



Commissioner Carlos Moedas

**MEETING WITH ISRAELI DELEGATION AND H.E
AMBASSADOR LESHNO-YAAR**

Brussels, Berl

Thursday, 20 December 2018

11:00 – 11:30

<p>Main contact person: [REDACTED], ☎ [REDACTED], RTD-C3,</p> <p>Contributor(s): [REDACTED], ☎ [REDACTED], RTD-C1,</p>	<p>Cabinet Member: Giulia DEL BRENNA</p>
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1. STEERING BRIEF

Scene Setter

There have been several recent examples that indicate disengagement by Israel on a number of bilateral files. For example, Commissioner Gabriel's planned visit was cancelled as few meetings were proposed, DG Hololei (MOVE) faced difficulties in securing bilateral meetings during a recent visit and the Israelis are unwilling to agree on a date to launch negotiations on the Israel-Europol agreement.

Early elections are likely following the recent resignation of Min. of Defence Lieberman and the withdrawal of his party (Yisrael Beytenu) from the coalition. As a result, the debate in Israel over relations with the EU is expected to be a significant element in the upcoming Israeli electoral campaign and may underlie current reluctance to engage with the EU. PM Netanyahu repeats, "Israel is often mistreated by the EU" and continues to engage with individual Member States (Merkel visited Israel on 3 November) and with Israel-friendly formats (Visegrad four, Greece and Cyprus, the Baltics). Israeli politicians actively reinforce a negative image of the EU in Israel. A recent poll showed that 55 % of Israelis perceive the EU as a foe.

Yet Israel values participation to the EU Research Framework Programme and will use this meeting to push its own interests in view of Horizon Europe. The key sticking points regarding to Israel's future relationship with us will revolve around some of the more detailed provisions in future association agreements, namely: 1) full vs. partial association; 2) the payment model, 3) requirements for reciprocity. We will not be able to define a negotiating position before inter-institutional negotiations on Horizon Europe have reached a more advanced stage. Therefore, this meeting will allow you to listen to Israeli claims while pointing out a clear need for more recognition and visibility of EU's positive engagement with Israel.

In addition, Israel might attempt to renegotiate the terms of its contribution to Horizon 2020. Israel raised this matter in previous meetings (DDG Burtscher in February 2018), indicating as their main concern the fact that a relatively large portion of the growth rate is affected by the currency used to calculate the GDP (USD), and not by the ratio of the nominal GDP growth. As such, Israel is the only associated country whose GDP is established based on data from International Bank for Reconstruction and Development-IBRD (using USD) and not from Eurostat (EURO) for the purposes of this calculation. This was a choice expressly made by Israel. Nonetheless our projects indicate that Israel should be a net beneficiary by the end of Horizon 2020, with a net gain of approximately 140 million euros, or 10% of the projected total receipts by Israeli entities of EU funding (1.412,9 million euros).

Objective(s)

- Indicate that given our longstanding cooperation through successive Research Framework Programmes, you expect Israel to give sufficient and appropriate credit to cooperation with the EU in research and innovation as well as to be factual as to its positive benefits to Israel.
- Listen to Israel's claims and positions on Horizon Europe and broader EU-IL relations to inform our future position on Israel's association, while noting that too early to define and share the Commission's future negotiating position with Israel.
- Quell any request by Israel to review the terms of their financial contribution to Horizon 2020.

Line to Take

- The EU considers Israel to be one of its key partners in the Middle East, while you value greatly the role research and innovation play in shaping overall EU-IL relations.
- In turn, you expect recognition by Israel and its political class for the EU's strong engagement with the country.
- According to the Commission's proposal for Horizon Europe, Israel would be eligible for association being an ENP country. Our longstanding relationship within successive Framework Programmes as well as Israel's excellent STI capacity leave no doubt about our appetite to pursue cooperation with Israel.
- Note that it is too early to define and share the Commission's future negotiating position with Israel on key areas of interest to Israel namely, partial vs. full association, the payment model, requirements linked to reciprocity, any other. (see defensives below for replies to questions about these topics).
- Regarding Israel's contribution to Horizon 2020, note that financial formula (including its proportionality factor), the modalities to issue request for payments (by Commission, normally twice per year), the deadlines for payment and penalty interests in the event of late payment are all regulated explicitly in Association Agreements, (Annex I thereof in the case of Israel). Note that according to our projects Israel will be a net beneficiary by the end of Horizon 2020 for an amount of approximately 140 million euros.

