



**Australian Government**

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**Department of Foreign Affairs and Trade**

**SUBMISSION FOR FEASIBILITY STUDY  
ON STRENGTHENING  
TRADE AND INVESTMENT  
WITH ISRAEL**

**30 April 2021**

Prepared by

**Australian Friends of Palestine Association**

# **SUBMISSION FOR FEASIBILITY STUDY ON STRENGTHENING TRADE AND INVESTMENT WITH ISRAEL**

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## **1. INTRODUCTION**

At the invitation of the Department of Foreign Affairs and Trade (DFAT), this document contains a submission from the Australian Friends of Palestine Association (AFOPA) for the Department's consideration in its feasibility study on strengthening Australia's trade and investment relationship with Israel.

The views and recommendations contained in the submission are those of the AFOPA's executive after consultation with the Association's membership.

Any queries or follow-up can be addressed to the chairperson of the Association, at the address and contact points shown on the covering letter to this submission.

## **2. SUMMARY OF CONCLUSIONS AND RECOMMENDATION IN THE SUBMISSION**

As an export destination for Australian merchandise, Israel is a small, virtually insignificant, market. Moreover, prospects for any attractive expansion in the size of the Israeli market for Australian products are limited, if not risky for Australian business. Such an expectation is unlikely to be improved by the negotiation of a free trade agreement (FTA) between the two countries.

In this scenario, any Australian public service and other resources engaged to work on the development of an FTA with Israel would be misdirected, if not wasted. Far better returns to Australian business would be earned by such resources being devoted to the development and negotiation of trade agreements with other, more promising countries.

There is far less imperative for Australia to negotiate an agreement with Israel than with other countries providing more attractive opportunities. Efforts diverted and devoted to the exploitation of such opportunities will provide worthwhile rewards both to the officers and consultants engaged for the purpose, and for the Australian businesses benefiting from the negotiations.

To improve the climate for strengthening bilateral trade and investment relationships between Australia and Israel, the Australian Government more assiduously should pursue and implement the philosophy and values representing the core of the government's 2017 Foreign Policy White Paper. A continuing failure to do so merely impedes the advancement of further economic relations between Australian and Israel.

To support these conclusions and recommendations, the balance of this submission contains relevant analysis and detail.

## **3. TRADE AND INVESTMENT OPPORTUNITIES FOR AUSTRALIAN BUSINESSES IN ISRAEL ARE SMALL, LIMITED AND UNLIKELY TO EXPAND**

The data presented and analysed in this section of the submission show that Israel is of only minor value to Australia as an export destination – such that more value to Australia is to be gained by devoting resources on the assessment and negotiation of trade agreements with other countries.

### **Overall Australian exports to Israel**

Contrary to the inference presented in the DFAT invitation to submit, Australian exports to Israel have shown no sign of expanding over the past ten or even five years. Overall values of annual exports do vary between years – by as much as the 16 percent increase in 2019 compared with 2018. But any individual year increases are from a small base of exports, and so are exaggerated, and do not reflect any upward or downward trend. Thus, Australian

exports to Israel declined by an even greater, more dramatic, amount in 2020 compared with 2019, (perhaps not surprisingly, given disruptions to international trade imposed by the Covid-19 pandemic).

Israeli imports from Australia averaged a mere \$US177.6 million<sup>1</sup> a year over the five years 2015 – 2019. Those imports represented only 0.25 per cent of total Israeli imports<sup>2</sup> in the period; a comparatively insignificant proportion, which ranged from 0.21 in 2017, to 0.23 and 0.25 per cent in 2018 and 2015 respectively, and 0.28 per cent in both 2016 and 2019.

Equally insignificant is the proportion of total Australian exports going to Israel. At \$US195.4 million in 2019<sup>3</sup>, Israel ranked a mere 45<sup>th</sup> in the list of destination countries, representing only 0.5 per cent of the total value of Australian exports.

(As perspective, there were 23 destination countries for Australian exports in that year valued at amounts over \$US 1 billion; Israel was not one of them. There were 28 other countries to which Australia exported between \$US100 million and \$US 1 billion. In that group, Israel was only 22<sup>nd</sup> out of the 28.)

*As a destination for Australian exports, Israel is not at all important. And as a supplier of Israeli imports, Australia is even less important, as shown in the above analysis.*

Moreover, this comparative irrelevance of Israel to Australian exporters has persisted over a long period. The graphs reproduced by Trading Economics<sup>4</sup> reveal no noticeable growth in Australian exports to Israel not only over the past five years, but also for the past ten years, and barely any upward trend over the past 25year period.

