

**Negotiating European Trade Policy:
Industrial Influence, Diplomatic Constraints and Bureaucratic Behaviour
in the 1995 EU-Israel Association Agreement**

by
Yvette Camilla Alt

London School of Economics and Political Science
Ph.D., International Relations

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Abstract

This thesis explores the role of Government negotiations, industrial pressure and private interests in the development of European Union (EU) trade relations with Israel, focusing on the 1995 EU-Israel Association Agreement. Employing a two-level metaphor, it discusses the evolution of the EU's ability to negotiate and ratify trade agreements, the history of European-Israeli political and commercial relations, and Israel's political economy.

This thesis posits that trade policy can be used to further ideological foreign-policy goals, but that the content of trade policy is ultimately shaped less by "high political" considerations than by developing linkages at the domestic levels. In evaluating the ability of commercial and scientific communities to sway the progress of the Association Agreement negotiations, this thesis finds that the existence of some types of links between Israel and EU member states allowed Israeli interests to gain domestic "allies" in Europe, and thus to secure additional trade concessions.

A further consideration developed in this paper is the existence of at least two "domestic" arenas within the Community: at the transnational EU level, within the member states, and increasingly at the regional level. This thesis discusses the way in which both negotiators and private interests recognised these tensions and exploited traditional political relations at the national and occasionally the regional levels in order to further affect negotiation and ratification capabilities of the Community.

The thesis thus argues for a more complex rendering of the traditional multi-level analytical model, which assumes a discrete "level one". Instead, it puts forward a multi-level model, in which the ability of domestic communities to constrain negotiators is applied not only to the Community's own procedures, but also to its sub-units.

Acronyms used in this Thesis

ACP	African-Caribbean-Pacific (states)
AIPAC	American-Israel Public Affairs Committee
ARC	Academic Research Collaboration Programme
BIPAC	British-Israel Public Information Centre
BIRD	(US) Bilateral Industrial Research and Development Foundation
Caobisco	Association of Chocolate, Biscuit and Confectionary Industries of the EU
CAP	Common Agricultural Policy
CCP	Common Commercial Policy
CEJI	<i>Centre Européenne Juive pour Information</i>
CEMB	<i>Consorzio Export Monza & Brianza</i>
CET	Common External Tariff
CERN	<i>Centre Européen pour la Recherche Nucléaire</i>
CFI	Conservative Friends of Israel
CFO	Commonwealth and Foreign Office
CFSP	Common Foreign and Security Policy
COLA	Cost of Living Allowance
Coreper	Committee of Permanent Representatives
Cost	European Co-operation in the Field of Scientific and Technical Research
CRIF	<i>Council Représentatif des Institutions Juives de France</i>
CSCE	Conference on Security and Cooperation in Europe
DCS	IBM Data Center Services
DFG	<i>Deutsche Forschungsgemeinschaft</i>
DG	Directorate General
DM	Deutsch Mark
DMC	Democratic Movement for Change
DTI	Department of Trade and Industry
EBU	European Broadcasting Union
EC	European Community
ECJ	European Court of Justice
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EIB	European Investment Bank
EMBO	European Molecular Biology Association
EMBL	European Molecular Biology Laboratory
EP	European Parliament
ESA	European Space Agency
ESC	Economic and Social Committee
ESF	European Social Fund
Esprit	European Strategic Programme of Research and Development in Information Technology
EU	European Union
Euratom	European Atomic Energy Committee
FDI	Foreign Direct Investment
FICC	Federation of Israeli Chambers of Commerce

FRG	Federal Republic of Germany
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMP	Global Mediterranean Policy
GNP	Gross National Product
GPA	Government Purchasing Agreement
GSP	Generalised System of Preferences
H-O	Heckscher-Ohlin-Samuelsen (Model)
IMPs	Integrated Mediterranean Programmes
JET	Joint European Torus
JRC	Joint Research Centre
LFI	Labour Friends of Israel
MAI	Manufacturers Association of Israel
MEP	Member of the European Parliament
MFN	Most Favoured Nation (trading status)
MNC	Multinational Corporation
MK	Member of the <i>Knesset</i>
MP	Member of Parliament
NAFTA	North-American Free Trade Agreement
NGO	Non-Governmental Organisation
NIS	New Israeli Shekel
NMP	New Mediterranean Policy
NTB	Non-tariff Barrier
OECD	Organisation for Economic Cooperation and Development
OJ	Official Journal (of the European Union)
OPEC	Organisation of Petroleum Exporting Countries
OPT	Outward Processing Traffic
PABX	Private Automatic Branch Exchange
PAC	Political Action Committee
PHARE	<i>Pologne, Hongrie, Assistance à la Réstructuration Economique</i>
PLO	Palestinian Liberation Organisation
QMV	Qualified Majority Voting
R&D	Research and Development
RMP	Renovated Mediterranean Policy
SEA	Single European Act
SG	Secretariat General
SIVMO	<i>Steuncomité Israelische Vredesgroepen en Mensenrechtenorganisaties</i>
TABD	Trans-Atlantic Business Dialogue
TEU	Treaty of European Union
UNESCO	United Nations Education, Scientific and Cultural Organisation
UNIFIL	United Nations Interim Force in Lebanon
UPA	Universal Provision Act
WTO	World Trade Organisation
WZO	World Zionist Organisation

Chapter One

Introduction: Explaining EU-Israel Trade Relations

Forms of International Influence

Multi-Level Negotiating Models

Two-Level Games

Multi-Level Negotiating Models

Multi-Level Negotiating Rules

Thesis Structure and Methodology

Chapter One

Introduction: Explaining EU-Israel Trade Relations

This thesis seeks to explain the central paradox of the European Union's (EU's) attitude toward Israel.¹ Imbued with potent expectations and symbolism, and constituting a prominent part of the evolution of European Political Cooperation (EPC), the Community's diplomatic relations with Israel have for many years been complex and sometimes difficult. Community positions on the Arab-Israeli conflict have frequently differed from Israel's positions, at times radically. Since 1980, Israel has been the target of a number of critical statements, condemnations, and limited boycotts and sanctions imposed by various EU institutions. While the rhetoric associated with European-Israeli political differences has usually exceeded the actual diplomatic rift, the overall effect of two decades of EU-Israeli political difference has been to create a perception of mistrust.

This political coolness contrasts, however, with the increasingly close economic cooperation ensured in a series of agreements between the Community and Israel from 1964 through the present day. Although the European Parliament has used trade relations as a means of delivering political censure, and the European Commission has used trade as a mode of diplomatic encouragement for Israel, overall trade relations have generally developed distinctly from political relations. In the 1995 EU-Israel Association Agreement, this disassociation of political and trade relations was particularly marked. The Community was partially motivated to open negotiations in 1993 in order to lend support to Israel as Israel entered multilateral peace talks. However, these negotiations were soon driven by a momentum of their own. Desires within the EU to extend generous concessions to Israel in the trade negotiations in order to reward and encourage Israel's continued participation in the peace process were soon combined with a different attitude on the part of *fonctionnaires* and dedicated trade negotiators, who were determined to obtain the best commercial deal for the EU.

As this thesis will show, the bureaucratic structure of the European Union pushes decisions on trade and related issues to the technical level, often quite distinct from the larger political goals of the Council of Ministers. This bifurcation of foreign trade and

¹ Unless specified otherwise, both "European Union" and "Community" refer in this thesis to the EU, as well as its previous stages of governance, including EEC and EC.

foreign diplomatic policy was shown clearly at the end of the negotiations examined in this thesis, after a change in government in Israel and a shift in Israel's position on the peace process away from that which the EU had sought to encourage failed to elicit a corresponding change in the EU's conciliatory stance within the negotiations. The resulting concessions extended by the Community to Israel in the 1995 Association Agreement were explicitly condemned by some member states through their refusal to ratify the agreement; lasting until the end of 1995, the negotiations narrowly outlasted their window of political opportunity, and outgrew their role of political encouragement to Israel.

This raises some fundamental questions about policy-making in the EU, which are explored in this thesis. To what extent is trade policy a substitute for foreign policy in the Community? How isolated is the European Commission in creating trade policy from other Community institutions such as the Council of Ministers and the European Parliament? These questions will largely be addressed in this thesis within the framework of two-level game analysis, outlined below. It is shown that the traditional constraints of ratification, so central to this method of analysis, are diluted in the EU's trade policy by the existence of interim agreement provisions, and by the absence of clear forums for ratification debate after a Commission-negotiated agreement has been completed. This widens the range of acceptable outcomes to the Community, according to two-level analysis expectations, and allows foreign negotiators and their allies to influence the Commission to a high degree during the negotiations examined in this thesis.

Two elements of the above scenario bring this thesis into the debate on the neofunctionalist-intergovernmentalist nature of European integration: the autonomy of the Commission to act on highly fraught political relationships, at times against the interests of member-states; and the influence of outside interests on the Commission's decision-making process. A conventional study of EU-Israeli relations might examine the nature of foreign policy decision-making in a bureaucratic system, the centrality of Israel in the development of EPC, European strategic concerns in the Eastern Mediterranean, and the impact of domestic Jewish and Arab populations on European policy preferences, among other factors. This thesis considers these traditional international relations elements in the EU's trade relations with Israel, but adds a hitherto ignored element to the relationship:

the influence of lobbyists, industrial, social and governmental, on negotiated relations between the Community and Israel. Within a two-level analysis context, this study thus adds the new element of examining outside interests as “allies” of negotiating partners, in seeking to form alliances with domestic-level institutions and interests across borders of negotiating partners. Within the context of the neofunctionalist-intergovernmentalist debate, this thesis falls broadly within the neofunctionalist camp, illustrating that when ratification constraints are diluted, as they are in the case of Association Agreements, the Commission functions as the technical, largely a-political institution envisioned by neofunctionalist theory.

Industrial lobbying within the EU has been extensively documented in cases of industrial regulation.² The impact of foreign negotiating partners as “lobbyists” within the EU has also recently come onto the academic agenda (Calussi 1998). Other studies of industrial interests in the context of EU external relations have not examined their impact on specific negotiations, however, instead concentrating on general political and trade relations and the positioning within the Common Market of specific firms (Hocking and Smith 1997, Strange 1996). International relations between states and/or integrating blocs thus comes to be seen as “not so much well-defined developments marking the predominance of any one political arena, but a bewildering network of linkages between those arenas through which actors relate to one another in a variety of ways” (Hocking and Smith 1997:21). Although the period examined in this thesis saw the establishment of the first organisation of MNCs devoted specifically to influencing foreign trade policy, this was limited in scope. The Transatlantic Business Dialogue (TABD), established in 1995, represented a collusion of Government and business using industrial interests overtly to further political negotiations on trade between the EU and USA (Cowles 1998, Hocking and Smith 1997). This attention paid by MNCs to foreign trade policy likely provides a model for future modes of industrial lobbying in the EU.³ The concurrent

² Van Schendelen, ed. (1993), Mazey and Richardson, eds. (1993), Cowles (1995), Greenwood, ed. (1995), Nonon and Clamen (1991), Pedler and Van Schendelen, eds. (1994), Richardson (1993), Streek and Schmitter (1991).

³ A recent study of NGOs’ lobbying of the EU and WTO adds new insights into the extent to which umbrella groups became trade-oriented in their lobbying in the mid-1990s. Although focusing on NGOs and humanitarian causes, Landau (2000) illustrates ways in which, post-GATT, “(t)rade negotiations have become peopled with a vast array of groups. Issues, which were independently negotiated in the

negotiations with Israel documented in this work also saw the beginnings of concerted MNC action to influence foreign trade, though in a much more limited way. The negotiations discussed in this thesis, and the commercial pressures exerted on them, thus represent a unique point in the development of EU foreign trade policy capabilities, when old patterns of industrial and other “level two” influences emerged as much more comprehensive actors in influencing Europe’s foreign trade policy.

This thesis contributes to this dialogue, attempting to re-impose order in at least one section to the emerging empiricism of complex linkages, policy networks, and industry-led globalisation which is replacing, at times obscuring, current literature on international trade relations. By examining the actions and influence of industrial institutions in the context of one specific, government-led negotiation, this thesis identifies the actions, preferences, and limits of foreign industrial and governmental influence on one branch of EU foreign trade policy.

Forms of International Influence

In discussing alternatives to the use of force, Geoffrey Stern (1995) identifies diplomatic, judicial, political, economic, and moral. His distinction between diplomatic and political pressure is particularly appropriate for this study, as he identifies the multifaceted, low political arenas, which constitute political pressure, as distinct from diplomatic pressure. “Reasoned argument”, whether directly between two governments or mediated by a third party, or conducted by a multilateral political organisation, constitutes diplomacy. Stern identifies Israel as a recipient of diplomatic censure in the form of widespread non-recognition; the impact of this on Israel’s foreign policy is discussed in Chapters Three and Five. Political pressure, however, relies on governments’ access to sub-national units within other countries. Political pressures “differ from diplomatic pressures in that they are designed to appeal in the first instance to the public or to influential interest groups and lobbies of the target state, though its government remains the ultimate quarry” (Stern 1995:129).

Uruguay Round are overlapping, and intertwine with” a range of new issues, drawing in ever more diverse and broadly-based players (2000:22).

Economic pressures such as the imposition of boycotts or the extension of economic incentives to encourage preferred behaviour, which mark the history of Community-Israeli relations, can be considered a third form of pressure, between political and diplomatic. Economic tools are applied by governments to other countries as a whole, but will affect various domestic groupings in the target country differently. Thus, for instance, sanctions against financial cooperation disadvantage companies which engage in FDI, but not those which import or export, possibly causing the targeted sectors to pursue higher levels of political influence within their home governments, in order to remove the political causes of international sanctions. Whether these different consequences are intended or not when economic pressures are formulated is questionable. In the case of European-Israeli relations, European boycotts and economic incentives applied to Israel have had the effect of strengthening those companies with international linkages within the domestic structure, and have empowered the scientific community by creating trans-national linkages there at the political levels (discussed in Chapters Two, Five and Eight.). These internationally-focused sectors in turn were better positioned to affect the EU-Israel negotiations.

