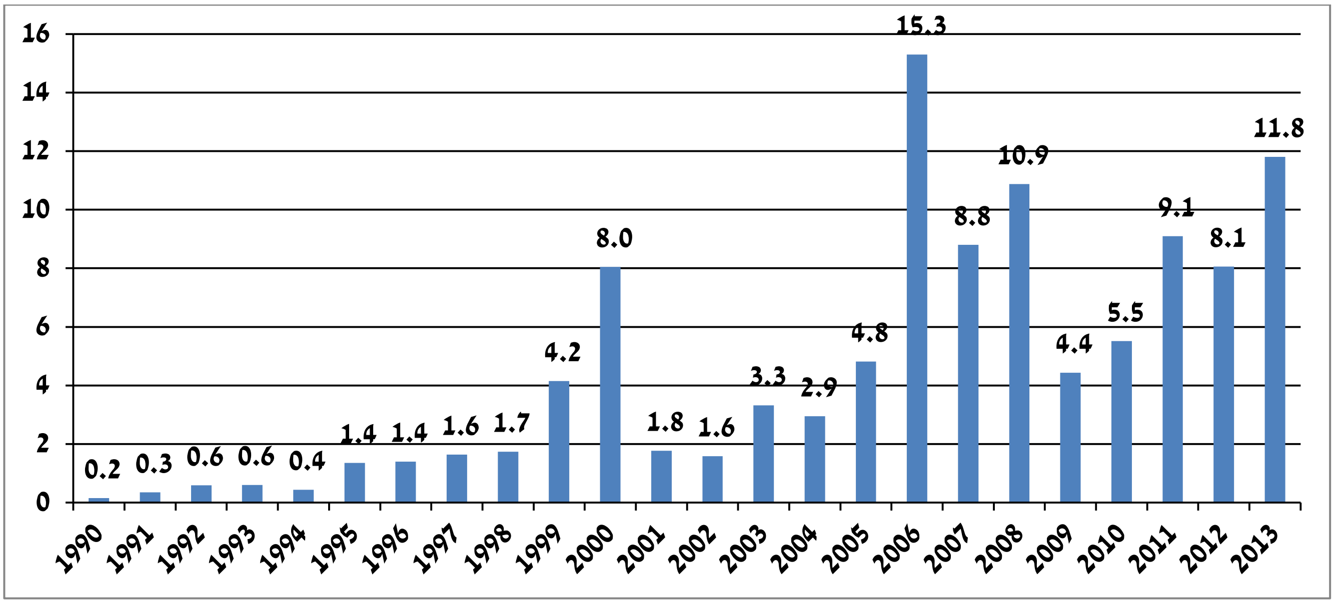
shareholders loans. Normally, holding over 10% of the company's share capital will be considered an FDI.[22] FDIs in the market may be measured in two ways:

- Regular annual investment;
- The balance of total investments for a specific date, meaning net regular annual income, accumulated throughout the years.

3.1. Regular annual investments

Figure 5 below demonstrates the annual volume of foreign direct investments in Israel between 1990 and 2013.

Figure 5 - Foreign Direct Investments (1990 – 2013, in USD Billions)[23]



The data in the figure 5 indicates that investments in Israel by foreign residents in 2013 summed up to about USD 11.8 billion. Moreover, one may see that the scope of investments in the past decade increased substantially in comparison with previous decades. Such, the scope of investments in 2013 (about USD 11.8 billion) was about 78 times higher than the scope of investments in 1990 (USD 178 million).

3.2. Balance of Total Investments

Figure 6 below demonstrates the balance of direct investments in Israel by foreign residents in 2000 and in 2009-2013.