This finding is supported by examination of news about Austrade's (so-called) Landing Pad in Tel Aviv, negotiated in 2016, and referenced in the DFAT invitation for this submission. Under this and similar arrangements internationally, the commission has facilitated partnerships with five locally-organised initiatives (in Singapore, San Francisco, Shanghai, Berlin as well as Tel Aviv), intended to provide some working space and local networking introductions for interested Australian business and potential investors. Over the past four years, Austrade has issued 40 news reports related to activities in and connected with these landing pads. Only five of these reports have related to the facility in Tel Aviv (dated from July 2016 to January 2020). None of them have reported on any success achieved by Australian business in establishing or expanding operations in or trade with Israel. Rather, the reports mainly have described visits by Australian companies operating largely in the agrifood sector on scouting expeditions to so-called 'boot camps' to gain knowledge from the more developed and advanced Israeli operations in agricultural technology and innovation. Perhaps tellingly, one such workshop (convened in June 2019) was even entitled "It's OK to fail", presenting lessons from Israel about innovation; not exactly a confidence-inspiring topic heading.

### **Some reasons for this limited market for Australian exports**

The relative unattractiveness of Israel as a rewarding destination for Australian exporters is a function of both economic factors and geo-political considerations. The prominent economic forces moderating the propensity of Australian business to engage in trading opportunities in Israel are outlined in this section of the submission. The geo-political constraints are surveyed in section 4.

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<sup>1</sup> OECD International Trade by Commodity Statistics Volume 2020 Issue 5: Israel.

<sup>2</sup> Same OECD source

<sup>3</sup> Trading Economics, Australia Exports to Israel 1988-2021

<sup>4</sup> Using Australian Bureau of Statistics (ABS) data

With a population of around 9.3 million<sup>5</sup>, Israel is a comparatively small country, offering relatively limited opportunities to Australian exporters compared with other larger Asian countries with a geographic location closer Australia.

Israeli economic growth rates have also been slowed by what the CIA's current World Fact Book on Israel refers to as "Israel's uncertain security situation". Following average annual GDP growth rates of almost 5 per cent in the years 2004 -13, growth fell to an average 2.8 per cent (roughly) in the period 2014-17<sup>6</sup>, reflecting slowing domestic and international demand for Israeli products, and decreased investment.

Growth subsequently increased to 3.3 per cent in 2019. Nevertheless, longer-term structural issues are expected to constrain future Israeli growth. These include low workforce productivity, and low labour force participation among the country's fastest-growing social segments - the ultraorthodox and Arab-Israeli communities.

Additionally, growth will be hindered by high costs for housing and consumer staples. These last two conditions (high housing and commodity prices<sup>7</sup>) lead to contemporary concerns about income inequality in Israel. Together with poverty, inequality rates are among the highest in the OECD. There is a broad perception among the Israeli public that a small number of "tycoons" enjoy a cartel-like grip over major parts of the economy, acting to obstruct competition.

Moreover, although Israel's knowledge-based technology sector is progressive and globally competitive, it employs only about eight per cent of the workforce. Much of the remaining 92 per cent is employed in manufacturing and services - sectors which face downward wage pressures from global competition. This constraint is exacerbated by Israel's low expenditures on educational institutions (compared with most other OECD countries with similar per capita GDP).

Another unattractive feature for Australian businesses seeking to form trading or investment relationships with Israel is the country's high carbon intensity. Israel is known to be one of the most carbon intensive countries in the OECD, generating about 57 per cent of its power from coal, and only 2.6 per cent from renewable sources<sup>8</sup>.

Not surprisingly, Israel does not rank particularly highly in the World Bank's ease of doing business index. While the country's ranking improved to 35<sup>th</sup> position in 2020, it had been 49<sup>th</sup> in 2019 and 54<sup>th</sup>, 52<sup>nd</sup> and 53<sup>rd</sup> in the preceding three years<sup>9</sup>. It is relevant to note that in 2020 Israel ranked lower in the ease of doing business index than Azerbaijan, Turkey, China, Russia, Kazakhstan and, in the region, the United Arab Emirates.

### **Israeli exports to Australia**

The DFAT document requesting this submission (as input to the department's study on the feasibility of an FTA with Israel) contains no indication that any discussion has been held with the Israeli Government on whether or not that country could equally be interested in negotiating some form of trade agreement with Australia.

The presumption can be made, therefore, that no such, or no serious, exploration of the idea has yet been held with Israeli authorities. This shortfall in consultation would not altogether be

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<sup>5</sup> Israel Central Bureau of Statistics

<sup>6</sup> In the same period, for comparison, Australia's annual GDP growth increased by an average 2.6%.

<sup>7</sup> Which have been kept high by tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers.

<sup>8</sup> CIA World Fact Book on Israel.

<sup>9</sup> In the same year, for comparison, Australia was ranked 14<sup>th</sup>.

surprising given the timeline in which the notion of a possible agreement was announced (in February 2021) by the new trade minister only shortly after his appointment to the trade portfolio, and the call by the department for submissions on the idea just a month later. Little time has been available, consequently, for any meaningful consultation with Israeli counterparts. For organisations preparing submissions for the department's proposed feasibility study, it would have been helpful at least to appreciate the degree of interest in the idea from the other partner country.

