



Department for
International Trade

January 2022



Information Note

for the Call for Input on a prospective
Free Trade Agreement between the
United Kingdom and Israel

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1: Introduction



The government's ambition is to secure free trade agreements (FTAs) with countries covering 80% of UK trade by the end of 2022. The Department for International Trade (DIT) aims to secure an ambitious programme of FTAs to benefit the whole of the UK and support businesses of all sizes across different sectors of the economy.

FTAs facilitate UK businesses to export to foreign markets and enable producers and consumers to access a greater range of intermediate and final products at competitive prices. Greater trade liberalisation also has a positive economic impact by increasing innovation, productivity, and competition.

On 18 February 2019, the United Kingdom and Israel signed the UK-Israel Trade and Partnership Agreement (UK-Israel TPA). This replicated, as far as possible, the effect of the existing trade agreements between the European Union and Israel.

The Partnership Agreement provides the basis for our trading relationship with Israel and is a platform from which we can begin the process of negotiating a new and more ambitious trade deal.

We have agreed with Israel that we will open negotiations to upgrade our trade arrangements during 2022. In advance of agreeing a UK mandate for these negotiations, DIT is seeking input from members of the public, businesses, and any other interested stakeholders to our negotiation objectives and understanding of the economic, environmental and social impacts of an enhanced FTA with Israel. The aim of this document is to provide:

- Background information on current trade flows between the UK and Israel to better understand the existing trading relationship
- Information to help guide stakeholders to identify priority areas of the current trading relationship including the potential for further ambition or amendments.

Figure 1: highest imports and exports for goods and services trade between the UK and Israel, 2020



Sources: UK trade in services: service type by partner country, non-seasonally adjusted, UK trade in goods: country by commodity exports, UK trade in goods: country by commodity imports, UK trade in goods by business characteristics



2: UK-Israel economic, trade and investment relationship

2.1 Overview of economies

In 2020, Israel had a gross domestic product (GDP) per capita of \$43,611. This is similar to the UK's GDP per capita of \$40,285 over the same period.¹ Israel's total GDP is around 15% of the size of the UK's. Total trade (imports plus exports) is equivalent to a similar proportion of GDP for both Israel and the United Kingdom.² Both the UK and Israel are services-based economies, with services accounting for over 70% of GDP.³

Table 1: Headline economic indicators for Israel and the UK, 2020

Economic Indicator	Israel	UK
GDP, PPP (2019 prices, \$ billion)	\$402	\$2,700
GDP per capita, PPP (2019 prices)	\$43,611	\$40,285
Trade (% GDP)	52%	55%
Population (million)	9.2	67.2
Agriculture, value added (% GDP)	1.1% (2019)	0.6%
Industry, value added (% GDP)	18.5% (2019)	16.9%
Manufacturing, value added (% of GDP)	10.9% (2019)	8.4%
Services, value added (% GDP)	71.2% (2019)	72.8%

Source: World Bank: World Development Indicators

2.2 Trade flows between the UK and Israel

Israel is the UK's 39th largest trading partner, accounting for 0.4% of total UK trade.⁴ Total trade in goods and services between the UK and Israel was £4.8 billion in 2020.⁵

In 2020, UK exports to Israel were £2.7 billion as seen in table 2, making it the UK's 36th largest export market (accounting for 0.4% of all UK exports).⁶ UK imports from Israel were £2.1 billion over the same period, making it the UK's 42nd largest import source (accounting for 0.4% of all UK imports).

Table 2: Trade between the UK and Israel, 2020 (£, million)

Trade component	Trade in goods	Trade in services	Total trade
Exports	1,684	1,018	2,702
Imports	1,421	692	2,113
Total	3,105	1,710	4,815

Source: ONS, (2021). UK total trade: all countries, non-seasonally adjusted (accessed 25th November 2021).