2. DEFENSIVE POINTS

Will association agreements be ready before the first Horizon Europe contracts are signed?

Exploratory talks with potential associated countries should only begin when the provisions on association are stable at the inter-institutional level. It would be possible to request Council authorisation for opening negotiations only when the negotiations on Horizon Europe have ended (and provided that exploratory talks are sufficiently advanced).

Formal negotiations could start once the authorisation is adopted, and the length of negotiations will depend inter alia on the state of bilateral relations with the country concerned. The time needed from the end of negotiations to signature and conclusion of an association agreement can be estimated around 9-12 months, given the need for Council decision on signature and conclusion and consent by the European Parliament on conclusion. The ultimate 'cut-off point' for an associated country to be able to reap benefits as of 2021 is signature date of first Grant Agreements (expected 3Q 2021), by when the agreement would need to be in force or at least provisionally applicable.

With a Protocol on general principles of participation in EU Programmes in place*, the Commission is already authorised to negotiate and conclude the association agreement with Israel on the basis of a Commission decision, while keeping the Council and Parliament fully informed. Therefore, this agreement could be concluded earlier, i.e. soon after the adoption of Horizon Europe, enabling association from the beginning of 2021.

**NOTE: While the EP never voted either in favour or against the conclusion/ratification of the Protocol on general principles governing the participation of Israel in Union programmes (the file is de facto 'frozen' in the EP), the protocol continues to be provisionally applicable as long as the EP does not vote against. As a result, in the case of negotiations for HE with Israel, the case above applies.*

What are the options for the definition of a partial scope of association agreements?

Any exclusion in scope is a matter of negotiations and will be defined in the association agreement. For ENP(European Neighbourhood Policy)countries and 'other third countries' (under art.12.1(d)), parts of Horizon Europe may be excluded from an association agreement, giving consideration e.g. to the degree to which impacts of programme support to innovation in the associated country have positive spill-over effects on the EU economy.

For reasons of transparency, simplification of negotiations and programme implementation, as well as to avoid cherry-picking, there should be a very limited number of options for the partial scope to be proposed by the Commission.

In addition to the possibility of excluding parts of Horizon Europe altogether from association, Israel is also concerned about other forms of exclusion that could be placed during implementation stage, for example in areas where Israel has significant expertise, such as defence or cybersecurity. Will this be the case, and will Israel be able to cooperate with the EU on defence in the European Defence Fund?

Clearly, Horizon Europe will need to ensure that European interests are safeguarded. This is why the proposed programme rules for Horizon Europe allow for calls for proposals to set additional eligibility criteria for participation and additional exploitation obligations. Horizon Europe Regulation art.18-5 allows limiting participation for actions related to Union strategic assets, interests, autonomy or security. Art.35-1 and 35-6 require beneficiaries having received Union funding to use their best effort to exploit their results, in particular in the Union, and require explanation of how exploitation primarily in non-associated third countries is still in the Union interest.

In addition Horizon Europe and the European Defence Fund will be set up under separate legal bases, thus by implication association to Horizon Europe will not give access to the European Defence Fund.

What would be the payment model in association agreements?

For all associated countries except EEA countries, the automatic correction of any significant imbalance between financial contributions and returns refers to the quantitative calculation between amounts paid (by the country) and amounts expected to be received (by entities established in the country) based on signed contracts under Horizon Europe.