In the absence of such intelligence, an assumption can be made that the Israeli side would, in fact, have some interest in strengthening its economic ties with Australia. Israel's exports to Australia exceed exports from Australia to Israel by a factor of three. In the five years from 2015 to 2019, Israel's exports to Australia averaged \$US 525.7 million a year<sup>10</sup>, compared with the country's imports from Australia of only \$US 177.6 million a year on average in the same period, as noted above.

Furthermore, Israel's exports to Australia represent a higher level of importance in the country's overall exports than do those from Australia to Israel. Israeli exports to Australia account for an average 0.85 per cent of the country's total exports, while Australian exports to Israel represent only 0.5 of total, as noted in the earlier section of this submission.

The degree to which the Australian Government should be interested in expanding the sale of Israeli products in Australia – through the negotiation of an FTA for example – depends on views about the degree to which the Australian Government should welcome expanded imports of Israeli-made:

- boilers, generators, pumps, furnaces, and various types of machinery, accounting for about 18 per cent of Israeli exports to Australia;
- stone, plaster, cement, asbestos and similar, accounting for about 15 per cent of exports;
- plastics, accounting for around 13 per cent of Israeli exports to Australia;
- electrical equipment and machinery, accounting for around 8 per cent of total; these four product categories represent over 50 per cent of total Israeli exports to Australia;
- vehicles other than railway rolling stock, representing around a further 11 and 12 per cent of Israeli exports to Australia in 2018 and 2019, a large increase from preceding years;
- precision optical, medical and surgical instruments and related products, accounting for a further 8 per cent of Israeli exports to Australia;
- precious and semi-precious stones and metals, around 7 per cent; and
- inorganic chemicals and miscellaneous chemical products, together representing around 7 per cent of exports.

Together, these eight product groups represent nearly 90 per cent of Israeli exports to Australia over the past five years<sup>11</sup>.

From the analysis and observations covered in this broad section 3 of the submission, conditions for expanded Australian trade with Israel are not encouraging. When consideration extends to the geo-political factors affecting business relations between the two countries, a significant degree of risk for Australian businesses is revealed, as outlined in the next section.

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<sup>10</sup> OECD International Trade by Commodity Statistics Volume 2020 Issue 5: Israel.

<sup>11</sup> OECD International Trade by Commodity Statistics Volume 2020 Issue 5: Israel.

#### 4. TRADE AND INVESTMENT CHALLENGES

While the Israeli market might have only limited attraction for Australian business, as shown in the previous section, current concerns about local and international politics and security issues merely deepen whatever questions and reservations might persist. Such deterrents are even reflected in the precautionary approach adopted by the Australian Government when dealing with and advising on business in Israel, as noted below.

##### **Continuing political instability in Israel**

One unsettling experience for Australian enterprises seeking business arrangements in Israel is the noticeably un-Australian values officially pursued in the country. The prominent example is the debate underway about whether formally to annex parts of the occupied West Bank or, alternatively, to avoid doing so on the basis that those Palestinian territories already are *de facto* under Israeli control. One expressed fear amongst opponents of such annexation, including former law-makers in Israel, is that “it would mean a fatal blow to the possibility of peace [with the Palestinians] and would be the establishment of an apartheid state”<sup>12</sup>. At the same time<sup>13</sup>, another prominent group called for Israel to annex 30 per cent of the West Bank, leaving the Palestinian ‘state’ made up of several discontinuous cantons entirely surrounded by Israeli territory.

This situation of Israeli annexation and control over Palestinian territories results in the state’s operation of an apartheid system<sup>14</sup>. Israelis and Palestinians in the same territory are subject to two different legal systems. They are tried in different courts; one military (for the Palestinians), one civilian (for the Israelis) for the same crime committed on the same street. Jews living on the West Bank, both citizens and non-citizens, enjoy most of the same rights and protections as Israelis in the rest of the country. Palestinians, by contrast, are subject to military rule, and are denied freedom of expression, freedom of assembly, freedom of movement, and even the right not to be detained indefinitely without trial<sup>15</sup>.

Most Australians are somewhat nonplussed when they encounter such divisions in a society. They are accustomed in Australia to successive governments seeking to assimilate indigenous populations into mainstream society, rather than deliberately separating and subordinating them as is the perversion in Israel, with that state’s treatment of Palestinians, who are an indigenous people. This political culture acts to discourage most Australian interest in Israel. This aversion should be taken into account when considering whether or not to devote personnel and consulting resources to a feasibility assessment of a trade agreement between Australia and Israel. In the circumstances, those resources are likely to generate a higher return on their investment by directing attention to more promising countries and markets.

The Israeli insecurities that are manifest by the country’s treatment of Palestinians are reflected in its domestic political arrangements – in which general elections produce stalemate

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<sup>12</sup> From a statement in *Haaretz*, April 2020, signed by 56 former members of the Knesset, significantly including former ministers of the interior, foreign affairs, finance and more than a dozen other departments, plus former ambassadors, generals in the Israeli army, chairs of political parties, a head of the semi-governmental Jewish Agency for Israel, a former speaker of the Knesset, and a winner of the Israel Prize.