1 In current \$ values, as of 25th November 2021

2 World Bank: World Development Indicators.

3 Value added as a percentage of GDP can be used as a measure of the relative contribution of a sector towards overall economic output in an economy. Organisation for Economic Co-operation and Development (OECD), 2021

4 EU members are treated as individual trading partners with the UK.

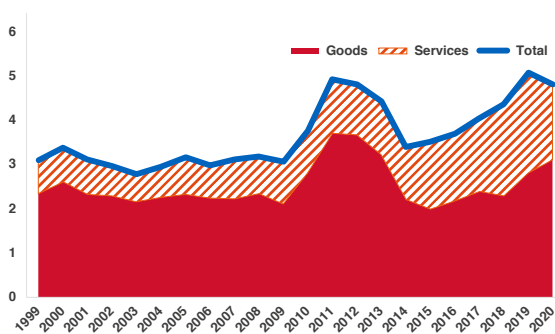
5 ONS, (2020). UK Total Trade: all countries, non-seasonally adjusted (Accessed: 25th November 2021).

6 Source: ONS, (2021). UK total trade: all countries, non-seasonally adjusted (accessed 25th November 2021).

Figure 2 shows how UK trade with Israel has evolved since 1999, broken down by goods and services. UK trade with Israel has increased since 1999. Goods trade has made up the majority of our trade with Israel. Trade remained stable from 1999 to 2009, before increasing substantially between 2009 and 2011. It then declined between 2011 and 2014 before increasing between 2014 and 2019. Services trade has also become an increasing share of the UK's trade with Israel.

During 2020, trade with Israel fell by 5% compared to 2019. This compares to a 16% fall in trade with the world. This was predominantly due to a fall in UK services exports to Israel, which fell by 33% in 2020 relative to 2019.

Figure 2: UK trade with Israel over time (£ billion)



Source: ONS, (2021). UK total trade: all countries, non-seasonally adjusted (accessed 25th November 2021).

The top UK goods exported to Israel in 2020 were intermediate mechanical power generators (£294 million), clothing (£243 million) and medicinal & pharmaceutical products (£156 million), together representing around 41% of all UK goods exports to Israel.⁷ The top five UK goods product lines exported to Israel in 2020 are shown in Figure 3.

The UK's top goods imported from Israel in 2019 were intermediate mechanical power generators (£364 million), scientific instruments (capital) (£129 million) and vegetables and fruit (£87 million). These goods account for 41% of UK imports from Israel.⁸ The top five UK goods product lines imported from Israel in 2020 are shown in Figure 4.

Figure 3: Top 5 UK goods exports to Israel, 2020 (using SITC codes⁹, £ million)

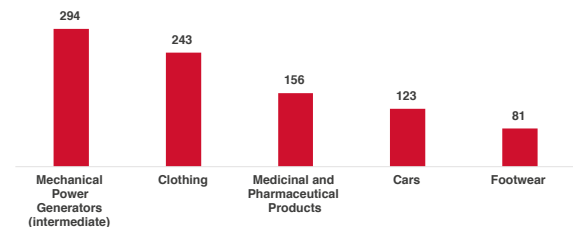
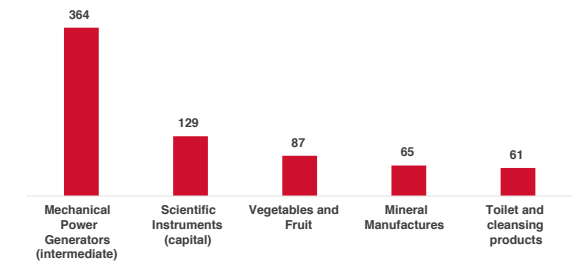


Figure 4: Top 5 UK goods imports from Israel, 2020 (using SITC codes¹⁰, £ million)



Source: Data on trade in goods by commodity are sourced from data by the ONS, UK trade release (non-seasonally adjusted). These statistics for exports and imports present the latest data from the September 2021 ONS publication which are given on a monthly basis.

Businesses across the UK traded goods with Israel. In 2020 1.2% of goods exported from the East Midlands were destined for Israel – with the country a particularly important market for goods from Derbyshire and Nottinghamshire. Similarly, 0.8% of goods exported from the East of England and London also went to Israel – compared to 0.6% for the UK. Similarly, businesses from the East Midlands imported 1.2% of their goods from Israel – relative to 0.3% for the entire UK.¹¹

Other business services, which includes accountancy, architectural and legal services, was the UK's largest services trade import and export to and from Israel, worth £346 million and £310 million respectively. Financial services was the UK's second largest export in services trade, worth £175 million. Telecoms, computer and information services were our second largest import in services trade, worth £97 million. The top five UK services exported to and imported from Israel in 2020 are shown in Figures 5 and 6 respectively.