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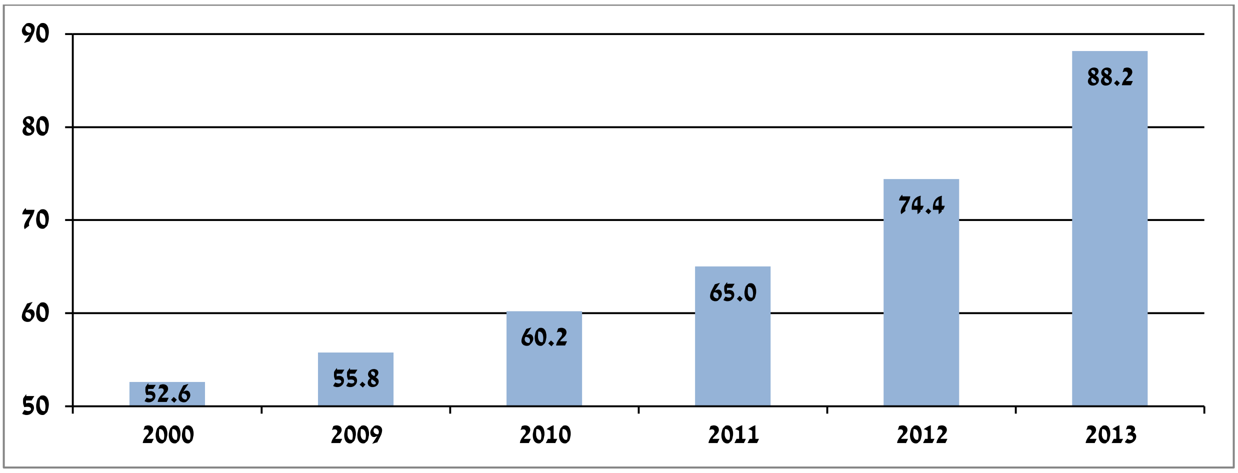
22 The Central Bureau of Statistics, the Payments Balance, Explanations and Definitions, Direct Investment, entrance: October 19 2014.

23 The Central Bureau of Statistics, Statistical Annual 2014, Table 15.1 - Payments Balance, September 22 2014.

Figure 6 - The Balance of Direct Investments in Israel by Foreign Residents (in USD Billions)[24]



The data in the figure shows that the balance of direct investments in Israel in the end of 2013 was about USD 88.2 billion. Moreover, one may see that the balance of direct investments in Israel has been increasing regularly during the period and exceedingly so between 2009-2013, the cumulative rate of increase during that period is about 58%.

Table 6 below demonstrates the balance of direct investments in Israel by states in 2010, 2011 and 2012.

Table 6 - The Balance of Direct Investments in Israel by States in 2010, 2011 and 2012 (in USD Millions)[25]

Country	2010	2011	2012	Weight in %
The United States	17,233	18,619	19,748	26.5%
Canada	5,416	4,060	4,441	6.0%
Other (including the Virgin Islands)	80	68	49	0.0%
Total North America	**22,729**	**22,746**	**24,238**	**32.6%**
The Netherlands	3,268	3,355	3,865	5.2%
The United Kingdom	1,627	1,478	1,535	2.1%
Switzerland	1,113	1,084	1,298	1.7%
Luxemburg	52	486	1,281	1.7%
Lichtenstein	563	316	392	0.5%
Sweden	267	333	347	0.5%

[24] Israeli export data: Bank of Israel, Report 2013, Chapter B, Table B-N-51 Balance of Investments in Israel by Foreign Residents, March 31 2014; The datum for 2000 was obtained from the Statistical Yearbook 2006 by the Central Bureau of Statistics, Table 15.5, entrance: December 11 2014.

[25] The Central Bureau of Statistics, Direct Investments in Foreign Countries by Israel and by Foreign Countries in Israel by Economic Branches and by Country, April 2 2014.