The judicial pressure identified by Stern has not figured into EU-Israel relations, though his final category, moral pressure, is useful in capturing the many unspoken, emotional links between Europe and Israel, which escape detection in more conventional explanations of international relations. "Moral suasion" thus provides an alternative to more direct pressure,⁴ and can be a force for closeness as well as censure. The influence of European moral approval on Israel – and the sting when it was not forthcoming – is explored in Chapter Three. Yet abstract "moral" concerns have brought much closeness between the Community and Israel, as well. Economic relations between Israel and various German *lands* (discussed in Chapter Eight), for instance, spring in part from intangible moral links and feelings, and a desire of German business figures to be close to Israel. More centrally, this thesis will show, the impetus for opening Association

⁴ Stern illustrates this process with the example of the heart-felt, and successful, plea by the Prime Minister of New Zealand for Britain not to forget the sacrifices which New Zealand troops had made in the Second World War, as Britain joined the Common Market in 1973. Stern attributes Britain's subsequent requests that certain New Zealand products receive preferential treatment from the Community to this "moral suasion", which he correctly distinguishes from diplomatic or political pressure.

Agreement negotiations in 1993, and the Community's willingness to be generous in them, also stemmed from a desire to "reward" Israel for participating in the Oslo Peace Process. Difficult to quantify, "moral" messages such as these have played an important role in the way the Community and Israel have related to one another.

Multi-Level Negotiating Models

Two-Level Games

In order to explain the period leading up to the start of Association Agreement negotiations in 1993, this chapter employs the metaphor of the Two-Level Game, first articulated by Robert Putnam in 1988. Putnam provides a set of three determinants, involving domestic conditions and systemic constraints, which affect the ability of negotiators to procure agreements at the international level. His great innovation is in recognising that bargaining, not systemically-shaped preferences, most extensively shapes the relations between nations. Instead, international relations can be examined as a constant system of re-evaluation and dialogue: a model that works particularly well in examining formal trade negotiations (especially one conducted by a complex regional arrangement such as the EU) and the attitudes of those party to them. Thus armed, this thesis will then undertake to examine the myriad of domestic and systemic changes in the EU which made up the pre-negotiation period; this task is rendered manageable by examining only those aspects, where possible, which affected the negotiating possibilities of the Community and Israel *vis a vis* each other, according to Putnam's model.

Putnam's two-level metaphor grows out of Waltz's inclusion of relative domestic strength as a variable in states' agenda-setting at the systemic level (1959).⁵ Two-level game analysis rests on the "Second-Image" and "Second-Image-Reversed" theories, relating, respectively, domestic causes to international effects, and tracing how developments in the international system have ramifications at the national level (Waltz 1959, Gourevitch 1978). Putnam rejects considerations of states as unitary actors with

⁵ Waltz identifies three levels of analysis - systemic, domestic, and individual - as the basis for decision-making between states.

fixed preferences, but differs from other advocates of a “linked” system, such as Katzenstein’s (1978) and Krasner’s (1978) structural studies or the neofunctionalist school, in arguing that state cohesion varies over the years, and that the very institutional character of domestic institutions can greatly influence a state’s ability to negotiate in the international system. Whilst states’ institutional characters determine the course of negotiations, this is a shifting process, as states’ institutional cohesion can vary over time and from issue to issue. Putnam also recognises in this metaphor the importance of courting sympathetic elements at one’s opponent’s domestic level, a factor that will be seen to be particularly important to the 1995 Association Agreement.

Multi-Level Negotiating Models

Traditional Realist and neo-Realist approaches to bargaining assume the primacy and general uniformity of states; inequalities are accounted for by external factors and positions in the international system. Moravcsik (1993) identifies three categories of liberal “domestic” theorists (who stress states’ internal cohesion as a source of relative power): “society-centred” theorists, stressing domestic approval and popular lobbying; “state-centred” theorists, focusing on the decision-making methods within the Executive; and “states-society relations” theorists emphasising the interplay between domestic and government institutions. Moravcsik adds to Putnam’s two-level conception the participation of transnational and trans-governmental alliances, as well.

Risse-Kappen (1995) criticises Putnam as state-centric for assuming that state institutions remain the nexus for international and domestic society, when non-governmental networks increasingly bargain and maintain complex international relations of their own. In his conception, international bargaining takes place in a *three-level* system, in which level-one comprises trans-governmental alliances: voluntary, systemic constraints imposed from “above” on states, both affecting state priorities, and also offering non-state actors additional channels of access.

	Putnam	Risse-Kappen
Level I	Systemic Constraints	Transnational/ Trans-governmental Bargaining
Level II	Domestic Ratification	Intra-Governmental and Inter-State Bargaining over the Negotiated Results of Level I
Level III		Domestic Politics

Practically, however, international negotiation between complex, industrialised groupings is so elaborate as to be “multi-level” rather than “two-level”, “three-level”, etc. Whether this precludes structured analysis, however, is unclear. Some successful studies have been carried out, examining complex American policy preferences and negotiating capabilities in reference to two-level, or at least carefully charted multi-level, analysis (Evans, Jacobson and Putnam, eds. 1993). Others have observed prohibitive degrees of complexity. Hocking and Smith note that “....the realities of *multilevel* as distinct from *two-level* games are so hard to describe, let alone convert into practical strategies, that this basic tenet of Putnam’s analysis becomes vastly more difficult to operationalise in the complex political arena of US-EC relations” (1997:43). Instead, they note

a central contrast in the evolution of international economic policy between two tendencies. On the one hand...centr(ing) on the importance of *position, power, control* and *bargaining*, and which could be said to support traditional statist notions of foreign economic policy and related diplomacy. On the other hand, there is a tendency centring on *process, leverage, access* and *networking*, which suggests a transformation of foreign economic policy into a form of multilevel negotiation and which takes us beyond established notions of the policy arena (1997:149).

Hocking and Smith find that different components of information-gathering and coalition-building are employed at different times and in different areas (public procurement falls into the former category, and standards, testing and certification, generally in the latter), with no overall pattern emerging. The decentralised nature of the EU, particularly, in which state interests vie for influence within (and sometimes with) the various directorate-generals (DGs), suggests a complex multi-level policy model of analysis.

Even when states are assumed to be unitary actors, their varying internal characters affect bargaining capabilities at level-one. Milner adds to Putnam's observations that just as divided governments limit win-sets, so too does imperfect transfer of information between domestic interests and government agencies (Milner 1997, also Risse Kappen 1995). Milner divides the two-level game into four "players": home and foreign executives, home legislature, and interest groups within the home country. She identifies three internal factors shaping a state's ability to bargain internationally: the structure of domestic preferences; that of domestic political institutions; and the domestic distribution of information. Added to these are the interests of private actors, which attempt to manipulate not only politicians' preferences, but also their institutional relations with each-other, strengthening those elements of Government that concur with their policy preferences. Milner also makes an important distinction between types of ratification procedures: in cases of straight-forward ratification, the executive's preferences will dominate, while in systems which allow the legislature to impose amendments to negotiated settlements, their interests will emerge as primary.

Multi-Level Negotiating Rules

Putnam's metaphor itself is one of two tables at which negotiations are held simultaneously: the domestic, which he calls level-two, and the systemic: level-one. Benefits ("win-sets" in Putnam's language) gained in one forum can have profound effects on the potential win-set in the other. This is especially true in systems where statesmen and the maintenance of their personal domestic positions (the level-two table) matters; as will be seen, however, the broad rules of domestic-systemic relations which Putnam describes also work well in a more opaque, bureaucratic system. These rules fall into

three broad categories of expectation. The first posits that the win-set in level-one negotiations is broader (i.e. a wider range of outcomes will be acceptable) when domestic support is homogeneous and, ideally, when the discussed item is not politicised at home. Non-politicisation is self-evident (fewer people care enough to block non-contentious issues), but domestic heterogeneity is more nuanced for Putnam. He discusses the level to which dissenters are active in the domestic forum, which leads back again to the issues of politicisation overall; some might oppose at the domestic level the negotiator's international win-set, but unless they can muster sufficient support to block it, such sentiments do not affect level-one goals. When it is more active, level-two heterogeneity may require domestic coalitions to support the negotiator's level-one goals, leaving the negotiator's domestic negotiations open to the potential threat of infiltration, in the form of coalitions, by the other side. Putnam's final observation about the homogeneity of level-two support is that complicated issues in a highly divided setting allow for what he calls "synergistic linkage": allowing one domestic faction to promise another that which is only possible to achieve in the context of the simultaneous level-one bargaining.

Putnam does not, however, distinguish those aspects of domestic society from which level-one negotiators can extract their most effective support. Post-dependency studies of bargaining between MNCs and governments in developing countries emphasise the commercial sector as a vital domestic element giving prestige and legitimacy to level-one politicians. (See Stopford and Strange 1992). Yet in areas where entrenched, private, international links exist, political encroachment is often resisted, especially by sophisticated commercial transnational alliances, which have the organisational and informational resources to contribute materially to negotiations. In other words, "(n)o-agreement in state-to-state terms may create room for a preferable private arrangement. For those with established positions in global markets, the status quo may well look better than a new, officially sanctioned regime" (Evans 1993:420). This is particularly the case for established, domestically-oriented firms, which are often protectionist.⁶ Aspirant new entrants to international markets have the clearest incentive to support politically-

⁶ Pertinent to this study's concerns, Evans does not consider international exporters proponents of liberalisation, likening them instead to producers for the domestic market: "Domestic production for sale abroad does not necessarily create transnational alliances. In fact, it may make transnational alliances threatening...." (1993:421).

negotiated international agreements. The threat of domestic interests forming coalitions with foreign allies tends to make international negotiators more “dovish” in relation to their domestic interest groups. However, there is no evidence that the presence of transnational links definitively promotes agreement; even linked actors will sometimes choose to place their more narrow domestic interests ahead of their international obligations.

Which domestic factors are relevant? Moravcsik has noted the confusion inherent in many studies within the two-level metaphor; “without a broader theoretical framework, the analyst is left without guidance about *which* domestic influences to emphasise. The result may be a haphazard checklist of possibly relevant domestic ‘factors’, ranging from national character to class structure to constitutional law” (1993:14). Outside of formal ratification or decision-making power, interest groups’ relations with executives are often ill-defined. Milner identifies a number of roles for interest groups, such as information providers, vote and campaign fund-raisers, and providers of “general support” to politicians, which render their preferences influential, if vague (1997:247). These qualities are unquantifiable, but distinctions such as these at least enable theorists to identify those interests with an influence on the executive. Further confusion arises, however, when domestic interests are divided. Milner (1988) identifies broad state support for commercial interests, but notes uncertainty when inter-firm conflicts create deviated preferences. Others adopt a more pessimistic view of the domestic commercial level, where narrow sectoral interests actually prevent the level-one executive from pursuing the common good in international negotiations (Frieden and Lake 1991).

Bounded rationality also exists at the commercial level, as well as within states. Companies, too, are sometimes constrained by conflicting domestic and international goals. One writer, for instance, cites the examples of Japanese semiconductor firms, which in the 1980s pushed for liberalisation: “In the semiconductor case, the international interests of the Japanese firms were so strong as to lead them to undermine their own government’s bilaterally negotiated agreement” (Krauss 1993:292). Domestic interests are thus affected by international bargaining through the distribution of costs and benefits, and through divisions and discussions over level-one issues. Others emphasise the mutual dependency of state and domestic institutions, especially in cases where these “networks

of mutual dependency...extend beyond the traditional boundaries of national policy-making" (Hocking and Smith 1997:183) into international regimes or complex forms of interdependency, which defy easy categorisation of costs and benefits.

Another element in Putnam's analysis is the nature of domestic political institutions, especially as they relate to the process of ratification of level-one agreements. Generally, an absence of scrutiny at the domestic level benefits international negotiators by increasing the potential win-set they can bring home to successful acceptance and ratification. Yet, Putnam's model also recognises that domestic constraints, resulting in a narrower win-set of acceptable solutions, can be used as a bargaining tactic with international partners. This will be seen repeatedly in discussions of the method of negotiation for the 1995 Agreement. This tactic can backfire, however, for although level-one negotiators can benefit from the constraint of having to appease a potentially critical domestic polity, (claiming a narrower win-set if their domestic backing should be critical of some international demands), negotiators cannot be too divorced from domestic considerations. Complete independence from the need for domestic ratification would, in Putnam's model, render a level-one negotiator's win-set unlimited, with everything being negotiable in the absence of any real constraints of ratification or acceptance.

Later conceptions of two-level analysis have disputed Putnam's assumption that level-one negotiators need *narrow*, but not *absent*, domestic support. The "Schelling conjecture", that divisions between domestic factors strengthen a country's international bargaining position (Schelling 1960:28-9, Putnam 1988), is found only to work in specific instances by Milner, particularly when domestic divisions are clear, well-publicised, and thus independently perceived by foreign negotiating partners (1997). Summarising a number of case studies of international bargaining and domestic politics, Evans (1993) notes that level-one negotiators are reluctant to voluntarily constrain their win-sets, even when they agree with the preferences of their uncooperative constituents, and are generally both unwilling and unable to estimate their own ratifiable win-set, and convince their foreign negotiating partners that their "hands are tied". International negotiators' latitude generally contracts during the course of negotiations, anyway, Evans notes, as interest groups exert more influence on bargaining goals.

This is echoed by Krauss, who examines complex trade negotiations between two advanced, industrialised countries - Japan and the USA - in the late 1980s, and observes that domestic interests' influence on level-one bargaining exceeds Putnam's conception of them as ratifiers (1993). Even strong industrial interests may not have the domestic clout required to prevent ratification, as in Krauss' case studies of American semiconductor interests and Japanese construction interests. Industry still retains political influence, but not because of its ability to triumph in a zero-sum game. Instead, domestic groups can command political loyalty or prestige, and also can forge wider coalitions, possibly eventually *moulding* win-sets at level-one. The modes of doing this are many. While some two-level negotiation theorists see information as a precious commodity in international bargaining (Milner 1988, 1997), other studies of strategic and trade bargaining show that information about level-two attitudes and actions is often as incomplete among their own leaders as it is abroad, thus preventing the sort of wilful misleading of international bargaining partners Putnam envisions:

Our mistake was not in overestimating the importance of information; it was in overestimating the informational consequences of national boundaries. (Chiefs of Governments') estimates of what was ratifiable in their own domestic polities were often wrong, and even successful domestic strategies prevailed in spite of a high degree of uncertainty. Estimates of the other side's domestic politics were often mistaken as well, but not dramatically more often than estimates of one's own polity. (Chiefs of Governments) did try to strategically misrepresent their own polities in order to gain bargaining advantage, but not as often as we expected, and with much less success. Highlighting genuine uncertainty with respect to ratifiability seemed more effective than connoting portrayals of the domestic polity (Evans 1993:409).