7 ONS, UK trade release (non-seasonally adjusted). The commodities are categorised based on SITC codes using level 2 codes

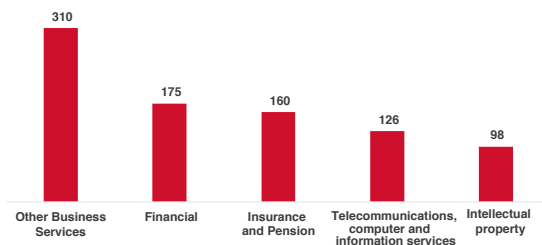
8 Ibid.

9 Ibid.

10 Ibid.

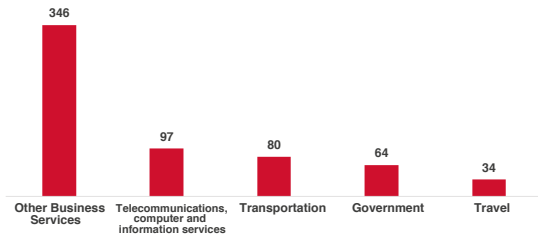
11 ONS (2021), "Regional Trade in Goods Statistics dis-aggregated by smaller geographical areas

Figure 5: Top 5 UK services exports to Israel, 2020 (£ million)



Source: ONS, (2021). UK trade in services: service type by partner country, non-seasonally adjusted (Accessed 25th November 2021)

Figure 6: Top 5 UK services imports from Israel, 2020 (£ million)



Source: ONS, (2021). UK trade in services: service type by partner country, non-seasonally adjusted (Accessed 25th November 2021)

In 2019 the stock of FDI from the UK in Israel was £1.4 billion. This was around 0.1% of the UK's total outward FDI stock. Between December 2011 and December 2021, the clusters with the highest number of UK outward FDI projects in Israel were "Financial Services", "Professional Services" and "ICT & Electronics". Together, these clusters accounted for 80% of the 25 total UK outward FDI projects to Israel.¹² Over the same period, Israel's inward FDI projects in the UK were concentrated in "ICT & Electronics", "Creative Industries", "Life sciences" and "Professional Services". Together these clusters accounted for 75% of the 116 total Israel inward FDI projects to the UK.¹³

The OECD FDI Restrictiveness Index highlights that Israel is more restrictive than the average OECD country in 17 sectors. These include in electricity, communications, and transport. It is also more restrictive than the UK to FDI in all sectors except for fisheries.¹⁴

On average, around 53% of Israeli restrictions on FDI in Israel reflect equity restrictions, which limit the extent of foreign ownership permitted in companies. Around 27% of restrictiveness is due to other restrictions which limit the potential operation of foreign investors, including land ownership and access to local finance.¹⁵

¹² Source: Fdi markets. Accessed 5 January 2022

¹³ Source: Fdi markets. Accessed 5 January 2022

¹⁴ OECD FDI Restrictiveness Index

¹⁵ OECD FDI Restrictiveness Index

2.3 Basis of current trading relationship

The UK-Israel trading relationship includes the UK-Israel TPA that was signed on 18 February 2019.

Goods market access

Goods chapters in trade agreements set out the preferential tariffs that are applied to the goods of each of the respective parties.

The UK-Israel TPA liberalises 94% of tariff lines on UK exports, covering over 99.5% of the value of UK exports to Israel on average between 2018 and 2020. There are a limited number of agricultural products that are either subject to a Tariff Rate Quota (TRQ) or are excluded from any tariff reduction altogether.

Under Israel's Most Favoured Nation (MFN) tariff schedule 66% of tariff lines are zero. The TPA liberalises a further 2,325 tariff lines covering £428 million in UK exports to Israel. Around 513 lines are only partially liberalised or not liberalised at all under the existing agreement, however, based on export patterns over the last few years, these only cover £6 million in annual exports.