<sup>13</sup> Actually, one week later.

<sup>14</sup> As described by the UN Economic and Social Commission for West Asia (ESCWA) in its 2017 report, in which it concluded that “Israel has established an apartheid regime that dominates the Palestinian people as a whole”. It is relevant to note that matters got worse through the enshrining of Zionist-inspired apartheid in law. Thus, in July 2018 the Knesset enacted a ‘Nation-State’ law which defines the State of Israel as the nation-state “of the Jewish people only”. That is, only Jews can hold “nationality rights” in Israel.

<sup>15</sup> An essay, *The Annexation Delusion*, written by Nathan Thrall, Senior Analyst, International Crisis Group, London Review of Books, 21 January 2021.

governments. As will be known by Australian businesses, four elections in the past two years have failed to produce sustainable governments, including at the present time. Indeed, Israel's electoral system makes it almost impossible for a single party to win an election outright<sup>16</sup>, a situation exacerbated by divisive politics played by incumbent politicians<sup>17</sup>. These weaknesses are counter to the sort of working environment required by Australian investors – greater political certainty. The resulting disrupting and destabilising decision-making, the uncertain awarding of contracts, and the changing economic conditions are inimical to sound economic relations.

The consequential political ill-discipline extends to Israel's ready adoption of military aggression towards other countries. Even during the short period between DFAT's invitation for this submission and its delivery, Israel has launched two armed attacks: one the bombing of targets in Damascus on 7 April<sup>18</sup>; and the other a cyber attack on Iran's main nuclear facility<sup>19</sup>. These are but the latest in a series of exchanges between Israel and Iran, including strikes against shipping, the killing in November 2020 of Iran's chief nuclear programmer, and many hundreds of other airstrikes by Israeli forces on alleged Iranian proxies in Syria. These incidences highlight the unstable regional political situation in which Israel operates and, together with the working environment in Israel outlined in the preceding paragraphs, beg the question: why would the Australian Government wish to encourage Australian businesses to engage commercially with such an unreliable and doubtful democracy? One answer is that, in practice, the Australian Government does not.

#### **Australian Government reservations about promoting business with Israel**

Parts, at least, of the Australian Government appear to be sensitive to the difficulties outlined above. Thus, when the government opened an Australian Trade and Defence Office in West Jerusalem in March 2019 (mentioned in the DFAT invitation for this submission), it did so with no publicity. No announcement was made about the opening on Israeli Government web sites, and no senior Australian or Israeli ministers attended the opening ceremony<sup>20</sup>. By contrast, when the Czech Republic opened Czech House in Jerusalem in November 2018, and Hungary opened a trade mission there in March 2019, the Israeli prime minister attended both ceremonies, along with the Czech president and the Hungarian foreign minister respectively. Like the Australian office, neither of the offices of the two European countries have diplomatic status. The Australian government's judgement not to publicise the opening of its new office ran the danger of being seen as a failed opportunity to demonstrate some degree of confidence in the Israeli business environment for Australian trade and investment.

The Australian government's evident reservations about promoting business links with Israel in the currently difficult operating conditions, is reinforced by its smartraveller advice. This describes Israel as "a target for terrorism, rocket fire and military confrontation ... which could happen at anytime or anywhere". The advisory states "tension and security risks exist close to Israel's borders with Lebanon, Syria and Egypt". And it also raises the spectre of civil unrest in the West Bank, where "security can worsen without warning". Also, the Israeli Defence Force "may declare an area a closed military zone" [and that] "authorities can arrest civilians in these zones".

Such declarations do not promote confidence for the encouragement of business links in Israel.

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<sup>16</sup> BBC, 25 March 2021.

<sup>17</sup> Financial Times editorial board, 28 March 2021.

<sup>18</sup> The Times of Israel, 8 April 2021.

<sup>19</sup> The Guardian, 11 April 2021.

<sup>20</sup> The Times of Israel, 29 April 2019.



### **Regional political instability and risk**

Acting similarly as disincentives for Australia to devote efforts towards building-up business links with Israel is the range of uncertainties and threats to Israel's security within the broader region. Both short and longer term issues are likely to be of concern, both to Israel and to any Australian decisions in supporting the state.