Given that the level-two milieu profoundly affects the win-set in level-one through its ratification or approval of various bargains, and that this approval can be manipulated by domestic and even international coalitions and linkages, Putnam's third expectation is that the size of the win-set in level-one depends on the strategies of level-one negotiators. This involves a complex balance of increasing one's own win-set, keeping any increase a

secret from one's opposite number, and in turn increasing the win-set of one's opposite negotiator. Putnam provides a few ground rules for this: after one's own domestic approval has been increased, using the "rules" of coalition manipulation above, and keeping the exact nature of one's domestic support obscured at the level-one negotiating table, negotiators then will try to enhance the level-two prestige of their opposite number. Again, strategic "synergistic" linkages and coalitions can be extended at the domestic level of one's opponent in order to increase the size of his win-set, and thus afford one's self an enhanced range of potential negotiated solutions. Negotiators subject to these tactics do, in return, according to Putnam, seek to convince their opposite negotiators that the agreement they are able to deliver is what Putnam terms "kinky". That is, that the agreement on the level-one table is at the very outer limits of acceptability at level-two: this much, and no more, can be approved domestically.

Because so much at level-one depends on the negotiator's ability to achieve ratification at level-two, higher-level politicians, who are more likely to enjoy broader support domestically, are more desirable as negotiating partners in this model. For their part, Putnam posits three motives for high-level politicians to become what he calls the "chief negotiator". Gains in level-one might open up new possibilities in level-two, thus enhancing the politician's power and prestige. Level-one negotiations allow politicians to take unpopular decisions with minimum domestic censure, as systemic constraints are blamed for the policy.⁷ Finally, politicians might be motivated in their international negotiations by a desire to spread their domestic values to new countries.

Thesis Structure and Methodology

Thesis Structure

As this thesis will show, many of the above bargaining tactics were employed during the negotiations for the 1995 EU-Israel Associated Agreement, as well as a concurrent, linked, agreement on public procurement. The EU and Israel began informal

⁷ As interdependence becomes more pervasive and complex, international goals can increasingly only be achieved through international bargaining, a condition not always clearly understood by politicians and domestic supporters.

talks on upgrading their trade relationship in December 1992. Formal negotiations began one year later, and concluded in November 1995. An Interim Agreement implemented most of the Association Agreement's provisions from December 1995 until final ratification in June 2000. This thesis explores the background, impetus, and texture of negotiations from diplomatic, bureaucratic and private interests points of view.

Chapter Two describes the history of Community-Israel trade relations, from their first trade agreement in 1964 through the 1988 amendments of the 1975 EU-Israel Free Trade Agreement. This chapter is primarily descriptive, and brings together secondary sources to present a detailed, dedicated account of the history of EU-Israeli trade negotiations.

From the start, as will be seen, the various Community-Israel trade agreements were closer than might perhaps have seemed warranted from their more distant diplomatic relations. Diplomatic relations are explored in Chapter Three, which traces the history of EU and member-states' political stances towards Israel and the Middle East, and discusses the Community's Mediterranean Policy and role in the Middle Eastern Peace Process.⁸ This chapter also discusses ways in which the Community has considered Israel within a Mediterranean context, although strategically, politically, and by the 1990s economically, Israel did not fit neatly into this category. Chapter Three is also primarily descriptive, although it does present some original material in the form of first-person interviews. Taken together, Chapters Two and Three present a necessary, empirical background to later discussions of EU-Israeli negotiations.

The next section of this thesis, comprising Chapters Four and Five, discusses ways in which both the Community and Israel evolved in the years preceding the 1993-1995 negotiations, and explains the specific constraints and goals of European and Israeli negotiators in this context. The Community's evolving ability to negotiate and ratify external trade agreements is discussed in Chapter Four. This chapter also uses both secondary and primary sources to examine the role of lobbying in the Community: both generally, and more specifically in the context of Community-Israel relations. It demonstrates that, unlike the United States, for instance, no significant domestic interests

⁸ This thesis focuses on non-agricultural sectors. Thus, Chapter Four does not discuss the Common Agricultural Policy in this context.

exist that would influence the EU-Israel negotiations, besides the commercial interests that have a role in all of the Community's trade relations.

Chapter Five discusses Israel's political economy, and shows how Israel became both a more desirable business environment in the late 1980s and 1990s, and also how its participation in multilateral peace talks boosted its standing and created a feeling of euphoria and optimism within which negotiations for the EU-Israel Association Agreement began. Again, this thesis presents original material, in the form of interviews of some figures at the forefront of developing Community-Israel relations, to augment the discussion in this chapter.

The third section of this thesis, comprising Chapters Six, Seven, and Eight, present new material specifically about the 1993-1995 EU-Israel trade negotiations. Chapter Six explores the motivations within the EU and Israel to negotiate the Association Agreement, and discusses their win-sets, goals and motivations. Chapter Seven follows the industrial negotiations (not agriculture) step by step, illuminating the specific dynamics of the talks. Chapter Eight discusses the role of industrial lobbying in the negotiations.

The overall evolution of the Community's and Israel's abilities to negotiate and conclude trade agreements, and the strategies of the 1992-1995 negotiations, are discussed in Chapter Nine. This concluding chapter examines the ways in which the Community and Israel view each-other, how they engaged in the 1990s and before, and how this background influenced the course of the trade negotiations.

Methodology

This thesis uses academic papers, articles and books, Government documents, documents from private firms, industry associations and lobbying companies, press reports, and first-person interviews to construct its argument about the course and motivations of EU-Israel trade relations, specifically during the negotiations towards the EU-Israel Association Agreement. In the course of research for this thesis, major companies and (non-agricultural) industry associations within the EU and Israel were contacted via letter. Generally, the response rate of companies and associations in Israel

(where it was perhaps felt that the Association Agreement negotiations had greater ramifications) was greater than amongst EU-level or member-state companies or organisations. The responding companies and associations are indexed in the list of interviewees at the back of this thesis. In addition, major lobbying firms in the EU and Israel were contacted, to determine if they represented clients concerned with the EU-Israel negotiations. None did so, though the independent Israeli lobbyist Boris Krasny (listed at the end of this thesis) and a Brussels-based lobbying firm that requested not to be named did provide some general background information about lobbying in the EU and Israel in general.

In addition, all parties to the actual Association Agreement negotiations were identified (outside of agricultural areas), whether they had large roles (such as officials from heavily involved DGs such as DG-I and DG-XII), or small roles (such as ESC or European Council officials), and were via letter approached for interviews. Generally, the response rate was high, and many of the officials responsible for the bulk of day-to-day negotiations in non-agricultural areas agreed to be interviewed. Again, as in industry, the response rate amongst Israeli officials tended to be higher, perhaps reflecting the greater importance of the Agreement to Israel. In addition, Israeli officials in all member-state embassies were contacted by letter. The response rate here tended to be higher in countries where greater levels of bilateral negotiations took place, generally at the economic counsellor level. Officials who consented to be interviewed are listed at the end of this thesis.

Interviewees were initially sent a standard letter identifying major questions and areas of inquiry; these varied with the official targeted, but all asked for clarification of their role in the negotiations, and their perspective on its course and motivations. All face-to-face interviews were taped; interviews conducted via telephone were transcribed directly following each interview. All interviews were conducted “on the record”, and are indexed in the back of this thesis. In some cases, interviewees requested that specific statements be “off the record”; these few instances are so notated. Each interviewee was sent a follow-up letter, identifying major points discussed. In some cases, further interviews or correspondence ensued (so noted at the end of the thesis). Cross-checking of information provided in interviews was facilitated by the relatively small pool of

participants in the EU-Israel negotiations; in the course of this original research, no obvious anomalies of fact or perspective emerged. Factual statements were also cross-checked against published documents, government materials, and media reports, where possible.

Chapter Two

Community-Israel Trade Agreements 1958-1993

Introduction

1964 Trade Agreement

- Background
- Negotiations
- Agreement
- Subsequent Trade Diversion

1970 Agreement

- 1967 Six-Day War
- EEC Structural Capacity
- Israeli Structural Capacity
- Commercial Pressures
- General Mediterranean Policy
- 1973 Transition Protocol

1975 FTA

- Negotiations
- Agreement
- EEC Competence
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- Greek Exceptionalism to the 1975 Agreement
- Israeli Reactions
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Effects of the 1975 Agreement

- Trade Liberalisation
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- European NTBs:

Conclusions

Chapter Two

Community-Israel Trade Relations 1958-1995

Introduction

Three separate trade agreements shaped trade relations between the European Community and Israel before the 1995 Association Agreement: the 1964 and 1970 trade agreements, and the 1975 Free Trade Agreement. This chapter provides an overview of those agreements, the political and economic issues at stake, and assesses the effects on trade of each agreement. Both social and commercial policy networks, as well as the demands of level two ratification constraints are considered. Little commercial lobbying is documented in these early agreements; the practice was not widespread, the corporatism of both Israel and the European member states gave much greater powers to government negotiators, and the actual agreements were considered politically delicate, and required as much diplomatic consideration as commercial bargaining. The wider background of the Community's various Mediterranean Policies, which is crucial to any understanding of EU-Israel commercial relations, is discussed in Chapter Three, and should be considered along-side the more specific case studies considered in this chapter.

Generally, the history of Community-Israeli trade relations is remarkable for the relatively high profile Israel was able to keep in EEC trade policy, despite both its economic insignificance and the political negativity later associated with it. Thus, the following empirical background provides a record of an entrenched negotiating history, in which the European Community set a precedent of meeting Israeli demands for enhanced trading status. As will also be seen, however, despite the apparent inequality inherent in any European-Israeli relationship, and the very real trading concessions granted to Israel in the 1970s, the Community has generally used its commercial relations with Israel to help shape its later trading policies in the wider Mediterranean region.

Despite some early diplomatic tensions between the EU and Israel, trade relations between the Community and Israel became progressively deeper. Early trade relations can be understood in a political context, particularly as a reflection of the Hallstein Commission's conscious strategy of expanding the status of the Commission and lifting

the international visibility of the EEC through the proliferation of foreign trade agreements. Later commercial relations between the Community and Israel, however, took place against a highly critical EPC, and beg the question why the Community did not make greater use of its ability to place commercial pressure on Israel in order to press for political goals. With the exceptions of non-ratification of some protocols by the EP in 1997 and 1988, and the freezing of some EU-Israel scientific co-operation arrangements, formal trade relations between the EU and Israel proceed largely unaffected by the changing political relations between them. The following section discusses the scope of the pre-1995 agreements, the issues involved in their negotiations, and the effects of each level of trade agreement, as background to the commercial issues involved in the 1993-1995 negotiation of the Association Agreement.

1964 Trade Agreement

Background

In terms of policy networks between European and Israeli social and business groups, there is little evidence of structured relations in the early decades of EEC and Israeli existence, though many unofficial links existed between European and Israeli acquaintances, connecting business, academic, scientific and artistic actors in Israel to Europe. Few studies of commercial links during this period exist, but it is clear that European-Israeli investment contact overall were limited. Citrus fruit accounted for over 25% of Israeli foreign exports in the 1950s and early 1960s, and Israel's external commercial contacts were primarily in the form of simple import/export arrangements, often shrouded in secrecy to escape the retaliation of the Arab boycotts.¹

¹ The Arab League was formed in 1945, among the 21 members of the British-organised Middle East Supply Centre, founded five years earlier, in order to "strengthen the close ties linking (sovereign Arab nations) and to co-ordinate their policies and activities and direct them to the common good of all the Arab countries" (quoted in El-Agra 1997:322). "Palestine" was later added as the 22nd member, and the League adopted opposition to Israel as a fundamental plank and rallying-point. One of the League's first actions was to impose a boycott against "Zionist" produce, a category that was variously and widely defined (Israeli companies were targeted, but so were companies with Jewish board members.).

After 1958, opposition to EEC-Israel association became one of the League's prime goals, and the EEC received strong pressure to limit its economic concessions towards Israel, both from League offices, and bilaterally from League members. This received full expression in the Arab League's Arab Economic Council meeting of 30 May 1962, which formally threatened the EEC with an Arab boycott, including of

petroleum. The League soon addressed individual European companies by instituting boycotts (primary, secondary, tertiary, and others), imposed on those companies that did business with Israel.

At first, blacklisted companies might still be allowed to trade, especially if participating countries could not immediately identify alternatives. Over the years, however, the boycott became better organised and more consistent. The arbitrary nature that characterised many blacklisting decisions was removed, and the boycott was expanded into secondary and tertiary boycotts, and also to apply to Jewish-owned or represented firms in the West. This last point backfired in some celebrated cases, such as the 1963 Mancroft Affair in the UK, in which the Jewish businessman Stormont Mancroft was forced off the board of Norwich Union (later reinstated after public outcry) and later (successfully) blocked in his bid to the presidency of the London Chamber of Commerce. Overall, however, this aspect of the boycotts did limit European business dealings with Israel.

League boycotts of individual countries achieved mixed success in influencing trade with Israel. The boycott was largely followed in Europe, though compliance remained unofficial, and companies risked adverse publicity when found to be co-operating. While the boycotts never received official sanction from EEC institutions, the sentiments and mechanisms of the boycotts at times coincided with the EEC's larger political stance towards the region. At other times, most European countries officially repudiated the boycotts.

In January 1965, Israel announced a counter-measure of discrimination against the products of those firms complying with the Arab boycotts, though this had little effect outside of domestic Israeli political rhetoric. The following year, however, Israel successfully demanded that a number of companies which had been trading with Israel indirectly to trade directly. The US Congress aided Israel's attempts to dilute the boycott by passing the 1977 Export Administration Act, which made it a criminal offence to honour boycott requests. Israel's most important break-through in out-manoeuvring the boycotts, however, came when it made peace with Egypt in 1977. The peace treaty, as well as Egypt's subsequent expulsion from the Arab League, dealt a major blow to the efficacy and prestige of the boycotts.

The threat of blacklisting had variable effects on companies from different regions. American companies were generally the most willing to violate the boycott, and often their actions went unpunished: in 1979, over 70 large American companies traded with Israel with no punitive retaliation from the Arab League. In contrast, Japanese companies, for instance, generally co-operated with the boycott with alacrity. In Europe, boycott compliance fell somewhere between these two extremes. The Community never responded directly the boycott, though France passed anti-boycott legislation in 1977 (implemented only in 1984), and the Netherlands passed legislation in 1984. In 1986, Britain's Foreign Office ceased issuing "negative" certificates of origin, proving that companies had no Israeli link.

Both diplomatic tradition and the economic importance for Europe of the Arab League in the 1970s can account for European co-operation with the boycotts. Between 1970 and 1974, oil prices effectively quadrupled, (rising 360 percent in 1973 alone), raising fears in the West of OPEC price controls (figure from Sachar 1999:285). Roughly half of the world's oil output came from Arab League members (334,840,000,000 barrels, out of a world output of 641,600,000,000, in 1979) (El-Agraa 1997:335), ensuring the League's centrality in European commercial considerations. Also, high levels of European (particularly French) arms sales to League members provide an additional incentive to maintain good relations with purchasing countries.