Country	2010	2011	2012	Weight in %
France	804	972	250	0.3%
Italy	1,573	1,089	208	0.3%
Germany	131	53	124	0.2%
Belgium	18	13	68	0.1%
Denmark	0	2	37	0.0%
Other	1,077	1,516	2,727	3.7%
Total Europe	**10,494**	**10,698**	**12,130**	**16.3%**
The Cayman Islands	7,377	7,089	8,638	11.6%
Mexico	98	148	187	0.3%
Other	446	366	757	1.0%
Total South and Central America	**7,921**	**7,603**	**9,582**	**12.9%**
Singapore	250	168	1,868	2.5%
Hong Kong	49	58	28	0.0%
Other	6	2	126	0.2%
Total Asia and Oceania	**305**	**228**	**2,021**	**2.7%**
Total Africa	**41**	**71**	**97**	**0.1%**
Total other countries	**18,748**	**23,668**	**26,334**	**35.4%**
Total	**60,238**	**65,014**	**74,403**	**100%**

The data in the table shows that as of the end of 2012, the balance of direct investments in Israel totaled at USD 74 billion, compared with USD 60 billion at the end of 2010. Moreover, the weight of the balance of direct investments by the USA totaled at 26.5% of the total balance of direct investments at the end of 2012, and the weight of the balance of direct investments by Europe was 16.3%.

Figure7 below shows the foreign direct investments as a percentage of GDP in selected developed countries' GDP in 2011-2013.

Figure7 - Foreign Direct Investments as a Percentage of Selected Developed Countries' Product in 2011-2013[26]

Year	2011	2012	2013	Cumulative change in percentage points 2011-2013
Ireland	10.4%	18.2%	16.3%	5.9
Chile	9.0%	9.2%	7.4%	1.6-
Israel	**4.2%**	**3.7%**	**4.0%**	0.2-
Estonia	1.5%	6.8%	3.9%	2.4

[26] OECD, FDI In Figures, International investment stumbles into 2014 after ending 2013, April 2014.

Year	2011	2012	2013	Cumulative change in percentage points 2011-2013
Australia	3.9%	3.7%	3.4%	0.5-
Canada	2.2%	2.4%	3.4%	1.2
Spain	2.0%	1.9%	2.9%	0.9
The Czech Republic	1.1%	4.1%	2.5%	1.4
Britain	2.1%	1.9%	1.5%	0.6-
OECD	**2.0%**	**1.2%**	**1.4%**	0.6-
The European Union	**3.0%**	**1.3%**	**1.4%**	1.6-
The USA	1.5%	1.0%	1.2%	0.3-
Greece	0.4%	0.7%	1.1%	0.7
Korea	0.9%	0.8%	1.0%	0.1
Germany	1.6%	0.4%	0.7%	0.9-
France	1.4%	1.0%	0.2%	1.2-

The data in the table above demonstrates that the weight of foreign direct investments out of Israel's product in 2013 totaled at about 4%, compared with an average of about 1.4% in the developed countries. Furthermore, one may see that the weight of foreign direct investments out of the product in Israel is higher than in most developed countries.

4. Potential Affects of Attempted Boycotts

The Arab boycott is the most significant sanction ever placed against Israel and it has began in effect before the state was established. In the past years, we have witnessed attempts by various organizations to impose sanctions and limitations on international Israeli activity in culture, education and economics. As said in section 1 above, in this document, we shall focus on boycott attempts by organizations (such as BDS) in the last decade, and on attempts to revoke the customs exemption on products manufactured beyond the Green Line by the European Union. These attempts' affect on export and investment was examined by examining the change in existing economic trends compared with other influential factors (such as the developed countries' trade and global trade). Foreign trade data, and data on export to the European Union in particular, demonstrates that the affects of attempted boycotts in the past decade did not have an adverse affect on Israel's economy on the macro-economic level.[27]

[27] Tal Schwartzman and Ben Hoffman, the Ministry of Finance, Department of International Ties, Export in the Shadow of the De-Legitimization Campaign, e-mail, November 4 2014.

4.1. Boycotts by Organizations[28]

In the past decade there have been attempts to place cultural, educational and economic sanctions against Israel by various organizations in several Western countries. A tangible example for such an activity is found in the American Studies Association's declaration of a boycott of Israeli academic institutions in December 2013, despite of objections by American institutions of higher education.