Table 3: Breakdown of tariff lines in Israel's MFN schedule and UK-Israel TPA schedule

Tariff line type	Number of lines	Israel imports from the UK (2018-20 average) (£m)
MFN zero	5,714	1,075
MFN non-zero but preferential rate zero	2,325	428
Partial liberalisation under FTA	98	4
Excluded under FTA	415	2

Source: DIT calculations (see footnote below).

In comparison to trading at MFN rates, the TPA is estimated to reduce annual duties by £41 million on Israel imports from the UK, and £24 million on UK imports from Israel. These figures assume that available preferences are fully utilised by exporters and importers.¹⁶

The products where the largest annual duty reductions are estimated on UK imports from Israel are:

- plastics and articles thereof (HS39, £8.6 million)
- edible fruit and nuts; peel of citrus fruit or melons (HS08, £2.5 million)
- edible vegetables and certain roots and tubers (HS07, £2.0 million)

The products where the largest annual duty reductions are estimated on UK exports to Israel are:

- vehicles other than railway or tramway rolling stock (HS87, £14 million)
- machinery, mechanical appliances or similar (HS84, £8.7 million)
- essential oils and resinoids (HS33, £2.6 million)

¹⁶ DIT calculations using tariff data from ITC Market Access Map (MacMap) and trade data from ITC Trade Map (accessed September 2021) for exports calculations. DIT calculations using tariff data from DIT's WTO CRTA notification table, DIT estimates of UKGT AVEs and MacMap preferential AVEs, and trade data from HMRC for imports. Implied additional duties are calculated using the difference in MFN and preferential tariff rates (simple average tariffs at CN8 level) and the value of trade for each product at CN8 level (2018-2020 average). Different approaches and data sources for this analysis are likely to yield different results. Calculations on duties applied to exports also assume trade is not eligible for duty relief under inward/outward processing rules, nor under specific plurilateral agreements such as those covering civil aviation and pharmaceuticals, nor WTO or preferential quotas. Calculations on import duties take into account inward/outward processing rules and trade which is eligible for relief under specific plurilateral agreements but not WTO or preferential quotas.

Remaining annual duties on UK imports from Israel are estimated to be around £1.2 million. These are mainly attributed to edible fruit and nuts (HS08) and edible vegetables (HS07), each accounting for about £400,000 worth of duties. Examples of products that are not fully liberalized by the UK under the existing arrangement include sweet peppers, potatoes, fruit juices, and wine.¹⁷

Remaining annual duties on exports to Israel are estimated to be around £1.4 million. These are predominantly charged on dairy products (HS04, £1 million). Examples of products that are not fully liberalized by Israel under the existing arrangement include cheese, rape and colza oil, peas, and preparations for animal feed.¹⁸

The values provided above assume that utilisation of preferential tariffs is 100%, which is not true in practice. The average preference utilisation rate for UK exports to Israel in 2019 was 71%. This means that 71% of UK exports that were eligible for preferential treatment were exported to Israel under preferential terms, with the remainder exported under MFN terms.¹⁹ Utilisation rates could be increased in sectors such as transportation equipment, which make up a high share of UK exports to Israel and utilisation is lower than the average.

The average preference utilisation rate for UK imports from Israel in 2019 was 89%. Utilisation could be increased in sectors such as machinery and mechanical appliances, which account for a significant share of UK imports from Israel but where utilisation is lower than average (75%).

Utilisation rates vary greatly across sectors and agreements. Utilisation rates are also likely affected by agreement-specific factors such as rules of origin requirements for goods and the profile of businesses which export those goods.

Tariff Rate Quotas

Tariff-rate quotas (TRQs) allow a certain quantity of a product to enter the importing market at a zero or reduced tariff rate. Imports above the quota are subject to a higher tariff – usually the MFN rate.

The current agreement includes inward TRQs for Israeli exports to the UK on the following products (with duty-free in-quota rates):

- turkey
- duck and geese
- whey
- flowers and flower buds
- new potatoes
- tomatoes
- cucumbers
- sweet peppers
- courgettes
- sweet corn
- oranges
- clementines
- grapes
- melons
- strawberries
- cocoa powder
- chewing gum
- gingerbread
- peaches
- orange juice
- wine
- starches

¹⁷ The HS codes for these products are as follows: sweet peppers (0709.60.10), potatoes (0701.90.50), fruit juices (2009), and wine (2204).