At the company level, however, differences in boycott compliance were evident within the EEC. Large firms were generally more likely to defy the boycott than small companies, usually because of public outcry when they were seen to cave in to this sort of pressure. The wisdom of observing the boycott encompassed many concerns - public perceptions, volumes of trade, the likelihood of actually being blacklisted - and most companies complying with the boycott did not admit it as their true motive, rendering it difficult to assess just how much of an impact the boycotts had on European-Israeli trade. Yet anecdotal evidence, as well as advice given in trade literature throughout the period of the boycott, indicate a significant compliance rate among European firms. Some observers are wary of attributing too much under-investment to the boycott; for every firm that pulled out of a business relationship in Israel, another firm, which for various reasons would not count itself as vulnerable to blacklisting, would be able to step in to somehow benefit from the same initial opportunity. Thus, "(t)he dollar value of these losses (to Israel due to the boycott)...cannot be estimated and may range from only very marginal losses to as much as hundreds of millions annually" (Losman 1979:67).

Commercial policy networks spanning the region, whether stemming from FDI or entrenched and public trading relations, were largely absent during this period. What early European-Israeli trade did exist was often facilitated by European Jews who, because of their religious convictions and/or social and personal links with Israelis, acted as advocates for Israel within Europe's "level-two" commercial community. One prime example of this, discussed further in Chapters Five and Nine, is the British Firm Marks and Spencer's early investment in Israeli textile manufacturing, which was motivated by the Zionist attitudes of the firm's managing directors.² Yet the amount of influence wielded overall by Jewish groups was small (see Chapter Four), and few other groups of natural allies to the Israeli cause existed. Business links tended to unite individual firms or people, not wide groups, and because of the various boycotts against Israel, were often secretive.

Diplomatically, the first decade of the EEC saw an emerging political rapport, though no formal trade agreements, with Israel. Unsure how to treat the new trading bloc to its north, Israel at first harboured grandiose ambitions of eventual association with the multilateral partnership. Giving early encouragement to the organisation, Israel in 1958 became the third country to establish a mission to the EEC, after the USA and Greece. Four months after the European Commission commenced operations, in April 1958, Israel submitted a memorandum to the Commission on the need for a comprehensive EC-Israel agreement. Israel expressed concern over the future of Israeli agricultural exports to the six member countries, yet embraced the new multilateral institution, anticipating permanent dialogue and possible future association (Greilsammer 1981:30).

From the beginning, Israel's approach to the EEC was one in which political rhetoric sometimes wildly contradicted the realities of often secret economic relations and negotiations. The precedent was clear from Israel's bilateral relations with the

² Of course, it can be misleading to assume that European Jews were disposed to trade with Israel during this period, however. This assumption is made, for example, by Wasserstein (1996) in his seminal account of post-war Jewish communities in Europe. He notes the Jewish origins of Marcel Dassault, whose French Dassault aircraft company sold *Mystère* and *Mirage* jets to the Israeli air force during the 1950s. Wasserstein's example is improbable, however (Dassault became Catholic and spoke of himself as exclusively French after World War II), and illustrates the difficulty in determining which European Jews traded with Israel for emotional versus "rational" commercial reasons. The British arms company GEC Marconi, for instance, for many years refused to violate the Arab boycotts and publicly sell arms to Israel in the 1960s and 1970s, despite being run by Arnold Weinstock, who was openly Jewish and active in British Jewish communal affairs (Brummer and Cowe 1998).

member states. Extensive trade relations between Israel and the FRG, for example, had developed outside a context of formal political relations. Nevertheless, by 1961, fully 10% of Israeli exports went to West Germany: more than to any other EEC member. Israel's most substantial commercial contact with a European country in this period, its purchase agreement with France for weapons worth more than \$100 million in 1956 prices, also took place outside the jurisdiction of Israel's Finance or of either country's foreign ministry, at French insistence (Peres 1995).

Much of Israeli trade has traditionally been in the form of countertrade, allowing for greater secrecy and government control of key purchasing deals. Given this background, the lack of an association with Europe had primarily political, not economic, ramifications for Israel. Indeed, in the years soon after the formation of the EEC, the percentage of Israeli exports to member countries rose, and its trade deficit with the EEC region shrank.

	Israeli exports: % to EEC	Israeli imports: % from EEC
1958	22.9	25.7
1960	29.8	29.0

(Office statistiques des Communautés Européennes, Greilsammer 1981:20)

The safeguarding of favourable trade conditions was indeed a concern of the Israeli government, but discriminatory trade practices and a vast trade deficit with Europe was not yet the reality it would become in the 1970s. From the nascent EEC's point of view, recognition from Israel was undoubtedly welcome, but Israeli trade was negligible in terms of overall EEC trade, and Israel carried neither the political nor economic weight to make its recognition nor requests particularly significant to Europe.

Association nevertheless remained on the Israeli agenda, and was given its first high-level boost with the 1960 meeting between Israeli Prime Minister Ben Gurion and Commission President Walter Hallstein, at which Ben Gurion indicated Israel's hope to become an associate member of the EEC. Despite whatever perceived political legitimacy was hoped for in Israel from trade association status with the Community, Israel's reasons in pursuing this option were constantly and ostensibly to minimise the adverse effects on Israeli exports by the establishment of the EEC. This was the answer Israel gave on the questionnaire given it by the Commission at the beginning of formal trade negotiations, and it remained Israel's justification for its request of association with the Community in the ensuing years. Although some (particularly Cohen 1977) have noted that associate membership became Israel's final goal, with all political and trade negotiations calculated to achieving that status, Israel's actual negotiating behaviour in the decade following the establishment of the EEC tolerated significant compromise on this issue.

Negotiation

The Council of Ministers, responding to an Israeli request, agreed to open exploratory talks with Israel in April 1962. These discussions lasted two and a half years, from November 1962 to April 1964, during which the Israeli representatives agreed to pursue a "step-by-step" tactic by accepting the idea of a limited agreement, instead of insisting on a preferential agreement. The EEC rejected Israeli suggestions of a preferential trade agreement, offering instead a general commercial agreement, which Israel accepted. The domestic Israeli justification for abandoning their goal of association was that any interim agreement would be but the first step towards a more comprehensive arrangement. This hope was in fact later given indirect credence by the finalised 1964 Agreement, which mentioned association as a future possibility. The European Parliament referred to this option in later decisions, strengthening Israeli optimism about future union.

Agreement

The first Commercial Agreement, covering a period of three years from June 1964, was non-preferential, and placed Israel, for trading purposes, in the category of the EEC's immediate neighbours. It involved reductions in the EEC's Most Favoured Nation tariff on some particular goods, especially agricultural items,³ and established a Mixed Commission to oversee implementation. This Commission's dialogues later became the basis for decisions to widen the scope of the Agreement to include additional tariff reductions and various forms of co-operation. Another crucial idea whose origins could be found in the wording of the 1964 agreement was the later decision by the EEC to treat Israel equally with other Mediterranean states, at first in the area of orange production, but later in a host of trading issues.

Subsequent Trade Diversion

Most of the benefits to Israel from tariff reductions in the 1964 Commercial Agreement were soon lost through the extension to other countries, through GATT, of all

³ The agreement reduced duties by 20% on 25 products on the erga omnes basis; notable reductions included those on grapefruit (40%), avocados (33%), and agricultural bromides (35%).

of the tariff reductions on agricultural items granted to Israel in the Agreement. Israel's trading position with the EEC actually declined, as substantial reductions on industrial and many agricultural goods, which had been omitted from the 1964 agreement with Israel, were extended through GATT and the Yaounde and Lomé Conventions, and through the eventual signing of EU bilateral treaties with most Mediterranean countries. This erosion prompted Israel to apply for Association status in October, 1966. The EEC refused to consider this, and Israel later requested a renegotiation of the 1964 agreement on a preferential basis when its three-year tenure expired in 1967; the Commission did not respond to this request until during the 1967 War. An additional source of non-structural trade erosion during this period was the expansion of the Arab boycotts against Israel, which cut into Israeli business in Europe heavily, discussed above. Kreinin (1974) estimates that the amount of manufactured exports lost by Israel - excluding diamonds - was 5% per year during the period 1964-1967.

1970 Agreement

The 1970 Preferential Trade Agreement between the EEC and Israel reflected a number of different interests: political support for Israel during a time when it was perceived as needing European assistance; increasing power of the EEC institutions in relation to the Member States; wider political considerations within the context of the EEC's emerging Global Mediterranean Policy; and strong commercial interests in the Community and in Israel. Here, each of these elements in the run-up to the EEC's decision to sign its first Free Trade Agreement (FTA) is briefly assessed. More detailed account are amply supplied elsewhere, particularly in Greilsammer and Weiler, eds. (1988).

1967 War

Renegotiation of the agreement on a preferential basis gained a new urgency with the 1967 "Six Day" War, in which Israel was widely perceived in the West as an underdog, and from which it emerged with an enhanced reputation, for a time. On 7 June, just two days after the war began, the Commission recommended that the Council

of Ministers start negotiating with Israel for an Associated Agreement. In a pattern that would be repeated in the pre-negotiation phase of the 1995 Free Trade Agreement, political motives, specifically a desire on the part of the EEC to encourage Israel in political behaviour of which Europe approved, prompted the Community to offer enhanced trading status to Israel as encouragement in this political trial. In 1967, Walter Hallstein, Jean Rey, Sicco Mansholt, and others in the Commission deliberately wished to make a political stand during the war (Cohen 1980).

Other EEC institutions, too, came out in broad political support for Israel against the members of the Arab League. The EP eagerly encouraged Israel's trade agreement ambitions, and even, at the end of June, backed Israeli ambitions for Associate status. The Council of Ministers demanded recognition of Israel from the Arab states, in the context of an international negotiation, and various Europe-wide organisations and parties individually supported Israel. A crucial exception was France, for whom the 1967 war marked the beginning of its "*Stratégie Arabe*"; indeed, France at first vetoed the Commission's recommendation. The European Parliament and the Commission, however, acted independently, strongly favouring negotiations with Israel throughout the difficult period until de Gaulle's resignation, after which the French objection was dropped. On 17 October 1968, the Council of Ministers gave directions to the Commission to open negotiations with Israel, along with Spain, on preferential agreements.

Commercial Pressures

Although the EEC initiated discussions for a new trade agreement in an atmosphere of political support for Israel, this did not prevent both the EEC and Israel from negotiating strenuously for domestic advantage. Several structural trade conflicts had been emerging for some time, which had to be addressed during the three years of negotiations which took place up to the second Israeli trade agreement. "*La guerre des oranges*", in the mid-1960s, saw vigorous bilateral Israeli lobbying in the face of Italian pressure to limit Israeli orange exports, and provided a major opportunity for establishing the position of Israel in the EEC's system of Mediterranean supplier preferences.

Emboldened by its earlier successes, during negotiations for the 1970 Trade Agreement, Israel was aggressive. For the first time, Israeli industry, too, began to demand, via government negotiators, the same protected status enjoyed by Israeli agriculture, and Israeli requests of the EEC included protective lower tariffs on products "*d'avenir*", that is, of nascent industries such as chemicals. Arad Chemicals enjoyed particular pride of place in Israeli industry ambitions, and influenced Israeli government negotiators to strenuously push this point. Also, Israeli negotiators campaigned to reduce the "pay back" Israel was obliged to pay for the right to purchase European products. The EEC, while rewarding Israel politically with the right to renegotiate trade arrangements at all, still negotiated to limit chemical, agricultural and textile imports from Israel, and generally to protect European industries.

Indeed, the EEC's final pattern of concessions in the 1970 Trade Agreement reflects a strong influence of domestic European industry, especially in areas such as agriculture, textiles, and chemicals, which retained significant external taxes (Hager 1988:54, Cohen 1980:17). "Sensitive" industrial products, amounting to about a third of Israeli exports into the EEC, continued to carry full import tariffs. The agreement was, however, preferential. EEC common external taxes on Israeli goods were reduced by 50% for manufactured goods overall and by 40% on selected agricultural products, including the contentious areas of oranges and grapefruit. Most fresh and processed fresh fruit and vegetables, however, were still taxed fully, with exempt fruit enjoying a protective system of preference prices. Israeli concessions under the 1970 Agreement were limited. Israel dropped some tariffs on EEC exports, amounting to an average reduction in tariffs of an average of 18% for some limited goods, resulting in a relatively small volume of \$82 million, in 1969 terms. Though generous at the time, by allowing unequal reciprocity the EEC was able to weaken Israel's future ability to demand reducing the exception list for their industrial and agricultural-exempted goods.

Global Mediterranean Policy

Israel had always maintained that the terms and precedent of the 1970 agreement were with the six original member-states only, to be renegotiated in the event of further accessions. There was a large trade in agricultural products between Israel and Britain

and Ireland, and these countries imposed lower average tariffs than the Community. Fearing an increase in Community membership, Israel had already in 1971 demanded a renegotiation of the 1970 Agreement, and repeated this demand in 1972. Spain concurrently called for a new agreement like that with the EFTA countries, especially Portugal. Morocco and Tunisia, whose trade agreements with the EEC were due to expire in September 1974, made similar requests at the time. Cyprus and Malta, too, wanted an EFTA-like agreement, which would replace Commonwealth preferences with EEC preferences.

This increasing pressure from a number of Mediterranean sources spurred the EEC to create a comprehensive framework to bring about free manufacturing trade and far-reaching agreements on agricultural products between the EEC and all Mediterranean countries. The creation of the Global Mediterranean Policy (GMP)⁴ in 1972 relieved pressure on the EEC coming from the Netherlands and other member countries, which for political reasons opposed an enlarged agreement with Spain.⁵ The GMP also helped to overcome opposition from France to enlarging the agreement with Israel, as this way French policy towards Arab countries was able to be adopted as EEC policy under the GMP, with Algeria, Egypt, Lebanon and Syria likely targets of the new Policy. Overriding the GATT preference for multilateralism in trade policy, the Mediterranean Policy in 1972 extended preferential trade status to the region, though it was soon to be overridden by individual deals signed between the Community and third parties, namely Spain and Israel, a precedent which was copied by the EFTA and ACP countries later.