Various organizations have performed actions of varying strength in the economic arena, as specified below. The BDS Coalition that calls for an economic, social and cultural boycott against Israel, and that has gathered sympathy in several Western countries, performs key activities. The Coalition promotes de-legitimization of the State of Israel through various activities around the world, such as marking products and protests by activists in shopping centers to boycott made-in-Israel goods.[29] The Ministry of Finance estimates that so far, these attempts have not caused harm to Israel's economy on the macro-economic level.[30] It ought to be noted that several US Congress Members see the BDS as a discriminatory body and they are acting to legislate toward limiting its influence. For example, a bill was proposed to withhold federal funding from academic institutions that will participate in boycotts against Israeli academic institutions.

In addition, investments were withdrawn and deals were called off by a number of European pension funds and companies. However, there are no unequivocal signs indicating that these activities were performed due to the intent to execute economic sanctions.[31] The withdrawal of investments by pension funds (Norway, the Netherlands, and Switzerland) is carried out within a policy of socially responsible investing ([32]SRI), through which claims are made of human rights violation by the very existence of Israeli localities in areas outside the Green Line. Within this context, a Swedish SRI-ranking company published a list of companies that trade with bodies that act in areas outside the Green Line.[33]

Attempts to perform boycotts of that type may particularly harm Israeli brand names that are the end product, such as agricultural brands (oranges) or industrial brands consumers in Europe recognize. However, a substantial part of Israeli export concerns **intermediate products**, such as

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[28] USA, Congressional Research Service, Israel: Background and U.S. Relations, Jim Zanotti, December 2014.

[29] The Reut Institute, The BDS Movement Promotes De-Legitimization of the State of Israel, June 2010.

[30] Tal Schwartzman and Ben Hoffman, the Ministry of Finance, Department of International Ties, Export in the Shadow of the De-Legitimization Campaign, e-mail, November 4 2014.

[31] USA, Congressional Research Service, Israel: Background and U.S. Relations, Jim Zanotti, December 2014.

[32] **S**ocially **R**esponsible **I**nvestment - criteria for a business organization or entity's behavior in various fields: prevention of corruption, transparency, commercial decency, protection of human rights, commitment to the protection of the environment, enforcement of labor laws and involvement with the community.

[33] Ben Hoffman, Area Manager, the Ministry of Finance, the Department of the Economist General - International Ties, e-mail: November 4 2014.

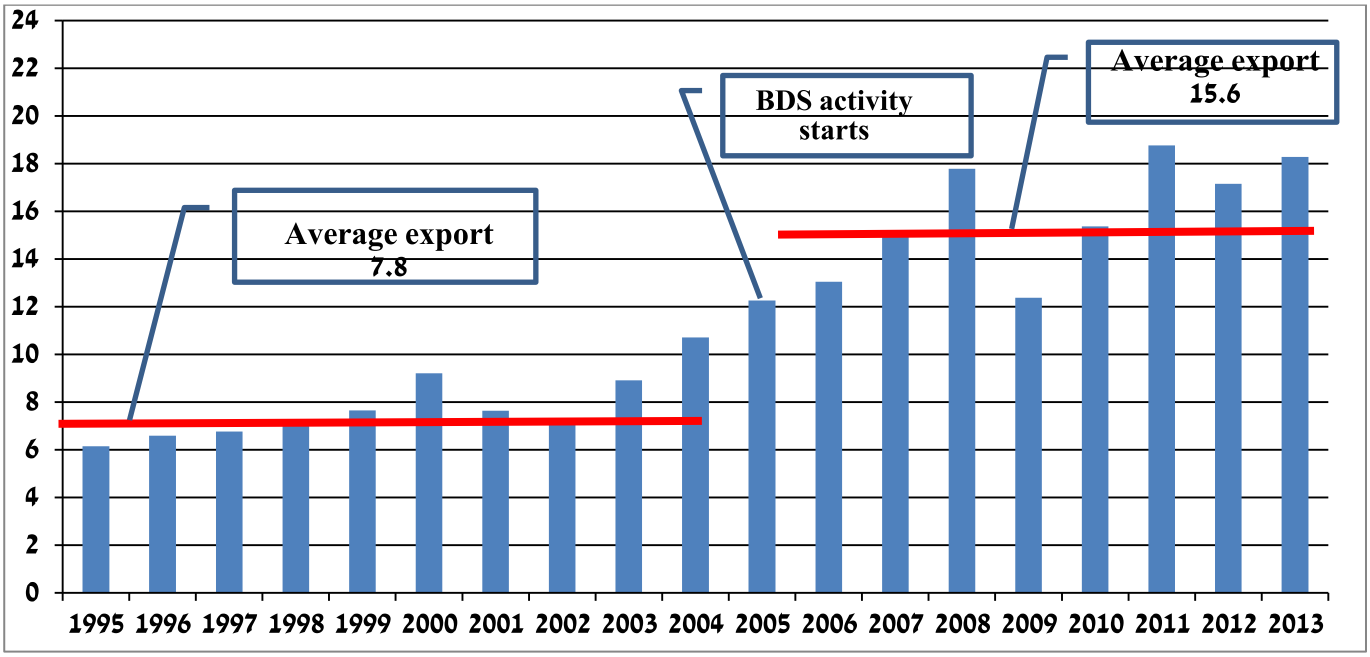
electronic components, assimilated finished products by recognized global manufacturers, and hence attempted boycotts of this kind of products do not succeed.[34]