¹⁸ The HS codes for these products are as follows: cheese (0406), rape and colza oil (1514.19), peas (0710.21.00), and preparations for animal feed (2309).

¹⁹ DG Trade calculations, updated 21st October 2020

The current agreement also includes outward TRQs on UK exports of the following products (with duty-free in-quota rates):

- live calves
- live ducks, geese, turkey, and Guinea fowl
- beef meat
- sheep/goat meat
- poultry
- goose liver
- fish
- powdered milk and cream
- condensed milk
- milk and cream
- whey
- butter
- cheese and curd
- eggs
- honey
- various fruit, vegetable, nuts, and legumes products
- mushrooms
- wheat
- oils (including soya, sunflower, rapeseed, olive)
- sausages
- caviar and caviar substitutes
- glucose
- chewing gum
- biscuits
- waffles
- tomatoes paste
- jams, fruit jellies, and marmalades
- fruit juices
- ice cream
- wine
- vermouth
- other grape alcohol
- spirits
- oilcake
- dog or cat food
- other animal feed
- egg albumin

Full details and breakdowns of the TRQs can be found in the Parliamentary report which accompanies the UK–Israel TPA.²⁰

Rules of Origin

In trade agreements, rules of origin (RoO) are used to determine the economic nationality of a good. In order to benefit from the preferential tariff rates under the UK–Israel TPA, goods must “originate” in either the UK or Israel. Goods must, for example, be “wholly obtained” or “sufficiently worked and processed”. These and other rules are fully described at the following [link](#).

To provide maximum continuity for business, the UK-Israel TPA provides that EU materials can be recognised (i.e. cumulated) in UK and Israel exports to one another. Furthermore, EU processing can be recognised (i.e. cumulated) in UK exports to Israel.

Non-tariff measures

Non-tariff measures (NTMs) are defined as policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both.²¹ This includes customs controls and differences in national regulatory regimes.

The measures applied by Israel, and the number which fall under each category, which affect all countries include:²²

- technical barriers to trade (28)
- sanitary and phytosanitary (163)
- quantity control measures (20)
- export related measures (23)
- price control measures (4)
- pre-shipment inspection (5)
- other measures (3)

²⁰ <https://www.gov.uk/government/publications/continuing-the-uks-trade-relationship-with-israel-parliamentary-report>

²¹ MAST (Multi-Agency Support Team, composed of the Food and Agriculture Organization of the United Nations, International Trade Centre, Organization for Economic Cooperation and Development (OECD), UNCTAD, United Nations Industrial Development Organization, World Bank and WTO). See UNCTAD (2019) https://unctad.org/en/PublicationsLibrary/ditctab2019d5_en.pdf

²² UNCTAD, TRAINS. Available at: <https://trainsonline.unctad.org/home>. Accessed November 2021

Trade Remedies

Trade remedies provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports. The UK–Israel TPA reaffirms the WTO obligations the Parties are bound by, and also includes measures to ensure transparency and information sharing between the Parties, with a view to preventing unfair trading practices.

Dispute settlement

The economic benefits of trade agreements can only be realised if they are implemented and complied with. A dispute settlement mechanism in an agreement signals the parties' intention to abide by the agreement, provides an effective mechanism for enforcing commitments, and for resolving any disputes that may arise in the future.

The UK–Israel TPA sets out the formal procedure for the Parties to follow in the event of a dispute about the interpretation or application of the agreement.

Services

The UK-Israel TPA contains very limited services provisions. The services commitments build upon the level of access and the treatment granted to all WTO members under GATS (General Agreement on Trade in Services).