Further negotiations between Israel and the EEC for the second trade agreement took place ostensibly within the context of the first phase of the GMP, and were

⁴ Negotiated under EEC 110-116, the GMP extended zero-tariff status to industrial goods in return for MFN status (instead of reciprocity). The GMP also extended agricultural concessions (offset by the maintenance of CAP-mandated minimum import prices), covered non-commercial co-operation in social and science areas, and mandated EU grants and loans to the region. The GMP was further developed in preferential bilateral trade agreements with the Maghreb Agreement of 1976 (covering Algeria, Morocco and Tunisia) and the Mashrek Agreement of 1977 (covering Egypt, Lebanon, Jordan and Syria). It was subsumed in the Euro-Mediterranean Partnership in 1995.

⁵ This was typical; most preferential trading policies adopted by the EEC in the 1960s and 1970s were quite clearly done for political reasons: e.g. Britain and Denmark pressed for trading preferences for EFTA, of which they had been founding members; France and Britain pressed for trade preferences granted in the Lomé Conventions, as a reflection of their colonial heritage.

constrained by the new goal of uniformity, which marked the Policy.⁶ Whereas the non-preferential agreement signed with Israel in 1964 had predated other, similar agreements (with Lebanon in 1965 and Yugoslavia in 1970), the renegotiated, preferential agreement with Israel came in the same year as a similar, preferential agreement with Spain, and in the context of a rash of Special Association Agreements under Article 238 of the Rome Treaty (as opposed to the preferential trade agreements, under Articles 113 and 114): Tunisia and Morocco in 1969, and Malta in 1970. (The GMP is discussed further in Chapter Three.)

During these negotiations, the EEC often put diplomatic goals before economic considerations. For instance, the EEC's concluded its first Special Association Agreements with Greece (1961) and Turkey (1963), at least in part because their differences over Cyprus threatened to spill over into the larger area, and the EEC hoped that economic encouragement would prevent further conflict. The EEC's generous agreements with them, encompassing joint institutions and long-term customs union with the EEC, was designed to accept a certain level of commercial loss in exchange for long-term political stability. A similar obligation was felt with Tunisia and Morocco who, as members of the then-active franc area, were explicitly mentioned in the Treaty of Rome as countries to which the EEC would "maintain and intensify traditional trade flows and...contribute to the social and economic development", although it was only in 1969 that the content of this promise was defined. Delays in the Maghreb negotiations pushed back the schedule for Spain and Israel, as the EEC resisted giving the impression to Arab countries that it was favouring these non-Arab countries.

The EEC-Israel Free Trade Agreement was eventually signed in June 1970, effective until May 1975. The EEC continued its multilateral push, and by 1980, it had concluded identical FTAs with most countries in the region. The Venice Declaration that year, though separate from these FTAs, can also be seen as the imposition of a political face onto the Community's commercial ties in the region (discussed in Chapter Three).

⁶ Israel's 1975 agreement with full trade reciprocity was thus an exception amongst other economic agreements under the Global Mediterranean Policy.

Transition Protocol of 1973

The 1973 Enlargement presented special problems to the Community's 1970 Agreement with Israel. The EEC had long debated the merits of using trade as a general incentive: that is, of negotiating preferential trade agreements with developing countries in order to encourage them to industrialise and thus maintain political stability. A 1971 Commission memorandum on development policy is, however, typical in noting that

taken as a whole, the agreements concluded with the Mediterranean countries are no more than an inadequate expression of Europe's interest in the region. Through these agreements the Community has so far made only a limited contribution to the economic development of this part of the world (Commission, *Community Development Co-operation Policy* 1971:12)

the Commission saw co-operation with the Mediterranean region as "a natural extension of European integration" (*ibid.*), and generally followed the French determination to pursue an eventual free trade area throughout the entire Mediterranean as an objective.

The major departures from previous policy indicated by such a "global" approach were a desire to abandon the ad-hoc system of negotiations previously taken with individual countries, and an attempt to extend agreement beyond the limited trading sphere. This view became wide-spread (See Grilli 1993 for a discussion of this development), and in June and November 1972, the Council of Ministers pronounced a new Mediterranean Policy, which would have uniformity as its hallmark.

In December 1973, after the accession of Britain, Ireland and Denmark, the Council of Ministers affirmed the continuing relevance of the GMP, declaring that "the nine will intend to preserve their historical links with the countries of the Middle East and co-operate over the establishment and maintenance of peace, stability and progress in the region" (*Copenhagen Declaration*). This worried Israel, which traded more with the new members than with many of the original Six. In November 1973, the EEC had indicated that future agreements with Spain and Israel would include a free trade area for industrial products, which would also cover a substantial amount of agricultural goods. The Council also hinted that future agreements with Spain and Israel, both much more economically advanced than other EEC Mediterranean partners, would include "co-

operation" clauses, in keeping with its new GMP, but did not elaborate on this. When the EEC decided to extend Israel's and Spain's agreements to the new members, both Israel and Spain refused to participate in technical negotiations on this subject without assurance of a framework for future relations. A transitional protocol was drawn up to regulate new Community members' trade relations with Israel, and assurances were given that the protocol's mandate would be for one year only. The transitional protocol was indeed brief: Britain never actually changed its tariffs in the year of its accession, and the EEC undertook to renegotiate a free trade area agreement with Israel within the GMP by 1 January 1974. Given these assurances, the EEC and Israel signed the transitional agreement on 31 January, 1974.

1975 Free Trade Agreement

With the 1975 Agreement, the Community began to treat Israel as a closer partner: more like EFTA members than other Mediterranean trading partners. At this stage, Israel was more advanced than Maghreb and Mashrek countries in terms of its stage of economic development and of the composition of its work-force, and was closer to Portugal and Spain in economic development than to Egypt or Morocco (as discussed in Chapter Five). Given Israel's semi-developed status at the time, the Community's 1975 FTA with Israel was comparable to EFTA-like agreements, especially the Community's FTA with Portugal, with which it shares all substantive provisions.⁷ Like the EFTA treaties, the 1975 FTA with Israel established a free trade zone⁸ (albeit not one which envisioned ultimate membership, as in Portugal's agreement). Community-Israel co-operation was a strong presence in the 1975 Agreement, mentioned in that Agreement's preamble and in its Article 18, and strengthened later by the Co-operation Protocol of 1977. In this respect, the agreement with Israel differed from Maghreb and Mashrak agreements, as it also did in establishing reciprocity.

⁷ See Ehrman (1988) for a discussion of parallels between Israel's and Portugal's agreements.

⁸ However, Israel enjoyed a slower pace of tariff reductions on the limited tariff concessions granted to agricultural products, and the lists of industrial products imported into Israel, and greater flexibility in the dismantling of industrialised tariffs.

Negotiations

The EEC and Israel negotiated the 1975 Agreement in two rounds. At the outset, the EEC suggested the establishment of a free trade area, which the Israeli delegates accepted in principle. Yet in the first round of negotiations, in July-October 1973, the Israelis protested against discrimination relative to Spain and the Maghreb in agricultural concessions, and complained that co-operation procedures between Israel and the EEC were not as extensive as EEC co-operation with other countries. Israel also protested against the linear time-table for exports and imports which had been negotiated in the 1973 transitional agreement, noting it took insufficient account of the gaps in levels of development between Israel and the EEC. In short, Israel rejected the terms of the 1973 transitional agreement, and demanded an additional mandate of the EEC in its negotiations of the third EEC-Israel trade agreement. Although the Commission proposed to the Council that an additional mandate should be granted in negotiating the 1975 agreement, this violated the uniformity required by the new GMP. Thus, political problems with the Maghreb countries following the 1973 Arab-Israeli War and the ensuing energy crisis, plus disagreements over agricultural concessions and aid packages - primarily to the Maghreb - held up EC-Maghreb bargaining, and so Israeli bargaining, as well. Also, internal disagreement among EEC members on trade issues contributed to the slow pace of progress during this period (discussed in Cohen 1980).

Finally, on 23 July 1974, six Mediterranean "priority" countries were agreed, each receiving from the EEC the promise of an imminent agreement: Spain, Israel, Malta, and the Maghreb countries. Further negotiation took place, and the Council adopted the Commission's recommendations on 17 September 1974. In October, a second stage of negotiation between Israel and the EEC of a more technical nature took place, and the free trade area agreement was signed on 11 May 1975.

Agreement

The resulting 1975 EEC-Israel Free Trade Agreement was highly generous to Israel. Entering force on 1 July 1975, technically operating within the GMP, it served dual purposes within the EEC's Mediterranean policy as both a free trade area, and an

instrument with which to foster bilateral co-operation within the GMP. The agreement was unlimited in period, but provided for re-examination in 1977 and 1983. There was a precedent for re-examinations like this to extend agriculture provisions, but during the second round of negotiations, Israel had managed to procure agreement that the re-examinations would be extended to all aspects of the trade area. This was technically allowed by an evolution clause of the GMP, allowing for renegotiation even in areas not included in the agreement (with the eventual goal a joint free trade zone, to be realised in steps until 1 January, 1985). An additional agreement on technical and financial co-operation between the Community and Israel was signed on 8 February, 1977, also of indefinite duration.

The FTA allowed non-reciprocity for up to 24 years. Although quota ceilings and controls remained for certain goods, including refined petroleum products, agricultural bromides, and some cotton fibres and other textile products, the agreement abolished all EEC trade barriers on other Israeli manufactured goods by the relatively early date of 1 July 1977. European industrial interests were, however, safeguarded by the Agreement, which allowed for "normal competition" practices, which in practice were subsidies to some European businesses, and the avoidance of "serious disturbances" in European trade. This was somewhat mitigated by the setting up in 1977 of the Co-operation Council, which had to be informed before the EEC adopted any further protectionist measures.

Israeli tariffs on EEC manufactured exports, in contrast, were removed according to two timetables, both much more generous than the EEC's schedule. Israel's transition period did not even begin until after the EEC's tariff barriers were due to be abolished, on 1 July 1977. The latest date for removal of tariffs on the most sensitive European exports was to be 1 January 1989. Moreover, this transitional timetable could be renegotiated during the re-evaluations of 1978 and 1983, and could also be extended by two years, should the Israeli economy be seen to perform below expectations. One important exception to this schedule was procured by Israel to protect emerging industrial sectors, as had been included earlier in the 1970 Trade Agreement. This allowance was placed in the agreement's industrialisation clause, which allowed Israel to raise tariffs by 20%, on a volume of 10% or less of imports in 1973, in new industrial areas it intended to develop. In the agricultural sphere, trade liberalisation was more

limited overall. EEC tariffs on 85% of Israeli exports were reduced immediately by an average of 40-50%; Israeli tariffs on selected agricultural exports from the EEC were cut by 15-25%. The FTA contained additional safeguard clauses for economic underperformance, as mentioned above, and statements of rules of origin. Dumping was addressed, too, in accordance with Article VI of the GATT. After 1977, the Co-operation Council had to examine issues before applying the safeguard clauses.

The FTA also provided the forum for a number of new elements to the EEC-Israeli relationship which did not strictly have to do with free trade and an end to tariff, or even non-tariff barriers, but which deepened the relationship, and formed the basis of future co-operation. One such nascent element was the Declaration of Co-operation, inserted in 1975 at Israeli urging, and developed further in 1977, designed to lead in the future to a widening of co-operation beyond industrial and economic relations, to areas such as social and scientific relations. Also attached to the original agreement was an exchange of letters, which provided for Israeli participation in future international scientific activities the EEC might co-ordinate.

Summary of the 1975 EC-Israel FTA

Preamble	Both parties desire to extend economic relations, strengthen economic links, and eliminate “substantially all” trade barriers, in accordance with GATT.
Articles:	
I	Reiterates treaty aims
II	Elucidates FTA’s structure
III	Prohibits new import duties or quotas. Post-1973 duties abolished. Some duties reduced.
IV	Abolishes export duties, as of 1.7.77
V	Provides some exceptions to Articles 3-4
VI	Requires 30-day notification to the Joint Committee of extension of MFN-status to third countries
VII	CAP can alter this FTA
VIII	Further FTAs / Customs Unions cannot alter this FTA
IX	Prohibits use of subsidies as NTBs
X	Payments and transfer of payments relating to goods covered in this FTA must be free
XI	Permits non-arbitrary import prohibitions / restrictions on grounds of morality (e.g. allowing for future censure of Israel’s political actions), public policy, health, and security
XII	Prohibits distortions of this FTA, allowing arbitration provided in Art. 16
XIII	Permits actions under Art. 16 in cases where lower duties of products or raw materials result in an increase of a given import which is detrimental to production in one or both parties
XIV	Permits anti-dumping measures in accordance with GATT VI
XV	Permits measures in Art. 16 should one party’s economy seriously deteriorate
XVI	<p><u>Section 1:</u> Calls for Joint Committee to monitor agreement</p> <p><u>Section 2:</u> Actions under Articles 12-15, 25 must be reported to Joint</p>

XVII	Committee; parties should take care to implement measures which do not disturb the FTA
XVIII	Section 3: Unilateral action without consultation can be taken in emergencies
XIX	Establishes safeguards in case of balance of payment difficulties
XX, XXI	Promotes economic cooperation
XXII	Establishes Joint Committee
XXIII	Discuss Joint Committee membership
XXIV	Permits relaxation of Israel's tariff reduction schedule, after review
XXV	Allows non-disclosure in cases of national security
XXVI	Prohibits discrimination between signatories' states, nationals or companies
XXVII	Obligates signatories to fulfil Agreement and not adopt policies harmful to it
XXVIII	Allows for future extension of FTA provisions to new areas
XXIX	Incorporates Protocols
XXX	Permits cessation with six-month notice
	Defines the territorial applicability of the Agreement
	States the languages and dates of entry into force of FTA
Protocol I	With the exception of albumins and products listed in Annex II to the Treaty of Rome, EU tariff reductions will be: 60% on entry into force of FTA 80% on 1.1.76 100% on 1.7.77 It also imposes import ceilings on petrol, chemicals, travel goods, and some textiles.
Protocol II	Sets forth Israeli tariff reduction schedule. (In fact, these were extended twice, and 100% tariff abolition was only reached on 1.1.89.)

The diplomatic background to these negotiations was increasingly strained. While Israel negotiated the 1975 FTA from a position of extreme suspicion of the Community's diplomatic censures (characterised as "trauma" by one Israeli negotiator

[Einhorn 1994]), European states were becoming increasingly critical of Israel's eight-year occupation of Jordanian, Egyptian and Syrian territory gained in the 1967 War. This compelled the Community to allow possible future economic boycotts to be imposed on Israel by individual states, in reaction to Israeli political acts:

(T)he agreement shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security.... Such prohibitions may not, however, constitute an arbitrary means of discrimination or a disguised restriction on trade between the Contracting Parties (Article 11, EC-Israel Trade Agreement 1975, L 136/3, emphasis added).