4.2. Limitations by the European Union

As specified in section 2, members of the European Union are a substantial target market for Israeli export, and the weight of export to this destination has been increasing moderately in the past decade. Moreover, in 1975, Israel and the then-Common Market entered into a mutual trade agreement under which customs in many areas were lifted in the trade between the countries. Another agreement was signed with the European Union in 1995, broadening the customs exemptions between the countries. The trade agreements increased profitability of Israeli export to members of the European Union. The European Union determined that the agreements between Israel and the European Union do not apply to Judea and Samaria, East Jerusalem and the Golan Heights.[35] **It is noted however that this is not a boycott of products that are made in these areas, but rather the imposition of customs on them.**

Figure 7 below specifies the scope of Israeli export of goods to members of the European Union between 1990 and 2013.

Figure 7- The Scope of Export of Goods to Members of the European Union between 1990 and 2013 (USD Billions)[36]



[34] Ibid.

[35] Council of the European Union, Statement by EU Representative Catherine Ashton on the publication on Israel and EU funding instruments, *"bilateral agreements with Israel do not cover territory that came under Israel's administration in June 1967"*, (A 391/13), July 19, 2013.

[36] The Central Bureau of Statistics, Statistical Yearbook 2014, Table 16.5 - Export by Target Country, September 2014.

The data indicates that the average annual level of export to members of the European Union totaled at about USD 15.6 billion in 2005 (the beginning of the de-legitimization campaign by organizations such as the BDS) to 2013, compared with a level of USD 7.8 billion between 1995 and 2004, meaning a sharp increase of about 99%. It ought to be noted that in 2009, there has been a sharp decline in export due to the global economic crisis, and the increase is even higher when one does not factor this influence.

Table 8 below specifies the weight of industrial and agricultural export to the European Union states out of the total export, while emphasizing export from Judea, Samaria, East Jerusalem and the Golan Heights to the European Union states.

Table 8 - The Rate of Industrial and Agricultural Export Out of Total Export in 2013[37]

Sector	The European Union		Total export In USD millions
	In USD millions	Weight	
Industrial export, not including diamonds	14,108	30.6%	46,060
Estimated exports from Judea, Samaria, East Jerusalem and the Golan Heights	100	40%	250
Weight	*0.7%*		*0.5%*
Agricultural Export	882	59%	1,495
Estimated exports from Judea, Samaria, East Jerusalem and the Golan Heights	22.1		
Weight	*2.5%*		

The data in the table demonstrates that the weight of the total export of industry products (not including diamonds) to the European Union out of the total export was about 30.6% in 2013. The weight of export from Judea and Samaria, East Jerusalem and the Golan Heights out of the total export is estimated at about 0.5%, and the weight of export from these regions to the European Union is estimated at about 0.7%. Hence, one may say that these measures' significance (meaning, the imposition of customs on products that are manufactured across the Green Line) on the total Israeli export is not substantial.[38] Furthermore, the decrease in the economic profitability of export to Europe may direct exporters from these areas to other export destinations (such as Asia). Moreover, the data demonstrates that the weight of the total agricultural export to the European Union out of the total agricultural export was about 59% in 2013. The weight of agricultural export