The correction, through a mechanism to be defined in the association agreement, will take place automatically and not involve a renegotiation of the association agreement. To the yearly contribution shall be added an amount to cover programme management, execution and operation cost. In case of large fluctuations in performance year by year the correction may be amortised over several years.

Although the size of any significant imbalance is yet to be defined, our projections of Israel's performance over the whole duration of Horizon 2020 indicate that its contribution to the EU budget and the EU contribution to Israeli partners should not give rise to major differences. Our current projections indicate that Israel will pay 1,273 million euros and that Israeli entities will receive 1,367 million euros, i.e. a difference of + 94 million euros, (+ 7%).

Would there be any clause on mobility of researchers in association agreements?

There could for example be a best effort clause in all Horizon Europe association agreements relating to the free movement and residence of researchers participating in projects, and the facilitation of movement of goods and services used in projects to ensure that collaboration takes place unhampered. It would build on a similar clause in the majority of the Horizon 2020 association agreements.

There seems to be a greater focus in Horizon Europe on safeguarding narrow EU interests. How will the EU ensure that the cost and benefits of an association to Horizon Europe are attractive to Israel as well as the EU?

For the EU, association of Israel to the programme is an important means to make cooperation and funding of joint projects with international partners as smooth as possible in order to enable the EU to access excellence and research resources, pursue global challenges and help EU companies integrate in international value chains. In financial terms, there will be a balance between contributions and returns.

Israel has a long history of associations to successive Research Framework Programmes, since 1996. As a result, Israel is well aware of the benefits that accrue to the Israeli community of researchers and innovations both public and private from having access to the largest, most significant platform for research funding in the world. In addition, through association Israeli entities as well as the Israeli State would continue to benefit in a number of ways:

a) In general, the intention would be that entities from Israel would be able to participate in programme actions under the same conditions as entities from Member States, and they would be automatically eligible for funding and would benefit from services such as those of NCP networks. This provides a significant advantage over countries that are not associated.

b) Israel would continue to enjoy the right to participate as observers (no voting rights) in programme committees, where they benefit from and contribute to discussions and consultations on priority topics for calls for proposals. They would also be able to join Article 185 and 187 initiatives and take part in the JRC Board of Governors.

Given the EU's open policy to associations in Horizon Europe, Israel fears that the association of several ENP countries in Horizon Europe may have a negative impact on the performance of Israeli entities, particularly in the case of some ENP countries¹ that do not cooperate with Israel. What is your position on this?

As things stand, the possible future association of other ENP countries does not pose a threat to Israel's performance in the programme. The cumulative participation of all Southern Neighbourhood Countries in Horizon 2020 amounts to less than 25 million euros in funding compared to more than 600 million euros for Israel alone.

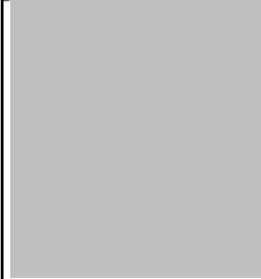



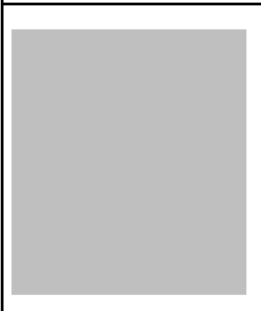


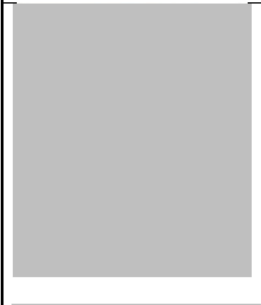

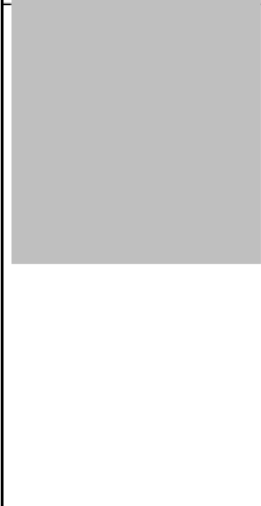

Israeli participants take the lead (as coordinator) in an impressive one third of the collaborative projects they participate in. In cases where Israelis are not coordinators they mainly integrate proposals by coordinators located in 5-6 key Member States (Spain, Italy, Germany, France, UK, Greece) in almost 60% of all Israeli participations.