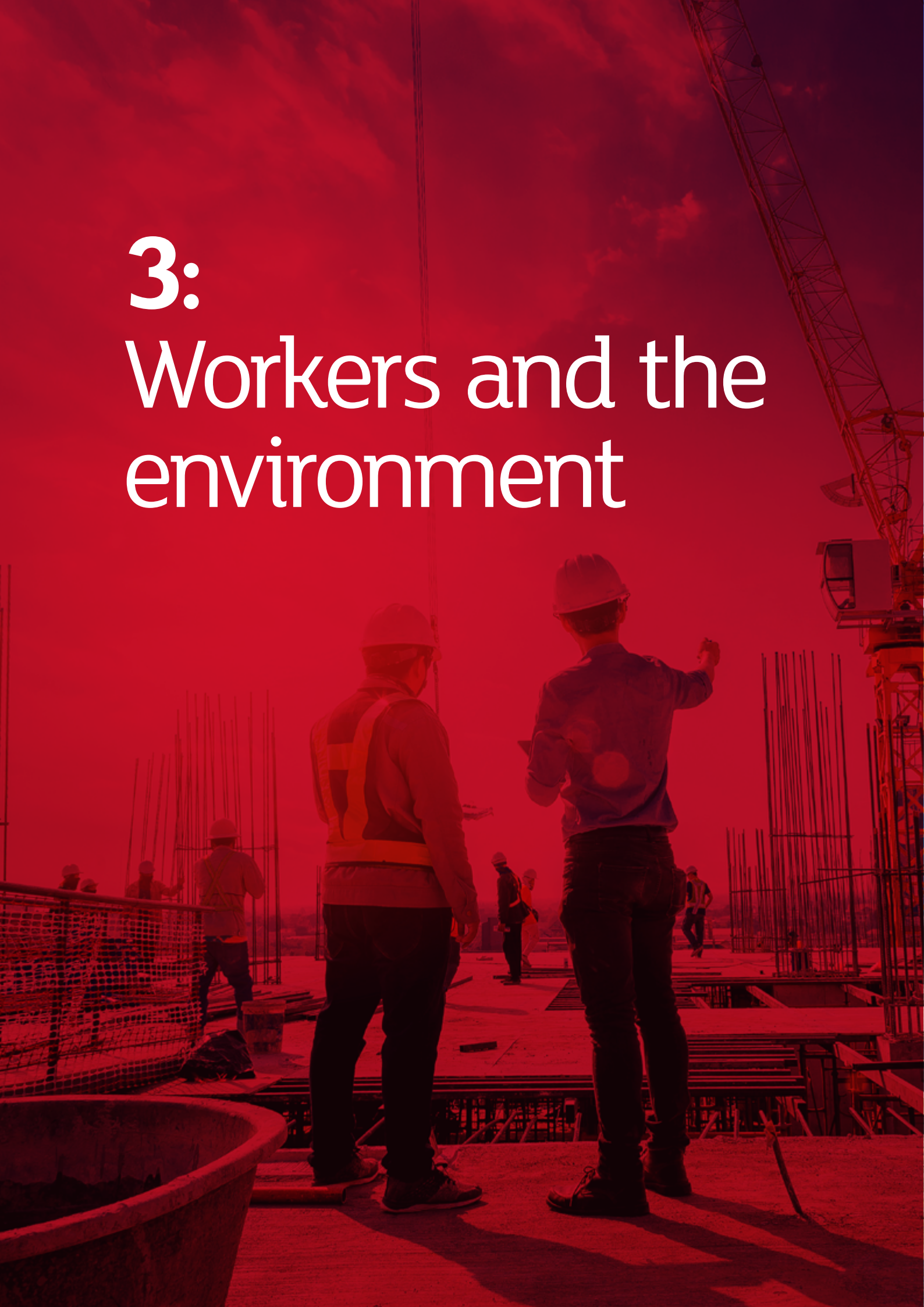
Government Procurement

Government procurement commitments in trade agreements provide enforceable rules and standards for a transparent and non-discriminatory framework on government procurement. They also liberalise specific procurement markets between the parties and provide enforceable market access commitments. The UK-Israel TPA reaffirms the commitments made between both parties in the WTO Agreement on Government Procurement (GPA) and builds upon Israel's national treatment obligations at a municipality level.

Intellectual Property

Intellectual Property (IP) provisions provide protection for, and enforcement of, IP rights. These include registered IP rights such as patents, trade marks and designs, and unregistered rights such as copyright and trade secrets. The UK–Israel TPA affirms both partners' commitment to international standards and effective enforcement and establishes a route for dialogue via the Association Committee.

3: Workers and the environment



Potential impacts of an FTA for workers and the environment

Just as FTAs present opportunities and challenges for businesses, they also generate opportunities and challenges for the workers of those businesses. They can also affect the dynamism of the labour market more widely.