[37] **Industrial export not including diamonds and agricultural export:** the Central Bureau of Statistics, Table 16.12 - Export by Economic Branch and Main Target Country, September 2014. Export Across the Green Line: Ben Hoffman, Area Manager, the Ministry of Finance, the Department of the Economist General - International Ties, e-mail: November 4th 2014.

[38] Ministry of Finance, Department of International Ties, Export in the Shadow of the De-Legitimization Campaign, e-mail, November 4 2014.

from Judea and Samaria, East Jerusalem and the Golan Heights to the European Union is estimated at about 2.5%.[39]

In July 2013, the European Union published guidelines that prohibit financing for Israeli organizations in Judea and Samaria, East Jerusalem and the Golan Heights.[40] In accordance with these instructions, limitations will be imposed on European Union grants and financing for localities in those areas. In addition, Israel's inclusion in the European Union's "Horizon 2020" Research & Development Program was authorized after successful negotiations whose essence was Israel's consent that European funds will not reach organizations and institutions that act in Judea and Samaria, East Jerusalem and the Golan Heights.[41]As said, the issue of marking products that come from Judea and Samaria, East Jerusalem and the Golan Heights is on the European Union's agenda. Even though the European Union has not yet published guidelines on product marking, about 14 Union states expressed willingness to mark products from those regions.[42]

5. Conclusion

Israeli businesses sometimes deal with episodes of boycott encouragement. The Ministry of Foreign Affairs acts to handle those episodes as they arise in order to minimize or prevent the potential harm. Moreover, an inter-ministry forum that includes representatives of the Ministry of Foreign Affairs, the Ministry of Strategic Affairs, the Ministry of Finance, the Ministry of the Economy and the Ministry of Justice, as applicable, gathers and acts in cooperation with experts to handle specific cases.[43]

The Israeli economy's strength and continued thriving are affected by the share of international commerce and direct investments in Israel, out of GDP. The data specified above in section 2 demonstrates that the Israeli economy is highly exposed to foreign trade and to foreign investments. The Israeli export's mix of target markets is relatively diverse (see Table 4 above - the European Union - 27%, the USA - 26%, and Asian countries - 25%). Moreover, the goods and services Israel exports are produced in diverse economic branches. A multi-annual examination indicates that

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[39] Ibid.

[40] EU, Official Journal of the European Union, Guidelines on the eligibility of Israeli entities and their activities in the territories occupied by Israel since June 1967 for grants, prizes and financial instruments funded by the EU from 2014 onwards, (2013/c 205/05), July 19, 2013.

[41] USA, Congressional Research Service, Israel: Background and U.S. Relations, Jim Zanotti, December 2014.
For more information, see: Roy Goldschmidt, The State of Israel's Participation in the European Union's Framework Research and Development Plan, the Knesset Research and Information Center, February 2014.

[42] Ben Hoffman and Tal Schwartzman, Area Managers, the Ministry of Finance, the Department of the Economist General - International Ties, e-mail: November 4 2014.

[43] Amir Ofek, Manager of the Department for Civil Society, the Ministry of Foreign Affairs, phone call, November 4 2014.

Israel's export has been increasing over the years, and the mix of export has been changing - the weight of export to Asia and Europe has increased at the expense of a decrease in the weight of export to America. The trends of change in Israeli export largely fit the changes in global commerce, and especially fit the changes in import by developed countries (see Figure 4 above). In addition, the scope of foreign direct investments in Israel has increased substantially in the past decade, and their weight out of Israel's total product is higher compared to most developed countries.

Based on the above specified data, one may state as follows:

- The Israeli economy is significantly exposed to foreign trade and to foreign investments;
- Attempts to boycott Israel have not caused harm to Israel's economy on the macro-economic level so far.