Of some immediate concern are potential breakdowns in the continuation of security cooperation with Israel provided by its neighbouring countries – Jordan, Egypt and the Palestinian Authority:

- Jordan has been among Israel's most crucial regional partners in recent decades. But the stability of its monarchy is under some stress, as exemplified by the imposition this month (April 2021) of restrictions on the current king's brother, and the related detention of up to twenty officials, in a feud with – and challenge to – the ruling authority that has been simmering for some time. Moreover, it is believed that the challenge was supported by Saudi Arabia<sup>21</sup>, adding to the concerns over regional stability. Jordan is financially insecure, has limited resources, lowering exports (because of decades of war in neighbouring Syria and Iraq), rapidly falling remittances from Jordanian expats (from 17 per cent of GDP to only 9 per cent last year), almost a 50 per cent unemployment rate for 20-24 year olds (in a country with a young population), declining international aid support, and a notable degree of corruption<sup>22</sup>. Continuing support from the United States and Saudi Arabia is uncertain<sup>23</sup>
- In Egypt, few of the underlying political and economic problems which fuelled the uprisings in the so-called Arab Spring in 2011 have been addressed by the Egyptian Government<sup>24</sup>.
- The Palestinian Authority (PA) is the weakest of the three neighbours offering cooperation on Israel's security. The Authority is experiencing financial difficulties, is losing (or has largely already lost) popular legitimacy, and is likely to face increasing pressure to suspend its security cooperation with Israel.

Such potential dangers or threats to Israel's future security are magnified also by the continuing – and well-publicised – political and military conflicts in the Middle East region. These could be deepened in the medium to long term by the effects of climate change, leading to significant movements of populations, and the concurrent expansion of hostile non-state actors who are expected increasingly to access technologically advanced weapons and develop cyber capabilities, more easily, thereby, undermining Israel's current dominance in military strength.

Equally potentially destabilising are the changing large power involvements affecting the region, including Israel, with China, particularly, (as well as Russia) positioning itself as a major player as America's future role diminishes, or at best remains uncertain<sup>25</sup>. One consequence might be Israel finding itself dealing with a dominant external power indifferent to its core interests. Australian businesses thinking of trading with or investing in Israel necessarily would consider such scenarios and would likely switch their attention to examining less fraught opportunities.

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<sup>21</sup> As understood and reported (authoritatively) by Martin Indyk in his interview with Michael Fullilove, Director of the Lowy Institute, in the Director's Chair podcast, 9 April 2021.

<sup>22</sup> As noted in *The Economist*, 10-16 April 2021.

<sup>23</sup> 'Israel in the Middle East: The Next Two Decades', *Foreign Policy at Brookings*, November 2020.

<sup>24</sup> *Op.cit.*

<sup>25</sup> China's ambitions and aims in the Middle East are fully surveyed in the Chaguan column of *The Economist*, 10-16 April 2021.

## 5. BARRIERS TO TRADE AND INVESTMENT

This section of the submission extends the preceding analysis to cover two other considerations that must be included in any feasibility assessment of closer economic relations between Australia and Israel. Both issues presented will be of some concern to businesses seeking to embark on possible ventures in the two countries.

### **The boycott, divestment and sanctions (BDS) movement**

The BDS movement calls for boycotts against selected Israeli products, divestments from selected Israeli investments, and sanctions on selected Israeli economic activities. The movement's purpose is to seek to isolate Israel from the global economy – as a protest against the apartheid system adopted by the Israeli Government.

The BDS movement adopts – and follows – the sanctions policy devised and led internationally by Australia in the 1970s and 1980s and imposed against the racial segregation practices used in South Africa at that time. The initiative led to the Commonwealth adopting a broader programme of sanctions against South African apartheid in 1986, stimulating similar international action. The sanctions included a ban on both air travel to and investments in South Africa, as well as a bar on agricultural imports from South Africa and the promotion of tourism to South Africa. Australia continues to this day to implement sanctions programmes, no longer against South Africa, of course, but against 16 countries specified by the United Nations Security Council, plus five other countries identified autonomously by the Australian Government.

The Palestinian-led BDS movement emerged out of the 2001 UN Conference Against Racism in Durban, and was formally launched in 2005. The movement's aim is to seek freedom, justice and equality for Palestinian people, upholding the position thereby that Palestinians are entitled to the same rights as the rest of humanity. The movement's purpose is to urge international action to pressure Israel to comply with international law<sup>26</sup>.

Over the past 15 years, BDS has grown into a vibrant global movement, comprising unions, academic associations, churches and grassroots organisations across the world<sup>26</sup>. While the actual impact of the movement in that period is contested, many media outlets agree that "Though BDS has not had a major economic impact on Israel so far, compared to the decades-long campaign in South Africa, its ascent has been rather steep"<sup>27</sup>.

It is this steep ascent that would likely cause concern for Australians when considering doing business with Israeli companies. Due to BDS campaigns, Israeli companies can be subject to large investments being pulled at any time, and many projects are vulnerable to cancellations. The following are just a few examples of the effect BDS campaigns have had on the ground in Israel:

- In 2018 and 2016 respectively, the Dutch pension fund PGGM and the United Methodist Church withdrew from Israeli banks;
- French multinational Veolia quit Israel in 2015 after a global campaign targeting its links to occupation and settlements; while the following year,
- Irish construction giant, CRH, withdrew from the Israeli market;
- Also in 2016, Orange dropped its Israel affiliate following intense BDS campaigning in Egypt and France;
- Pension funds in the Netherlands, Sweden, Norway, New Zealand and Luxembourg have divested from Israeli companies;

<sup>26</sup> More comprehensively described in the website of the BDS movement: [bdsmovement.net/what-is-bds](http://bdsmovement.net/what-is-bds).