Workers can benefit from FTAs through a variety of channels:

- Where FTAs boost productivity within firms and sectors, and across the economy more widely, this is likely to generate increases in the employment opportunities and real wages of workers;
- Where FTAs lower consumer prices, this is likely to benefit workers in the form of higher real wages, meaning that they can purchase more even at the same wage.

Trade liberalisation can also affect the structure of the economy over time. Workers may move between jobs and sectors, as changes in the pattern of trade leads to some sectors expanding and some sectors declining. The UK has one of the most dynamic and flexible labour markets in the world, which helps to facilitate adjustment and reduce transitional costs for workers.

Modern, dynamic economies are continually reshaping in line with global developments which drive a continual process of worker and job transition in the labour market. It is possible that lower barriers and greater import competition resulting from an FTA could accelerate this ongoing process.

Potential wider social impacts of an FTA

FTAs can affect employment prospects, wages and wider working conditions in specific sectors or for specific professions or skill levels. The characteristics of workers can sometimes differ across sectors, professions and skill levels. It is therefore possible that these changes could affect various social groups differently and influence the distribution of income. The regional location of workers in different sectors and professions may also vary. This means that different areas or regions within a country may be affected differently by an FTA.

The impacts on different groups and regions will depend upon the details of each agreement. The Government will assess the potential impacts on different groups in more detailed studies before and after negotiations take place with new partner countries.

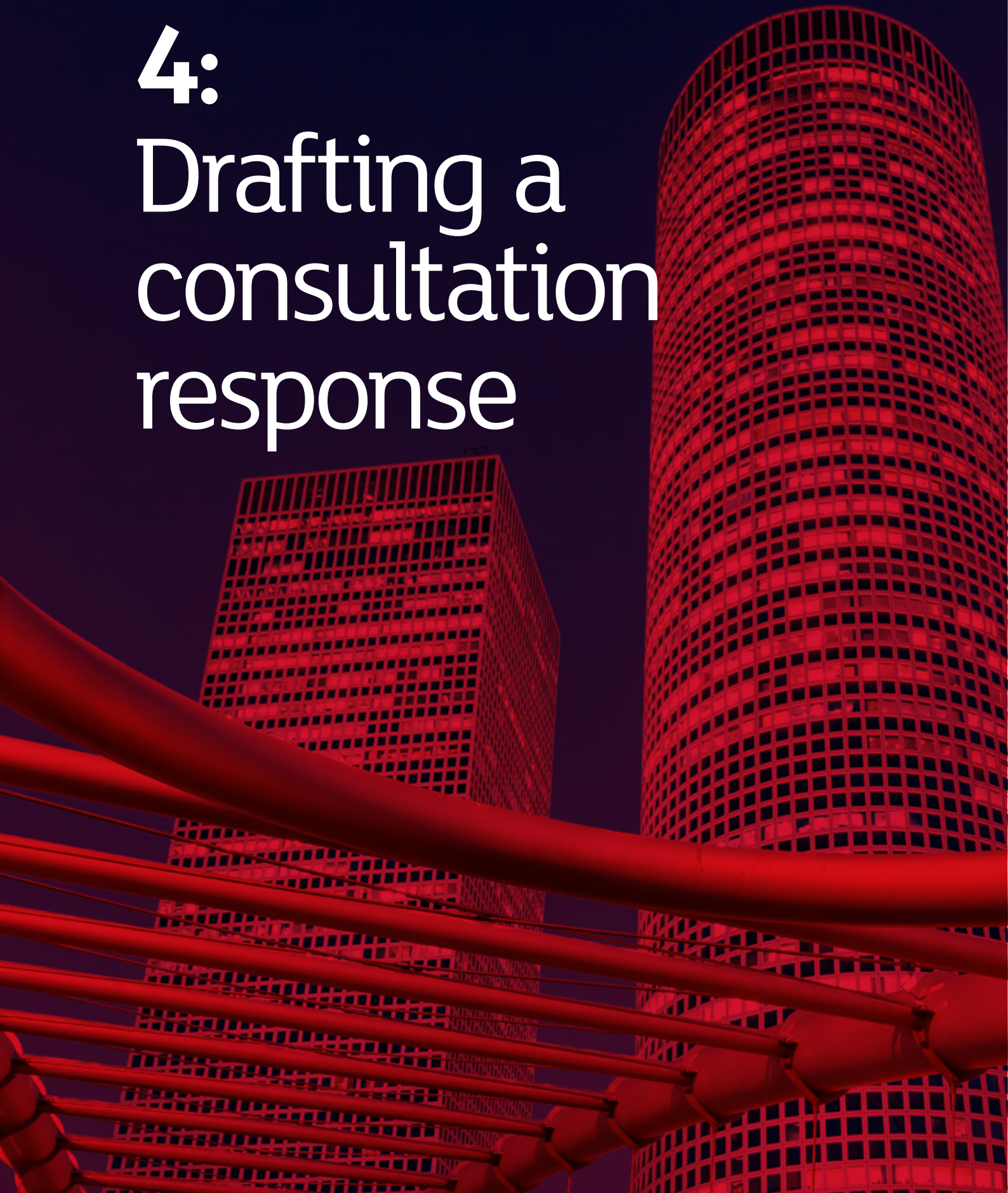
Potential impacts of an FTA on the environment