In 1977, *Likud* member Menachem Begin was elected prime minister of Israel, exacerbating tensions between Israel and the EU (discussed in chapters Three and Five).

1977 Protocols

The 1975 FTA was qualitatively updated three times, in 1977, 1981, and 1986.⁹ The largest of these was the 1977 re-evaluation, after which, on 8 February, 1977, two additional protocols were added to the Agreement to make Israel's status equal to that of other Mediterranean countries. The most important of these was the additional Co-operation Protocol, which provided the framework for co-operation between Israel and the EEC (except Greece, after 1981), set forth in Article 18 of the original Agreement in principle. The EEC-Israeli Council of Co-operation, at the ministerial level, was established at the same time, replacing the Mixed Commission, which had been set up by the original Agreement. The Supplementary Protocol on Industrial, Scientific and Economic Co-operation pledged the EEC to encourage purchases of Israeli manufactured goods, to host meetings of industrialists, to abolish non-tariff barriers, and to aid the transfer of industrial technology and patents. (In reality, however, fears of Arab boycotts, discussed in Chapter Five, prevented many European companies from creating commercial links with Israel.) While the EEC alone was signatory to the 1975 Free

⁹ Additional Protocols were added in 1976, 1983, 1984, 1987, and 1991, most concerning financial cooperation.

Trade Agreement, the additional Protocols of 1977 were concluded by the EEC and all its Member States, under EEC 238.

A further, temporary, additional protocol was the (First) Protocol of Financial Co-operation, applied until October 1981, which was limited to enabling Israel to borrow \$35 million from the EIB, at market rates. As in the FTA itself, there were two similar agreements on the First Financial Protocol: that between Israel and EEC and between Israel and the ECSC, both with the exception, after 1981, of Greece. Further expansions of the Agreement included the additional extending of Israel's deadline for dismantling tariffs on sensitive imports, which was signed on 18 March 1981. After the freezing of these protocols during Israel's invasion of Lebanon in 1982, on 24 June 1983, the Second Financial Protocol was signed. Like the First Financial Protocol of 1977, the Second was concluded on the basis of Article 238 by the EEC, although the Member States no longer participated. As both Protocols are limited to loans from the EIB under similar terms, and do not involve any funding from the Member States, the structural change to this agreement served little purpose, other than reinforcing the centrality of EEC institutions in determining trade agreements.

Greek Exceptionalism to the 1975 Agreement

After its accession to the EEC, Greece, long politically critical of Israel, declined to become party to the 1975 Agreement.¹⁰ Normally, in the case of enlargement, the Community applies the principle of movable treaty boundaries, provided under Article 4(1) of the first and second Acts of Accession, which automatically extends international treaties to the enlarged Community. This did not apply to Greece, however, for two reasons. If not only the Communities but also the Member states participate in an agreement (Article 4(2)), then the principle of automatic extension does not apply. Also,

¹⁰ At first, general trade between Greece and Israel was governed by the special Council Regulation (EEC) No. 637/81 of 24 February, 1981. Coal and steel trade was governed by the parallel Decision of the Representatives of the Governments of the Member States of the ECSC, which met within the Council, and agreed its own regulation on the same day. A framework existed for Greece to accept jurisdiction of the additional protocols, although neither the Free Trade Agreement nor the Co-operation Protocol were automatically extended to the enlarged Community of Ten. Extension of the protocols was subject to Greece joining the EEC, and then parallel protocols had to be resigned between the (enlarged) EEC and Israel, both for the Co-operation Agreement and the Coal and Steel Agreement. This was done even before the actual new FTA was signed, on 18 December, 1980.

the principle of movable boundaries is affected by the principle of "adaptation" if the interests of the Community or of the other contracting party require an adaptation of the agreement (Article 108(1) of the first and Article 118 of the second Art of Accession). As the FTA was not automatically extended, its application to Greece required transitional measures. The Co-operation Protocol of 1977 could not be automatically extended either, as Member States had participated, too, and Greece had to accede via a formal amendment procedure. This was done jointly in the final 1980 Protocol, based on EEC, and concluded by the EEC and its Member States. Until then, Council Regulation (EEC) No. 637/81 (supra I 3.2), adopted in accordance with EEC 113, regulated trade between Greece and Israel.

Israeli Reaction

Politically, the mood in Israel following the Agreement was jubilant, and the 1975 FTA was widely regarded as a diplomatic triumph. Even though by the standards of later agreements the original 1975 Agreement was not terribly comprehensive, at the time there was a general optimism, bordering on euphoria, which welcomed its negotiation relatively unquestioningly. Unlike in Britain or Norway, for instance, when those countries concluded their trade association agreements with the EEC, in Israel the general consensus was that Israeli negotiators had somehow gained startling preferences from the EEC, and emphasis in the government and the popular press was on the delayed reciprocity the EEC had granted to Israel (Sharon).

One element noticeably lacking in Israeli discussion of the FTA was why the EEC should have felt the need to grant preferences to Israel at all. While it is difficult at this late date to reconstruct the patterns of negotiation which led to Israel's favourable trading status, Hager attributes the unequal demands on the EEC and Israel in 1975 to Israel's low "nuisance quality" (1988:53). It is a principle of liberal interdependence theory that large markets lose relatively little when opening themselves to developing countries with small markets "since the developed economies can (thus) obtain cheaper raw materials and outlets for their capital and manufactured goods" (Gilpin 1987:266). Indeed, Israeli exports at the time comprised just 0.6% of outside exports into the EEC (Hager 1988:54). Despite its advanced economic status relative to some other

Mediterranean countries, in the early 1970s, Israel was still regarded by the EEC, due to its geographic location and its still-maturing economy, as a developing economy, deserving preferential treatment.¹¹

European commercial interests were mobilised against concessions towards Israel in certain agricultural sectors, especially a high-profile trade war over oranges throughout the 1960s and 1970s, in which the EEC detected that Israel was importing Latin American oranges and juice, and re-exporting these products as “Israeli”. This trade dispute had ramifications for many years: in the 1990s, one lobbyist for Israeli commercial interests in Britain would blame Israel’s “business style” for not “giv(ing) confidence” to their European negotiation partners, especially instances in which companies cheated on quotas and rules of origin, particularly in the orange juice sector (Style).

¹¹ Academic opinion in Israel concerning the agreement was divided, with some writers regarding the 1975 as unfairly favouring the EEC. Shachmurove, for instance, points to two unequal provisions: the protection of the European agricultural sector, even though most Israeli exports to Europe were at that time agricultural; and the provision that Israel would lower its tariffs on EEC industrial goods, when those industrial goods were the main import into Israel from the EEC (1988:74. See also Cohen 1977:25-26.)

Israel-EEC Trade Balance in \$million, 1975
(Israeli Figures)

	Israel's Trade Deficit	Israeli Imports From	Israeli Exports To
Italy	149.8	205.6	56.6
Ireland	8.1	13.2	4.9
Benelux.	79.0	159.1	80.1
Germany	280.4	440.9	160.5
Denmark	6.0	18.1	12.1
Netherlands	52.8	182.1	129.3
France	8.0	195.0	112.0
UK	389.2	560.7	171.5
Total EEC:	1026.6	1751.5	724.9
Total World:	2231.9	4172.6	1940.7

(Source: Hager 1988)

EEC's trade with Israel in \$million, 1975-1987
(EEC Figures)

	1975	1976	1977	1978	1979	1980
Exports	1798	1595	1968	2445	2704	2746
Imports	783	875	1096	1344	1703	2282
Trade Surplus	1015	720	872	1101	1001	464

	1981	1982	1983	1984	1985	1986	1987
Exports	2819	2999	3474	3451	3739	4944	6347
Imports	1922	1748	1754	1889	1978	2195	2746
Trade Surplus	897	1259	1720	1562	1761	2749	3601

(source: Greilsammer 1989:36)

Community Censures of Israel using Economic Means

The Community acted five times during the tenure of the 1975 FTA to censure Israel for political reasons using the economic relationship governed by the FTA. In 1982, the Community froze two financial protocols to protest Israel's invasion of Lebanon. In December 1986, the Community took the unilateral decision to extend the EU-Israel FTA to Arabs living in the Occupied Territories. In 1987, the EP delayed for nearly a year ratification of the Fourth Additional Protocol, extending the FTA to Spain and Portugal, because of Israel's refusal to allow direct export of agricultural goods from territories captured from Syria, Jordan and Egypt in the 1967 War. Between March 1988 and January 1990, the EP refused to ratify financial protocols of the 1975 FTA, in protest of Israel's continued occupation of these territories. And in January 1990, the Commission (at the EP's request) froze all funding for joint R&D projects with Israel for most of that year, in protest at the break-up of a Jerusalem demonstration of Israeli anti-occupation activists.

Co-operation in Research and Development

With too small a market to matter significantly to Europe, and often considered a political liability in Europe's relations with the Arab world, research and development is also one of the few areas in which the Israeli government feels Israel has something to offer the EEC. Indeed, some academics such as Steinberg (1987) identify R&D as the sole area in which Israel is important for Europe. Yet the history of Israel-EEC scientific co-operation has been uneven, and the relationship was often manipulated to reflect bilateral political motives. R&D in both regions can benefit in a practical, technical sense from co-operation, although collaboration was largely able to be satisfied in other spheres during most of the tenure of the 1975 Agreement: Israel was able to co-operate scientifically with the United States, and the EEC found adequate resources within its member states. The lack of major joint projects reflected political obstacles, though this lack of joint research in turn obviated any pressing need for further scientific compromise. Rather, then, than considering technical co-operation as subservient to political ends, as indeed was the case in R&D co-operation between Israel and the EEC

during much of the 1970s and 1980s, it may be more fruitful to examine the eventual co-operation, despite considerable political differences, later on, at the end of this period, and in the context of the 1995 Association Agreement.

Neofunctionalist theories of the co-operative abilities of science, quite apart from political considerations, seem to be evident then, with the bureaucracy and arbitrary nature of political borders in the world of scientific research having hampered EC scientific initiatives.

In the 1950s, scientific collaboration was stronger between Israel and Europe than in later decades: in fact, Israel at that time co-operated more with Europe than the United States, largely because of the number of scientists in Israel of European origin and their cultural and linguistic links and connections. By the 1960s, however, American dominance of international scientific projects compelled Israeli scientists to turn their attentions there. This preference for American scholarship reversed by the 1980s, however, when European projects again began to outshine American studies, from the point of view of the Israeli scientific community. The logistics of sending scientists to Europe versus America also made Europe more attractive to Israeli scientists and scientific establishments, and co-operation with Europe rose on the Israeli scientific agenda. Israeli biologists and life scientists, particularly, had strong connections in Europe, forged at a time when European capabilities were weak in these areas and European institutions sought overseas ties. When European research improved in the 1980s and 1990s, Israel's collaborative links survived, and greatly benefited Israeli researchers, as well (interview with Bar-On).

Regional centres, such as the accelerators at CERN in Geneva, attracted scientists from smaller states in the EEC, as well as Israel and other countries. Until 1989, however, Israel did not make a national contribution, in part because its government did not regard the membership fee as worthwhile, and participation was left to individual Israeli scientists collaborating with others. CERN is not an EC body, though its scientists come mainly from EC member states. Though CERN claims it has always been non-discriminatory towards Israel,¹² and that it has never been the recipient of pressure for greater or more formal Israeli participation, the experience of Israeli scientists in CERN before 1990, when a Co-operation Agreement was signed with Israel,

¹² Private correspondence with CERN, 1997.

and 1991, when Israel became an Observer to the CERN Council, is typical of the restrictions to collaborative work experienced by Israeli scientists in European programmes. CERN is particularly important, however, as it is one of three high-profile centres for particle physics in the world. The organisation's rules prohibiting wider Israeli participation had serious ramifications for Israeli scientists' international stature. This point was expressed, regarding CERN and some EC programmes by one of Israel's top scientists, affiliated with the Weizman Institute of Science, a well-known institute in Haifa:

The only half membership we ever received was in CERN. We have been with CERN since the early 1950s; unofficially we were always active. Particle physics is different. For the past 15 years, all over the world, particle physicist have needed larger and larger machines. All particle physicist have to go to the same few centres to work: CERN, Fermilab (in the USA), and one in the former Soviet Union...Scientists know each other, if only by reputation. It is not at all difficult: if one works in a certain field, one knows all the others. And since e-mail, we don't even need transport. Over 35% of the Weizman Institute's papers today are co-authored (with scientists abroad). This (process of finding partners) was not the impediment; the impediment was bureaucratic. We were not members, so for EU projects we were not available. (Similarly), the JRC (Joint Research Centre (as Ispra), the Euratom and DG-XII-backed string of research facilities with nuclear research) cannot invite an Israeli to research or give a lecture; there is no getting around it at all (interview with Bar-On).

One observer has also posited that in the 1980s, research in Israel and Europe happened to evolve in ways which led Israeli projects to be better matched for collaboration with European than American scientists (Steinberg 1987). Certainly, collaboration with Europe did consistently remain important for Israeli scientists in some crucial areas. Publication in international journals remains crucial to Israeli scientists. Also, in the area of molecular biology, co-operation remained important for scientists on both sides; 12 of the 120 founders of the European Molecular Biology Organisation, for instance, came from Israel, and Israel has maintained a strong international presence in this area.

Israel, too, became more attractive to Europe as a partner in scientific research. Israeli R&D fluctuates between 2% and 3% of GDP, approximately equal to \$600m in 1982/3 terms. Spending as percentage of GDP that year exceeded European figures of 1.85% of GNP in France, 2.2% in Britain, and 0.86% in Italy. The number of Israeli researchers in absolute terms in the early 1980s was high, at a level comparable to Norway, and by 1982, Israel had the highest per capita concentration of scientists and engineers in the world. (Steinberg 1987:340). Government research funds were distributed roughly equally between civilian and military research, while institutions such as the Weizman Institute, the medical faculty at Tel Aviv University, and agriculture technology research units at Ben Gurion University of the Negev increasingly contributed to private research. European R&D outlets were of course much wider. Principal EEC-wide networks included: DG-XII: EURATOM; CERN, founded in 1953; ESA (also not formally part of the EC), founded in 1975; COST (European Co-operation in the Field of Scientific and Technical Research, encompassing all of Europe), established in 1971; ESF; CEMB; UNESCO (which is not European only); EMBO; and EMBL.