<sup>27</sup> The Guardian, 14 August 2018.

- Danish pension fund Sampension excluded four companies for its ties to Israeli settlements in occupied Palestinian territory<sup>28</sup>.

Such increasing boycotts and divestments are hardly conducive to establishing stable and secure business possibilities for Australians.

While many of Israel's exports (especially those representing high quality and diversified technological products) are of limited vulnerability to BDS sanctions<sup>29</sup>, certain sectors have certainly felt the impact. For example, the net value of Israel's polished diamonds exports fell by 60 per cent from \$US11.25 billion to \$US4.4 billion in the years 2014 to 2018, after sustained world-wide campaigns by BDS activists<sup>30</sup>. Furthermore, any limits on vulnerability might persist only so long as the sanctions regime remains unofficial and conducted by social movements, not states. As the prospects for peace in the Israeli-Palestinian conflict continue to erode<sup>31</sup>, the possibility of much more damaging official sanctions being deployed against Israel, especially by Europe, are expected to rise<sup>32</sup>.

Certainly, Israel itself is so concerned about such a prospect that it considers the BDS movement one of its top three existential threats – alongside an Iranian military threat and domestic terrorism. In response to this threat, Israel has established a Ministry of Strategic Affairs the sole responsibility of which is to combat BDS<sup>33</sup>. Indeed, the movement has become an important preoccupation of the Israeli Government, causing it to devote time, energy and funds to an anti-BDS campaign, at a cost of \$US 33 million in 2016 alone<sup>34</sup>.

One of the risks needing to be calculated by any business investing in or co-operating with Israel, therefore, is the possibility of finding itself a target of BDS and suffering reputational damage as a result. Even a large international company such as Caterpillar has faced a long running campaign, due to its supply of bulldozers to the Israeli military to raze Palestinian homes. Australian businesses equally could find themselves listed on one of the many websites (such as The Ethical Consumer<sup>35</sup>) which identify companies that do business with Israel.

### **Conflicts between Australia's broader national interest and trade with Israel**

In addition to the above, privileging Israel as a trade partner can only come at the expense of Australia's standing with the populous Arab and Muslim nations with which Australia trades. In these countries, perceived Israeli crimes against humanity in its dealings with the Palestinian people are viewed as offenses against brethren. Crimes such as the Gaza March of Return Massacre<sup>36</sup> have recently reinforced Israel's pariah status.

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<sup>28</sup> Middle East Monitor, 29 November 2017.

<sup>29</sup> As noted by Dany Bahar and Natan Sachs in the Brookings Institution paper 'How Much Does BDS threaten Israel's economy', 26 January, 2018.

<sup>30</sup> Middle East Monitor, 7 November 2018.

<sup>31</sup> The International Crisis Group, in its web page of analysis on Israel/Palestine, declares that "An Israeli-Palestinian peace deal in the foreseeable future is unachievable, as is a credible process for achieving one".

<sup>32</sup> A conclusion drawn by Natan Sachs and Kevin Huggard in the Foreign Policy at Brookings paper 'Israel in the Middle East', November 2020.

<sup>33</sup> The Guardian, 14 August 2018.

<sup>34</sup> Middle East Monitor, 29 November 2017.

<sup>35</sup> [www.ethicalconsumer.org/ethicalcampaigns/boycotts](http://www.ethicalconsumer.org/ethicalcampaigns/boycotts).

<sup>36</sup> At least 110 Palestinians were killed between 30 March to 15 May 2018, a number of whom were members of various Palestinian militant organisations. An independent United Nations commission set the number of known militants killed at 29 out of the 183. Other sources claim a higher figure, of at least 40. Refer to the Human Rights Council's Report of 25 February 2019 (A/HRC/40/74).

In such a fraught context, privileging trade with Israel can only come at the expense of Australia's standing and national interest. Comparison of Australian commodity exports with regional partners against our exports to Israel underwrites this point. Indonesia, the world's most populous Muslim nation, in 2020 took \$3,115 million in Australian commodity exports. Malaysia, which does not recognise Israel, is an even greater trade partner, taking \$3,779 million of Australian commodity exports. The possibility of putting that trade at risk is problematical. In any event, Israeli imports of Australian commodities, at less than \$289 million, are much lower.

Further, the potential exists for disruption to industry, and economic activity, within Australia. One recent example (April 2021) is activism in the United Kingdom by Palestine solidarity activists who broke into Israeli owned factories and offices in Oldham and Bristol. Protest activity of a similar nature, while not condoned, must be considered a real possibility.

## **6. MORE GENERAL ISSUES ASSOCIATED WITH AN FTA WITH ISRAEL**

The preceding analysis and commentary have focussed on the difficulties to be encountered by Australian businesses in seeking to expand their trading and investment links with Israel. Consideration of the issues identified is likely to discourage, and certainly curtail, any contemplated evaluation of prospective business opportunities. Furthermore, the preceding assessment raises serious doubts as to whether Australia's active pursuit of closer business links with Israel is in the national interest.