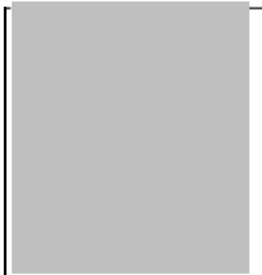



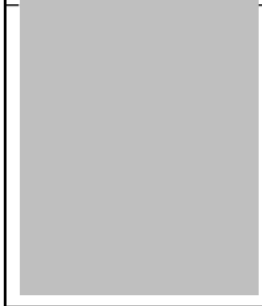

Any newly associated countries would face a steep learning curve and I do not see how the association of other ENP countries could reasonably divert collaboration with Israel's key European partners in the Framework Programme.²

¹ These include Algeria, Lebanon, Morocco and Tunisia. Libya and Syria also do not recognise the State of Israel.

² Israel's key partners in Horizon 2020 collaborative projects were from Germany, Spain and Italy (each accounting for >10% of the overall number participants in consortia including at least 1 Israeli entity), followed by the UK, France (>8% of participants), Belgium, Greece, Portugal (>3%), Austria and Sweden (>2%)

3. CURRICULUM VITAE

	<p>Ambassador Aharon Leshno-Yaar, Head of Mission of Israel to the EU and NATO</p> 
	
	<p> Council for Higher Education</p> 
	<p>Mr. Matanyahu Englman, Director General, Council for Higher Education</p> 
	<p>Mr. Aharon Aharon, Director General, CEO, Israel Innovation Authority</p> 

	<p data-bbox="485 152 1059 197">, ISERD</p> 
	<p data-bbox="485 497 1382 564">Ms. Netta Bar-El, Minister for Trade and Industry, Mission of Israel to the EU and NATO</p> 
	<p data-bbox="485 833 1382 900">Mission of Israel to the EU and NATO</p> 

4. BACKGROUND NOTES

On Status of Horizon Europe negotiations on its proposed association policy

The Partial General Approach on the Horizon Europe Framework Programme Regulation excluded bracketed provisions related to budget, international cooperation and synergies since these provisions concern horizontal post-2020 MFF provisions.

For international cooperation, the horizontal provisions concern the consistent approach applied for all Union programmes open for third country association that they are open for association of EEA, Enlargement, ENP and other third countries, with the requirement for ‘other third countries’ to conclude a framework agreement covering the participation of the country to any Union programme.

The provisions in Article 12 of the Regulation have thus far been amended by the co-legislators on the following points:

- **Openness** to association of ‘other third countries’: The Council has proposed an amendment to say that ‘good STI capacity’ for ‘other third countries’ (category (d) countries) shall be proven for example by national expenditure in R&D in relation to the GDP or strengths in relevant fields of research. The Parliament has proposed to add a criterion of ‘respect of human rights’. The Council amendment should be acceptable, as it gives the Commission sufficient flexibility to take into account a number of objective points in its analysis of STI capacity, e.g. share of (highly cited) scientific publications and share of patent applications, in addition to the examples stated.
- **Exclusion of programme parts** for specific countries: The Parliament, as well as DE, FR and SI in the Council, have proposed that ‘other third countries’ shall be excluded from the mono-beneficiary parts of the programme. The Commission’s proposal should not be amended on this point since it provides for the appropriate margin of manoeuvre with specific consideration taken for innovation-driven economic growth. For reasons of transparency, simplification of negotiations and programme implementation, as well as to avoid cherry-picking, there should be a very limited number of options for the partial scope to be proposed by the Commission.
- **Associated countries as observers in programme committees**: The Council has proposed to add a sentence stating that all associated countries ‘shall be granted observer status in the programme committees and not hold a decision power on the programme’. The amendment should be acceptable as the intention of the Commission is indeed that associated countries would enjoy the right to participate as observers, without voting rights, in programme committees.
- **Reciprocity**: The Council has proposed to change ‘reciprocity, where appropriate’ to ‘reciprocity, as far as possible’, changing the language to a more pro-active one. Parliament is suggesting to change ‘provide for reciprocity’ to ‘provide for and pursue reciprocity’, which is already implicit, i.e. implementation of the association agreement implies follow-up/tracking the participation of Member States entities in programmes of the associated country. Therefore, these amendments should be acceptable.
- **Payment model**: The Council has proposed to explicitly state that the automatic correction shall be ‘based on a clearly defined factor’. Indeed, the correction will take place through a mechanism (based on budget in signed contracts at a cut-off date, with year n regularised in year n+2) to be defined in the association agreement; it will take place automatically and not involve a renegotiation of the association agreement.