EEC Article 130f provides for "strengthening the scientific and technological bases of Community industry", and mandates methods of this: promoting joint project with existing European research centres and universities; promoting research with non-member countries and international research centres; publishing research; and training and supporting scientists. In 1974, the Council of Ministers adopted a Resolution in the Community's first attempt to co-ordinate national policies and to identify common Community research goals. Three years later, after much high-level wrangling between Britain and Germany over its location, the Joint European Torus (JET) programme was established as the most advanced nuclear research centre in the EC in Culham, Oxfordshire.

Formal arenas of co-operation between Israel and the EEC were many. Israel and several European countries, including Greece, had earlier signed scientific co-operation agreements. Most of these remained dormant throughout the late 1970s and 1980s, with the exceptions of those with France, West Germany and Holland. With the EEC itself, Israel's co-operative agreements has enabled contracts between DG-XII and Israel to promote scientific co-operation since 1971; delegations from Israel and DG-XII had met,

visiting science organisations in Italy, Belgium and Holland. Individual Israelis were active in some of the European groups, such as the non-EC funded CERN, though efforts to join ESF and ESA were blocked. Israel was a full member only of EMBO, CEMB, EMBL, and the European Division of UNESCO, in all of which it participated on a regular basis. Multilateral co-operation intensified when the 1977 Protocols established a framework for scientific co-operation, including specific exchanges, joint research symposia, and research projects. The protocol between DG-XII and the Israeli National Research and Development Council funded an annual symposium, and also called for Israeli participation in European research projects which were sponsored by DG-XII, although in actuality DG-XII for many years rejected Israel's various requests and proposals.

This prevented co-operation at personal levels, as well. Lack of regular contact inhibited awareness amongst Israeli and foreign scientists of each other's work, and led to the stereotyping of Israeli projects as marginal and unimportant in European scientific circles. Even when individual Israeli scientists did attempt to participate in EC-led projects, they often found that perceptions of Israel as an unsuitable scientific partner hampered their personal activities.

A few of us, not many, tried to join (EC projects), but there were political problems. Bilateral was different. But in the EU there were many things to which we were not admitted. This was not because of an anti-Israel bias; simply we were not members of the club (interview with Bar-On).

This changed slightly in the mid-1980s, with the approval and funding by DG-XII of two projects (in agriculture and water recycling), which was 55% funded by Europe, and took place entirely in Israel, with the participation of European partners. This project, at the time, however, was dwarfed by various bilateral projects.

Most exchanges during the tenure of the 1975 FTA were bilateral. Of the over 1,000 exchanges that took place between 1977 and 1982, only 4% were in the framework of the EEC, and only a few more within EMBO. 40% of total exchanges took place with France, 12% with Italy, and smaller numbers with other member states, bilaterally. R&D was more developed at the bilateral level than the EC structural level, and bilateral links were strengthened further in 1984 with the agreement for co-operative industrial research between France and Israel.

Also in 1984, Israel and the EEC took a joint step towards stimulating multilateral scientific exchanges by forming a new agreement to provide 70% of funding from the EEC for joint projects. More projects were agreed under the EEC's "Developing Countries Research Programme", which, however, was not cutting-edge, and somewhat disappointed Israeli participants. This was typical at the time, with Israel systematically being excluded from vital research. Many Israelis also questioned the fairness of their participation in the joint projects in which it did engage. Israeli input in European projects was usually limited to water management and agriculture, where Israeli research was amongst the best in the world, anyway. Israeli applications to participate in other projects that were more important to Israeli scientists within EEC frameworks, such as the ESPRIT information technology project, were often rejected. Even in the areas of restricted collaboration that existed, until the Association Agreement of 1995, the EEC limited Israeli involvement in joint scientific projects, despite the provision for co-operation in this area in the 1975 FTA. This omission had a negative effect in turn on political relations, leading many in Israel to criticise even its limited co-operation with the EEC.

This situation reflected wider Community-Israel relations, in which there was clearly a question of confusion of categories for Israel within the EC. For some purposes, Israel remained a developing country. (In areas of trade, Israel often tried to capitalise on this categorisation to gain trade concessions under this heading.) For other purposes, Israel was clearly a highly-developed country. In the scientific arena (where Israel was strong), high-tech cooperation (befitting partnerships between highly-developed countries) took place mainly between Israel and EC member-states bilaterally, while Community-led cooperation with Israel still assumed it had developing status, reflecting other areas of its still-developing economy.

As Israeli scientists already participate informally in many EEC projects, "the formal status of Israel in these groups is not the result of any scientific or technical factor, but is fundamentally the result of political considerations" (Steinberg 1988:345). Israel signed protocols with DG-XII in 1974, 1977, and 1984. The EEC suspended the earlier agreements after Israel's 1982 invasion of Lebanon. Other scientific vehicles, such as the EMBO, founded in 1974, were also sites of contention over Israeli membership; even though Israeli scientists had been among EMBO's founding members,

France, Spain and Greece threatened to veto Israel's application to the organisation. Israeli membership in this organisation was only secured after heavy lobbying by Israeli scientists, and their allies within Europe. The EMBO spawned the EMBL, from which Israel later wanted to withdraw on the grounds of its annual \$100,000 dues. When this was blocked by the organisation, Israel instead tried to lobby for greater use of the facility by Israeli scientists.

Another way in which membership in scientific organisations has been used as a political lever is membership in UNESCO: Israel had been expelled from the Asian division after the 1973 "Yom Kippur" War, when it joined the European Division (which also included the US, Canada, the USSR, and Eastern bloc). Political differences led the USSR to withhold visas from Israeli scientists and to boycott meetings held in Israel, although the EC refrained from using UNESCO as a forum for politicking. Despite heavy Israeli lobbying to join the Europe-wide ESF, its mid-1970s application was rejected on the grounds that Israel was not a European country. Having applied to and joined other European organisations, Israel had hoped to be considered "European" enough for ESF, which also contained Yugoslavia and Greece; its rejection was dismissed by some in Israel as a political, not a geographic, decision. Finally, Israeli membership in CERN and ESA was rejected after the invasion of Lebanon; involved scientists at the time reported a direct political motivation in the refusals.

Effects of the 1975 Agreement

The most obvious gain from the 1975 Agreement was to Israel, in the form of \$300m increased exports, both industrial and agricultural. Yet on closer examination, a number of independent, related factors contributed to Israel's continued economic expansion following the Agreement. In agriculture, freer trade helped to erode state subsidies and preferences, resulting in a greater concentration of man-power and private research funding in an increasingly few, industrial-intensive crops. The Agreement also engendered a number of trade and financial reforms in Israel, which enabled the Community and Israel to grow into a more mature trading relationship over the next twenty years, and which culminated in the more preferential Association Agreement of 1995.

Trade Liberalisation

Mandated in the 1970 and 1975 Agreements, liberalisation of trade policies had already been progressing in both the Member States and in Israel. For Israel, these agreements formed an added incentive to reduce tariff and other barriers selectively, vis a vis the EEC. Israel's trade liberalisation in fact started before the 1975 Agreement, and Israel continued lowering its tariff rates on items from third countries along rates of tariff reduction on items from the EEC. A small discriminatory gap in favour of some EEC goods came into being only in 1983. Israel benefited in several ways in favouring Europe. Liberalising imports from one large supplier had more of an effect than from several smaller ones, and gave Israel preferential access to a major market. Also, the gesture facilitated further agreements with the EEC. The contractual nature of the EEC agreements and the enhanced market access in turn gave Israeli legislators greater leverage in making import liberalisation acceptable to domestic interests who had to bear the adjustment costs (Putnam's third "rule" for the motivation of level-one negotiators, discussed in Chapter Four).

Israeli politicians thus found an acceptable way to continue Israel's liberalisation of its own trade policies, which has in turn made it easier for Israel to negotiate new trade agreements with Europe and the USA by offering this as a concession. While favourable trade liberalisation policies created climates for future trade agreements, liberalised fiscal policies encouraged trade without recourse to clumsy and often politically unpopular tools such as lower import tariffs. The Israeli liberalisation of the foreign currency regime in November 1977, following the appointment of Ministers of Finance and of Trade and Industry from the Liberal party, encouraged greater trade, possibly, than had the FTA two years before¹³

However, this led to little direct foreign investment either way, and trade, surprisingly, remaining the primary mode of economic relations between Israel and the EEC. Israel's tax laws, which were only liberalised in the 1980s, (discussed in Chapter Five) provided a barrier to FDI for some time. A greater disincentive, however, was

¹³ Toren is typical in noting that "(i)t is not reasonable...to credit the (1975) Agreement with the full amount of the unexpected rise of \$300m in exports to the EEC, which were clearly influenced by changes in relative exchange rates" (1988:123).

political uncertainty, both in the form of actual regional instability, and also in terms of the Arab boycotts. A slight exception was the peace with Egypt, and Egypt in fact actively vied for investment in conjunction with Israel soon after the 1978 peace treaty, though in reality relatively few joint projects capitalising on the peace between Egypt and Israel were sponsored by outside interests. Another incentive which many in Israel had assumed would encourage foreign investment was the simultaneity of the FTA with the EEC and the GSP with the USA, which, it was thought, would lead to American firms investing in Israel to circumvent European import taxes. Instead, direct foreign investment remained moderate, even from the non-European third countries that Israel hoped to draw after its Agreement with the EEC. In interviews with businessmen who had already invested in Israel, Toren in 1988 found that the trade agreements with the EEC were not at all a major factor in the decision to invest, though some investors did cite it as an auxiliary reason. Instead, high industry intensity and Israel's R&D potential were most often noted as a reason for investment (Toren 1988:122).

Scientific Cooperation

When European and Israeli high-tech companies did collaborate on industrial R&D projects, much of the impetus came from Israeli companies, which actively tried to develop international links in order to complete ambitious R&D programmes. This was especially true in the 1970s, when Israeli R&D was entirely export-oriented, due both to the small size of the domestic market, and to an inability to market effectively at the domestic level (Toren 1988). Much later, however, in the late 1980s, Israeli R&D itself became a valuable export commodity, and European companies began to initiate joint programmes. One Israeli observer noted the concern of the EC not to let technical advances slip, especially as it struggled to combine export-led growth with domestic austerity (Hager 1988). Before the R&D provision of the 1995 Agreement, Hager identified the desire of foreign companies, faced with a higher level of Community protectionism, to market technology directly, rather than through exports. While this provided the Community with a cheap source of R&D, however, it raised controversy in compromising technological independence, which Hager (1988) identified as an

important value of Community members. Nevertheless, the relative advantage of technology in some areas did enable a few Israeli companies to invest in Europe.

Scientific links with Europe afford Israel potentially large research facilities, as discussed above. Even more important, possibly, is the political relevance of scientific co-operation. R&D co-operation affords Israel a "back door" to the EEC to eventually being "accepted within the European political and economic framework" (Steinberg 1988:338). This is echoed today by the representative of the Israeli Ministry of Trade and Industry to the EU. Speaking of co-operative associations to which Israel is a party, he identifies membership in the EBU (European Broadcasting Union) as vital, not because of the research or technical benefits it affords, but because membership allows Israel to participate in the annual Eurovision Song Contest, thereby raising its political profile in the region in a positive, non-threatening way (interview with Shaton). Especially in the 1970s, when European political attitudes towards Israel became more negative, and following the break in diplomatic links between Israel and most of Africa, the FTA with the EEC prevented the isolation of Israel not only economically, but also politically, with the 1975 Agreement "forcing the countries of the southern littoral of the Mediterranean to take account of Israel when dealing with the Community in the context of its global Mediterranean policy" (Hager 1988:55).

Finally, the existence of the 1975 FTA directly affected the rise EEC exports to Israel, though this was a slow process. Originally, Israel's abolition of final tariffs on sensitive items was to occur in 1985, but in the mid-1980s, this date was pushed further until 1989. In the first month of 1983, customs on sensitive items from the EEC were still half of their original rates of 1975. Moreover, some tariffs were abolished even slower than this schedule mandated. The years 1985 to 1994, the year that Israel's original abolition of tariffs was scheduled and the last year the 1975 Agreement was extant, reflect the large Israeli trade gap that increased during the tenure of the Agreement:

EU Trade with Israel
(in million dollars)

	Imports from Israel	Exports to Israel	Trade Gap
1985	6,268	8,379	2,111
1994	4,900	10,700	5,800

(Rolef 1993, *BIPAC* 21.11.95)

Broken down, albeit for an earlier time sample, it can be seen that declining exports relative to other regions, more than increasing exports, accounted for the gradual increase of Israel's trade deficit with the European Community:

Israel's Relative Imports and Exports 1979-1982
Imports/Exports (%):

	1979	1980	1981	1982
EEC	45/43	45/45	47/38	47/36
Italy	7/5	7/7	7/5	7/5
Belgium/Luxembourg	3/2	3/1	3/1	3/1
W. Germany	15/11	16/12	16/9	16/8
Netherlands	3/5	3/5	4/4	4/4
United Kingdom	9/11	9/11	9/10	9/9
France	7/6	6/6	6/7	6/7
other EEC	1/3	1/3	1/2	1/2
EFTA	10/7	10/7	9/7	9/6
Other Europe	3/5	2/4	3/2	2/2
USA	28/13	30/12	30/17	27/17

(Source: Shachmurove 1988:107)

Slower liberalisation on the part of Israel, as well as the much smaller volume of trade accounted for by Israel in the EEC, minimised the impact of the FTA on the EEC. The political importance of the Agreement in the development of a European Mediterranean

Policy is discussed in Chapter Three. In terms of actual trade, however, the Agreement was negligible. Nevertheless, the European interests concerned - primarily agricultural, but also industrial - did act to influence the negotiation of the actual agreement, and safeguard their interests.

European NTBs

Foreign ownership and registration expose companies to discrimination in Europe, particularly in public procurement. Although discrimination against foreign companies in Europe is blocked under EEC 58, according to which business incorporated in member states are considered EC corporations, regardless of how much stock is owned by non-Europeans, biases against foreign suppliers are, in fact, widely tolerated. This takes the form of unofficial preference, and sometimes of law. France, for instance, retains the right not to approve investments in firms controlled by non-EC interests, either through shareholders' or other types of agreements, even when more than 50% of the corporation was owned by Europeans. Israeli perceptions of European market barriers, even when not enshrined in statute, reflect expectations of government support of domestic industries and discrimination in public procurement. In many cases, Israeli firms decline to expand into European member states, particularly France and Germany, due solely to the *expectation* of unfair treatment there (interviews with Ben-Assa, Koritshoner, Friedberg, Sharf, Fishler).