The economic changes resulting from FTAs have the potential to affect some aspects of the environment including, for example, greenhouse gas emissions, air pollution, water quality and land use.

The indirect impacts on the environment may occur as enhanced trade induces the economy to grow (a 'scale' effect affecting pollution for example) and as economic activity shifts between sectors with different levels of emissions (a 'composition' effect). FTAs can also positively impact the environment as increased trade leads to the transfer of new, potentially more environmentally friendly, technologies and production methods (a 'technique' effect).

The impact of FTAs on the environment will depend upon the design of an agreement and the economies of the countries involved. The UK Government is committed to maintaining high standards of environmental protection in trade agreements. The Government will assess the potential environmental impacts in more detailed studies before and after negotiations take place with new partner countries.

4: Drafting a consultation response



Drafting a consultation response

As with all other new FTAs, DIT is committed to negotiating an agreement which delivers benefits to stakeholders across the whole of the UK. The responses to this consultation will inform our policy making and negotiating positions for engaging with Israel, and so it is important to us that you respond and set out your priorities for the shape of a future FTA.

Prior to submitting your response, we encourage you to talk to a range of experts in your business/organisation to understand the fullest picture of current trading priorities. A PDF version of the full set of questions is available before you complete the online questionnaire.

When responding, we would advise you to think about what you would want to see in an FTA that is designed for the future. Tell us which areas you think provide the most opportunities, and where we can secure provisions to help you overcome any barriers you are currently experiencing whilst trading and investing with Israel.

When responding to the consultation you may find some questions are more applicable to you/your business/organisation than others. Aim to answer these questions accurately, and in as much detail as possible. This may include suggestions on what you would like to see included in certain chapters, or examples of where other agreements have strong provisions that we could look to replicate. Where it is relevant, we welcome the inclusion of figures or data to illustrate the examples you give in your response. Remember that more detailed answers will help us to best understand your needs.

5: Annex – list of FTA areas



Annex - list of FTA areas

Tariffs - Lowering import taxes (including tariff quota limits) so consumers and businesses can access goods and materials at a lower cost.

Rules of Origin - Rules of origin provide the criteria for testing whether a good can be considered to have been produced in a particular country. They determine whether a good qualifies for any reduction in tariffs negotiated in a trade agreement and can be an important factor in determining levels of real access to a trading partner's market.

Products Standards, Regulation and Certification - Ensuring that approaches to regulation on products in each other's markets are as consistent as possible, don't unfairly favour one country's businesses over the other and that processes to comply with rules are as simple as possible.

Services - Making it easier to provide services in each other's services markets such as in engineering, legal, consultancy and design, including allowing people to work temporarily in other countries to provide these services.

Trade Remedies - Provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports.

Dispute Settlement - Provides an effective mechanism for enforcing commitments, and for resolving any disputes that may arise in the future.

Government Procurement - improving the access businesses have to government contracts in each other's markets.

Intellectual Property - Ensuring that protections for innovation and ideas are in place, for example seeking to ensure patents and copyright measures are respected.

The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

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