*A conclusion is that, from the Australian side at least, there is no apparent imperative for the development of closer trading and investment links with Israel.*

In this circumstance, the view is posed in this submission that it is imprudent for the government of Australia, through DFAT, to give any priority – or to devote much effort or scarce personnel resources – to any further feasibility assessment of any FTA with Israel. As shown in this submission, the prospects for financial rewards to be provided by any such agreement are limited. Further, any attempt to develop more business links with the country face significant risks, most of which are outside the control of individual business enterprises.

International opportunities for Australian business in countries other than Israel are more likely to be rewarding, and are certainly subject to fewer risks. Resources invested in feasibility assessments of such alternative opportunities are far more justifiable. Results from the assessments are more likely to produce better and more welcome outcomes. And concentration on such alternative and potentially more attractive business opportunities are less likely to fail 'the national interest' test.

Although the weaknesses in undertaking any further pursuit of FTA opportunities with Israel are clear – as identified in this submission – it is possible to appreciate the genesis of such an idea being raised. Israel is experienced in trying to promote the interest of a number of countries internationally in the establishment of new – and the development of existing – economic and security links. To do so, the country offers study tours and similar promotional visits to Israel. Minister Tehan, who requested the feasibility study in February, has visited the country twice in the past decade seeking to promote strengthened business relationships between Australia and Israel. In December 2010, he was chosen to undertake the Israeli Fellowship Program, funded by the Australia/Israel and Jewish Affairs Council, and met Israeli ministers as part of the visit. And in October 2017, he led a delegation of Australian cyber security companies and academics, in response to an invitation to do so by the Israeli prime minister on a visit to Australia earlier that year. Based on intelligence gathered on these visits, and presumably other briefings, minister Tehan spoke enthusiastically about prospects for improved economic relationships between the two countries in his interview on Sky News in Australia on the day he announced the notion of conducting a feasibility study. As shown in

this submission, the appeal of expanding such business is more limited than the minister expresses publicly, and it is hoped therefore that he sees greater opportunities elsewhere, better justifying the use of public sector resources in the subsequent evaluation.

## **7. OTHER MECHANISMS TO STRENGTHEN THE BILATERAL TRADE AND INVESTMENT RELATIONSHIP BEYOND THE NEGOTIATION OF AN FTA**

If one aim of the Australian Government is to improve prospects for stronger economic relations between the two countries, then certain changes in government decisions and policy are required. Suggestions for these are outlined in this final main section of the submission. The focus is on the importance of the Australian Government working to ensure that Australian values are maintained.

Australia routinely confirms its commitment to international law. The Australian Government's 2017 Foreign Policy White Paper (White Paper) is grounded in Australia's values, principally "freedom, equality, the rule of law and mutual respect"<sup>37</sup>. The White Paper also states that Australia is "a determined advocate of liberal institutions, universal values and human rights"<sup>38</sup>. Further, Australia participates in the international society of states as a signatory to the Rome Statute, a high contracting party of the Geneva Conventions, and a full member of the United Nations and its Councils.

Israel on the other hand has persistently breached its obligations under international law and as a member of the international society of states. As a full member of the United Nations, Israel like Australia is obliged to respect all General Assembly and Security Council Resolutions. This includes Security Council Resolution 242 that calls for the "Withdrawal of Israel armed forces from territories occupied in the recent conflict; and termination of all claims or states of belligerency and respect for and acknowledgement of the sovereignty, territorial integrity and political independence of every State in the area"<sup>39</sup>, and Resolution 2334 which states that Israel's settlement activity constitutes a "flagrant violation" of international law and has "no legal validity"<sup>40</sup>. It demands that Israel stop such activity and fulfill its obligations as an occupying power under the Fourth Geneva Convention. Despite Resolution 242 and Resolution 2334, Israel continues to maintain a military occupation over Palestinian territories and continues to expand illegal settlements.

Australia consistently takes a minority position on the international stage vis-à-vis Israel that is inconsistent with its values as stated in the White Paper and its policy on a two-state solution to the conflict between Israel and Palestine. The White Paper states Australia's commitment "to help protect and strengthen international rules and norms" by supporting "international accountability and adjudicatory mechanisms, such as the International Criminal Court (ICC) and the International Court of Justice"<sup>41</sup>. However, contrary to the commitments made in the White Paper, Minister Payne stated "deep concerns"<sup>42</sup> with the ICC's ruling that the court does have jurisdiction over allegations of Israeli war crimes in the Occupied Palestinian Territories.

<sup>37</sup> Foreign Policy White Paper, p. iv.

<sup>38</sup> Foreign Policy White Paper, p. 11.