Historical and projected figures relating to Israeli participation and contributions to Horizon 2020 (last extract December 2018)

Israel participation rankings

- Israel (1,300 participations) **ranks 18th** overall in number of participations (Germany: 12,938 (1st); UK; 12,080 (2nd); Spain: 10,977 (3rd); France: 10,325 (4th))
- **Among associated and 3rd countries Israel ranks 3rd** in terms of the number of participations, preceded by: Switzerland: 2,914 (overall rank: 11th); Norway: 1,782 (15th).

Israel EC contribution rankings:

- Israel (783,3 million euros) **ranks 15th** overall in EU financial contributions received. (Germany: 6.359,4 million euros (1st); UK; 5.552,5 million euros (2nd); France: 43294,2 million euros (3rd), Spain: 3.616,1 million euros (4th))
- **Among associated and 3rd countries Israel ranks 3rd** in in EU financial contributions received, preceded by: Switzerland: 1.215,5 million euros (overall rank: 9th); Norway: 830,7 million euros (14th).

Projections 2014-2020

- Israel is projected to receive 1.412,9 million euros during the course of Horizon 2020 in EU financial contributions.
- The latest projections of Israel's financial contributions into the Horizon 2020 budget amount to 1.273 million euros, resulting in net receipts of 140 million euros ($\pm 10\%$ of EU funding received)

Distribution of Israel's participation per Horizon 2020 pillar

	Cross theme	I. Excellent science	II. Industrial Leadership	III. Societal Challenges	IV. Widening	V. Science with and for society	Total
Israel (M-euros)	7	513	148	113	0	2	783
Israel (% of total)	0,86%	65,46%	18,95%	14,44%	0%	0,22%	
ROW (% of total)	0.67%	38.67%	20.77%	36.23%	1.31%	0.68%	

On Israel's association to Horizon 2020

Israel has been associated to subsequent EU Framework Programmes for research since 1996. The Agreement Associating Israel to Horizon 2020 was concluded in 2014 and is applicable (retroactively) as of 1 January 2014. This Agreement has been negotiated and concluded by the Commission on EU's behalf under simplified procedures, i.e. without a need for a separate Decision of the Council and therefore no need for separate consent of the EP for its conclusion. This mode for putting the agreement in place was possible, as the Horizon 2020 Agreement is linked to the *Protocol on the general principles governing the State of Israel's participation in Community Programmes*, which is provisionally applicable. Please, note that the EP never voted either in favour or against the conclusion/ratification of the latter Protocol (the file is de facto 'frozen' in the EP). This allows for continuation of provisional application for as long as the EP does not vote against. In the latter case, under international law on the Treaties, we would be obliged to stop provisional application. The Horizon 2020 Association Agreement contains explicit 'guillotine' clause (in Art.6(3)) to that effect.

The Commission Notice Nr. 2013/C-205/05 was adopted in late June 2013 (published in July 2013) and was in the centre of attention from the press and governments during negotiations of Horizon 2020 Association Agreement with Israel (commenced in August 2013). At the end of negotiations, both Parties made unilateral statements (attached to the Agreement and on the EU side published in the OJ) concerning their positions in relations to the Notice. The Commission explicitly stated that *'The provisions of this Agreement shall not prevent the European Commission from implementing Commission notice Nr 2013/C-205/05'*.

The Agreement is drafted in a way which grants powers of EU institutions to apply the criteria from Commission Notice Nr. 2013/C-205/05 to participation of Israeli entities in Horizon 2020. The eligibility criteria from this Commission Notice (concerning the place of establishment and the place of research to be carried out from Horizon 2020 projects) are 'translated' into formal eligibility criteria for participation outlined in the Horizon 2020 Work Programmes.

On Israel's contributions to Horizon 2020

Pursuant to Annex I paragraph I(2) of the Agreement between the European Union and the State of Israel on the participation of the State of Israel in the Union programme "Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020)" that was ratified by Israel on 23 October 2014 (hereinafter referred to as "the Agreement"), the proportionality factor governing the contribution of the State of Israel shall be calculated based on the gross domestic product (GDP), at market prices, of the State of Israel and of the European Union, available from the International Bank (in USD) for Reconstruction and Development (IBRD), at the time of publication of the draft budget of the European Union. Israel is the only associated country whose GDP is established on the basis of **data from International Bank for Reconstruction and Development-IBRD** and not from Eurostat.

Israel is **the only ENP country** who pays its financial contribution **without a rebate** (for all other ENP countries rebates to financial contributions have been explicitly foreseen in Annexes to their association agreements, with a view to avoiding the situation where they become net contributors to the programme).

The financial **formula of Israel under Horizon 2020 Agreement changed compared to the FP7 Association Agreement**. Under FP7 Israel benefitted from the proportionality factor: $[\text{GDP of IL divided by GDP (EU+IL)}]$ – which is normally only reserved for EEA countries and for Enlargement countries. During negotiations on H2020 association the proportionality factor was changed to $[\text{GDP of IL divided by GDP of EU}]$. This was done for policy reasons: 1) uniform approach to ENP countries; 2) IL alongside CH was a significant net beneficiary of FP7 and there was no policy justification to continue applying the previous more favourable proportionality factor, which would have decreased IL's financial contribution to Horizon 2020.

Israel **negotiated the most beneficial/longest deadlines for payments** of their financial contribution due under the Horizon 2020 association agreement (i.e. **within 90 days** after the receipt of request for payment; while under other association agreements such deadline is 30 or up to 45 days).

Israel **was a clear net beneficiary under FP7**. The review of 10 association agreements concluded in 2014 (IL's association agreement among them) conducted in the course of 2017 showed that so far only Switzerland, Serbia and Iceland are expected

to be significant (50% or higher) net beneficiaries of Horizon 2020. Israel is expected to be a net beneficiary at the end of Horizon 2020. The latest projections indicate that its financial contributions will amount to 1.273 million euros, and its receipts to 1.412,9 million euros resulting in net receipts of 140 million euros ($\pm 10\%$ of EU funding received)

Since the beginning of Horizon 2020, the IL proportionality factor has passed from 1.37% in 2014 to 1.84% in 2018, due to a higher growth rate of the IL GDP compared to the EU28 GDP.

Israel's main concern relates to the fact that a relatively large portion of the growth rate is affected by the currency used to calculate the GDP, and not by the ratio of the nominal GDP growth.

Note that the correction of the financial formulae in Horizon 2020 compared to FP7 was triggered also due a distorted situation in FP7 where Israel's profit compared to its investment was around 1.5.

5. SOCIAL MEDIA

Accounts/Hashtags

- #Israel
- #EU-Israel
- @IsraelinEurope
- @ISERDIsrael
- @IsraelInnovationAuthority

Possible tweet

- Meeting Ambassador Aharon Leshno-Yaar and Israeli Delegation about cooperation in research and innovation; a key pillar of overall #EU-Israel relations #ScienceDiplomacy #OpentotheWorld.