<sup>39</sup> <https://unispal.un.org/unispal.nsf/0/7D35E1F729DF491C85256EE700686136>

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<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKewjMmt2K2InwAhXUIbcaHVjZCmUQFjABegQIAhAF&url=https%3A%2F%2Fwww.un.org%2Fwebcast%2Fpdfs%2FSRES2334-2016.pdf&usg=AOvVaw2HUjxIV1o3wLDeqaVcHXtl>

<sup>41</sup> Foreign Policy White Paper, p. 83.

<sup>42</sup> <https://www.foreignminister.gov.au/minister/marise-payne/media-release/icc-pre-trial-chamber-decision-jurisdiction-relation-situation-palestine>

Australia regularly speaks out about human rights abuses in Asia, including Xianjiang, Hong Kong and Myanmar<sup>43</sup>. However, when confronted with similar issues in Israel-Palestine, Australia's position runs contrary to its commentary on similar conflicts mentioned above. As Human Rights Watch has identified, "If Australia wants to be a credible voice on human rights, it should speak out wherever abuses occur and respect the ICC's decisions. It should be consistent in its support for justice, accountability, and the rule of law regardless of the context"<sup>44</sup>.

A Free Trade Agreement with Israel would act further to normalise Israel's illegal occupation of the West Bank and 14-year blockade of Gaza and further undermine Australia's legal obligations to make Israel accountable for its crimes. The White Paper states that "Australia will continue to advocate a two-state solution as the only viable path to peace"<sup>45</sup>. However, Australia cannot reasonably advance itself as a fair player in Israeli-Palestinian negotiations while it negotiates further economic partnerships with one side of the conflict. If Australia is to uphold its commitment to the international rule of law with credibility, it must not take actions (such as negotiating an FTA) with a country that is in flagrant violation of the laws Australia is seeking to uphold.

## 8. CONCLUSIONS AND RECOMMENDATIONS

The necessary conclusion from the analysis in this submission is that:

- there is insufficient imperative for Australia to develop closer trading and investment links with Israel,
- the attraction to do so is limited, and
- the risks involved are not insignificant, such that
- public resources in Australia would more productively be spent in assessing the feasibility of trade and investment opportunities with other countries.

The various components of this broad conclusion are listed below, providing a summary of the main findings, conclusions and recommendations contained in the preceding sections of the submission.

- 1) Australian exports to Israel are limited, have shown no consistent trend growth over the past five and ten years, and represent only half a per cent of overall Australian exports, ranking close to the bottom of the list of significant destination countries.
- 2) Australia is even less important as a supplier of Israeli imports, representing only a quarter of one per cent of total Israeli imports.
- 3) Israeli exports to Australia are greater in value than Australian exports to Israel, and form a higher proportion of Israel's total exports.
- 4) The negotiation of an FTA between the two countries is unlikely significantly to improve Australia's comparative position: Israel represents a small market for Australian products; Israel's economic circumstances are not particularly attractive; and Israel does not rank highly in the ease of doing business index<sup>46</sup>.

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<sup>43</sup> <https://www.hrw.org/node/377862/printable/print>

<sup>44</sup> <https://www.hrw.org/node/377862/printable/print>

<sup>45</sup> Foreign Policy White Paper, p. 81.

<sup>46</sup> Points 1 – 4 are based on findings reported in section 3 above.

- 5) These economic restraints are exacerbated for Australian businesses by the current political instabilities encountered in Israel: with the country's intentions of annexing Palestinian territories; its government's operation of an apartheid system of managing people under its control, which is inconsistent with Australian values; and Israel's difficulties with and failures to organise sustainable governments, creating an uncertain business environment<sup>47</sup>.
- 6) Similarly concerning to Australian businesses, and presumably to Israel itself, is the pending breakdown of Israel's security cooperation with neighbouring countries; the country's embroilment in military and cyber security entanglements with countries in its region; and growing uncertainties caused by the changing large power influences in the region. Acknowledging the resulting instabilities, the Australian Government adopts a somewhat precautionary approach to promoting and supporting Australian activities in Israel<sup>48</sup>.
- 7) Reinforcing the prudence of adopting a precautionary approach are the risks to both Israeli and Australian businesses caused by the BDS movement, which increasingly causes sufficient disruption to some sectors of international trade for the Israeli Government to invest funds and actions in an attempt to combat the movement<sup>49</sup>.
- 8) In assessing the outcomes of an FTA with Israel, the likely adverse consequences for both Australia's standing and economic and trading relations with its populous Muslim neighbours must also be considered, as these could seriously be undermined by any attempts made by Australia to privilege Israel as a trade partner<sup>50</sup>.
- 9) To improve the climate for strengthening bilateral trade and investment relationships between Australia and Israel, the Australian Government should pursue and implement the philosophy and values representing the core of the government's 2017 Foreign Policy White Paper more assiduously. A continuing failure to do so merely impedes the advancement of further economic relations between Australian and Israel<sup>51</sup>.

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<sup>47</sup> As reported in section 4 above.

<sup>48</sup> As outlined in section 4 above.

<sup>49</sup> As reported in section 5 above.

<sup>50</sup> See section 5.

<sup>51</sup> As indicated in section 7 above.