Technical standards also remain a major obstacle to trade, both within Europe and with Israel. Despite a 1986 Commission attempt to harmonise technical standards within the Community, national governments have been unwilling to yield decisive sovereignty in this issue. The 1986 Commission White Paper proposed harmonisation only in areas where it is vital to safety and health, augmented by a "mutual recognition" principle guaranteeing that states do not discriminate in areas where variability did not affect safety, as established by the 1979 *Cassis de Dijons* case. Although the GATT Standards Codes prohibits "technical regulations and standards which would create obstacles to international trade", this aids competition of European companies, which must only comply with one safety standard, while discriminating against foreign companies, especially in food and agriculture sectors, where foreign standards are often

not considered rigorous enough, even in industrialised countries like the US. Even after standards have been established, tests and certification procedures, too, can be used as NTBs. Even when outside industries want to adopt European technical standards, they often find it impossible to affect standard-setting; although non-European companies can sit on the boards of the two EC standards-setting organisations, the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC), they cannot vote. Other companies might find even their anticipation of those standards blocked, as CEN and CENELEC do not usually give prior notice of their intention to review or develop standards.

The Single Market Programme, though considered a potential barrier by American and other markets, attracted relatively little attention among Israeli companies. A case study of rare preparedness is provided by Israel Chemicals, one of the largest companies in Israel, which during the negotiations controlled 25 companies in Israel and abroad, with sales of \$1.3b. Its exports accounted for nearly 10% of all of Israeli industrial exports (excluding diamonds); 2/3 of its exports went to Western Europe (Medina 1990). Its Chairman noted in 1991 that "(p)reparation for the unification of the Common Market at the level of the individual firm is of prime importance", and identified three principal domestic political concerns of Israeli industry to ensure that Israel could compete with European firms after 1992: liberalisation, reducing Israeli taxes to the lowest common European levels, and ensuring price stability through means other than artificially fixing the exchange rate, which keeps Israeli prices high (Medina 1990:90-1). Specifically, the company viewed "1992" as an ongoing process, examined at both the operative level, where activities were brought in line with EC directives, tax structures, standards, marketing, etc., and at the strategic level. Operationally, once issues such as harmonisation of standards were discussed, Israel Chemicals anticipated a benefit from the removal of internal barriers, much as European firms would benefit from easier transport and marketing consolidation.

Conclusions

The history of EU-Israeli relations reflects the distinction between "high" and "low" tools of external relations and between EU member governments and the

Commission. While a succession of free-trade agreements, culminating in the 1995 Association Agreement, ensured an ever-widening volume of trade between the two regions, political relations between the EU and Israel have been less strong. The EU has sought formally to censure Israel through a variety of institutions and European Political Cooperation (EPC) statements (which are discussed in Chapters Three and Seven), yet with minor exceptions, these political considerations have not been reflected in EU external economic policies. That EPC was entirely a matter of cooperation among foreign ministries, from which the Commission was largely excluded, made an overall approach towards Israel difficult for the Community, and enabled the atmosphere of close economic relations against a background of cooler political cooperation that was echoed in the 1995 Agreement.

There has been a gradual trend towards integrating economic policy into a wider political policy in the EU (discussed in Chapter Four). Early in the Community's relations with Israel, the Community did indeed suspend some tangential links, such as scientific co-operation, for political reasons. This was extended after the ratification of the Single European Act, when the European Parliament used its new rights of ratification to hold up some protocols to a previous EU-Israel trade agreement (discussed in Chapters Three and Four). Yet here too, economic and "political" policy remained distinct. The EP justified its actions on the grounds of a particular, narrow trade issue; and calls by Israel in the late 1980s to upgrade its trade relationship with the EU were rebuffed on ostensibly commercial grounds. Renewed attention to the Community's Mediterranean policies in the 1980s and 1990s reflect the growing use of commercial incentives to achieve political aims which had marked earlier bilateral Community-Israel relations. Yet in all these cases, commercial and political policies remain bifurcated. With the exception of the start of the negotiations for the Association Agreement in 1993, political goals were seldom discussed, and rarely named, in the context of the Community's external economic relations.

Chapter Three

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Chapter Three

Diplomatic Constraints on EU Trade Relations with Israel

Introduction

This section traces EU political attitude toward Israel. It is not meant as a detailed discussion of the development of EPC, but rather as a background to a central assertion of this thesis, namely that EU commercial policy toward Israel differed from its diplomatic policy. Two key points emerge from this section: that states used EPC to moderate their political attitudes toward Israel and create a centrist position, largely dictated by France's political stance towards Israel; and that this centrist position differed with Israel's on a number of key diplomatic points.

The history of EU-Israeli political relations illustrates the gradual integration of EU member states' foreign policies into the umbrella of a common foreign policy under EPC and CFSP. The Arab-Israeli conflict has been a defining issue of EPC since its inception, and has remained a high-profile matter for both individual member states and the EU as a whole. While there have been broad "camps" of pro-Israeli and pro-Palestinian member states' views, these were gradually moderated within the bounds of EPC. Wendt (1994) observes that co-ordinated external policies create reactions abroad, which then provide further impetus for an integrating region to act in concert in the future. The EU's history in the Middle East follows this pattern. One external reaction, in particular, created an impetus for further integration within EPC: OPEC's 1973 sanctions against the Netherlands, after which no member state allowed itself to be isolated in sole or exceptional support of Israel again. EPC was thenceforth marked by a high degree of cohesion in its positions on Israel.

That position was generally at odds with Israeli policy, especially under *Likud* administrations (which is discussed below and in Chapters Five). Traditionally, European and Israeli policies were divided in six broad areas: status of Jerusalem; use of an international multilateral conference to resolve the Arab-Israeli dispute; recognition of the PLO as a negotiating partner; the goal of eventual establishment of an independent Palestinian state in areas Israel captured from Jordan and Egypt in 1967; Israel's 1982

invasion of Lebanon and ensuing occupation of southern Lebanon; and the partial responsibility of Israel for Iraq's invasion of Kuwait.

The 1990s did mark a unique period in the annals of EU-Israel diplomatic relations, however. While these six issues did remain unresolved, a period of international economic expansion, the Middle East peace process, the lapsing of many of the anti-Israel Arab boycotts, the high status of Yitzhak Rabin, Shimon Peres, and Israel's Labour Government, and the good-will all of this afforded Israel, contributed to a remarkably close period in EU-Israel relations.

EU relations with Israel have also been shaped by the Community's evolving Mediterranean policies, discussed below. This chapter traces the history of various Mediterranean initiatives, and pays special attention to the anomalous ways that Israel has fitted into its "Mediterranean" context, politically, strategically, and increasingly in the 1990s, economically. Particularly as northern Mediterranean states joined the Community, Israel was increasingly unique within this group of predominantly Muslim/Arab states, with which its relations remained politically sensitive. As the Community's continued to regard Israel within the context of its Mediterranean policies, EU-Israel relations have come to seem increasingly anomalous within broader EU-Mediterranean relations. Also, EU-Israeli relations have at times caused burdens for wider Community-Mediterranean relations themselves.

As the Community's ways of viewing Israel evolved, Israel's Governments, too, have gone through many changes in viewing the Community and "Europe" in general. While different Israeli political parties have had very different agendas in viewing Europe, Israeli views of the continent have generally moderated over the years, whilst a series of Israeli diplomatic overtures have brought Israel markedly closer to individual EU member-states (discussed also in Chapter Five). Some issues have remained divisive in the EU-Israel relationship: in the commercial context, most notably direct export of Palestinian products, discussed below. Yet the period of 1992-1995 saw broadly very close political relations between the Community and Israel, both directly (especially in the context of the concurrent multilateral peace talks) and in the context of an energetic new Community Mediterranean initiative.

EPC

Introduction

The Community's formal powers of foreign policy are conducted in separate arenas from its external economic relations and, since 1993, have been considered a different "pillar" of the EU from the trading provisions of the EC. This thesis is concerned with the influences on development of the Community's external trade policy towards Israel, rather than political relations expressed through EPC. Yet the diplomatic background created by individual member states and by the Community through EPC formed the background to other forms of external policy.

EPC was distinct from the Community's other tools of external relations in being primarily intergovernmental in character. Its motor was the grouping of foreign ministers of the member states, but this is distinguished from the regular meetings within the Council of Ministers, at least formally. The relationship between diplomatic positions expressed by the foreign ministers within EPC and those expressed through the Council of Ministers is explored in Chapters Four and Seven. Established in 1970 and updated in 1973, 1981 and 1986, EPC functioned through four main tracks. These were, from top to bottom: the European Council; Conference of Foreign Ministers in Political Cooperation; the Political Committee, made up of directors general of foreign ministries; and various working groups. In 1981, the troika was established as the Community's foreign relations face to the world. With the TEU, EPC was transformed into CFSP, and incorporated as a separate pillar in the EU (Article J), with the Council gaining additional power to define jurisdiction and decide on voting methods.

EPC and Israel

Relations with Israel have played a surprisingly central role in developing EPC. The Community's inability to issue a joint statement in reaction to the 1967 Six Day War indicated a profound lack of coordination in this foreign policy arena. Divided between Germany and the Netherlands, which supported Israel, and France and Britain, which took the opposite side, European opinion on the Arab-Israeli conflict was split. At the

first EPC meeting in 1970, this item was the first discussed, at de Gaulle's insistence (although the EPC in its early years was primarily concerned with the CSCE). Policy towards Israel became one measure of the success of EPC overall, and the Community's first statement on the issue was completed within six months. Although a leak prevented the Community from adopting it fully, the resulting Schumann Document set the precedent that EPC would be expressed in joint policy statements, negotiated amongst the member states. This was useful to members wishing to modify their traditional domestic position on issues; indeed, the moderation of Germany's stance towards Israel, and the hardening of the Netherlands', was facilitated by their participation in EPC. Overall, however, American pressure moderated Europe's nascent pro-Arab stance throughout the 1970s, limiting the international role of EPC on this issue (Nuttall 1996, Ginsberg 1997).

The Community's response to the 1973 surprise attack on Israel by Egypt, Syria, and Iraq, which sparked the Yom Kippur War, highlighted shortcomings in the nascent EPC, and showed tensions implicit in the Commission's participation in EPC. The various member states were unable to achieve consensus on more than a mild reproof of Israel, in which it condemned Israel's incursions into Arab land, but admitted that Israel had been provoked. Following Israel's rejection of the member states' request for assurances on fundamental items such as distribution of humanitarian aid and observance of the cease-fire, however, the Commission was able to provide the Community's clearest disapproval yet, in the form of a partial sanction. Although the Commission consulted with the president of Coreper, its decision to refrain from signing a new Financial Protocol with Israel, and its successful suggestion to the Council that the next Joint Co-operation Council meeting be postponed, showed that true ability to conduct a "European" foreign policy lay in the commercial instruments of the Commission

These were political decisions taken by the Commission, albeit inspired by the Political Co-operation discussions which it had attended. The political and economic sides were beginning to rub off on each other (Nuttall 1996).

For the first time, the CCP had been used, indirectly, as an instrument of EPC. It constituted a strengthening of European foreign policy capabilities.

Although the Community maintained the distinction between economic and political considerations, it is doubtful that it was understood from an external perspective.

The perception of the EU from abroad might bring about de facto changes within the Community itself. However, despite opprobrium within the Community towards Israel, trade obligations later prevented extensive concerted political action against Israel. Following Israel's invasion of Lebanon in 1982, the member states meeting in the June Council were prevented from doing more than postponing signing a Financial Protocol and a Co-operation Council meeting. The Commission responded to calls for sanctions by some member states by pointing out that sanctions would breach the EU-Israel FTA and thus violate international trade law.

The first unified political stand adopted vis-a-vis Israel following the Community's 1970 institution of EPC came after the 1973 Yom Kippur War, and in response to the first oil crisis. When the Yom Kippur War broke out, each member state responded individually, and consequently received tailored retaliations from Arab states. Britain and France, for instance, were considered "friends" and were spared an oil embargo, while the Netherlands was considered an "enemy" and faced a full embargo. (OPEC classified other member states classified "neutral" on the Arab-Israeli conflict.) Eager to protect exposed countries like the Netherlands, the EC hastened to prove their pro-Arab credentials through a joint position in EPC, which they did successfully in 1973, thus securing an end to OPEC's embargo. (Sanctions were maintained against the Netherlands for a time, but other member states simply re-exported oil to the Netherlands during this period.)

Issued on 6 November 1973, the Joint Declaration, the EEC's first official statement on Israel, identified four areas of difference with it. The EEC expressed its opposition to the acquisition of land through war and demanded that Israel give up the territories it captured from Egypt and Jordan in 1967.¹ The Community stopped short of calling for the establishment of a Palestinian state, but did identify the "legitimate rights" of Palestinians. Like its member states, the EC never recognised Israel's claim to

¹ The EC particularly objected to the 30.7.80 Jerusalem Law, annexing a united Jerusalem and establishing it as Israel's capital, and the 14.12.81 Golan Heights Law, annexing the strategically-important Golan. The legality of these annexations has been criticised in the UN, particularly by UNSCR 476, 478 (Jerusalem) and 497 (Golan). Jewish settlement in non-annexed occupied territories has been ruled illegal by UNSCR 446, 452, 465 and 471. Israeli holding of territories conquered in war has generally been ruled illegal by UNSCR 242 and 338. While the Community as a whole is unable to affirm these resolutions, the UN's position on these matters has been broadly affirmed by the Community, most notably in the Venice Declaration, the 1996 Luxembourg Council Declaration, 1996 Dublin Council Declaration, and the 1997 Amsterdam "Call for Peace".

Jerusalem, and maintains diplomatic representation in Tel Aviv, treating Jerusalem increasingly throughout the 1980s and 1990s as the capital of an unofficial Palestinian state. Finally, the 1973 document also supported the idea that each state in the region has the right to peaceful existence with secure borders. A further "London" Agreement endorsed in 1977 expanded on the idea of Palestinian self-determination, using for the first time the term "homeland" in this context.

This position was modified in 1980, when the Council of Minister's Venice Declaration of 30 June stated that the PLO should participate in Arab-Israeli negotiations. The Declaration closely followed the US-led 1979 peace treaty between Egypt and Israel and, reflecting European frustration that clear progress on the Palestinian question was not made at Camp David, presented an alternate view of the impasse. The Declaration differed from Israeli (and American) perspectives in a number of ways, most notably in calling for Palestinian "self determination" and not merely a homeland, in the inclusion of the PLO in negotiations, and in calling for Israeli withdrawal from territories controlled after 1967 without reference to the "safe and secure" boundaries called for by UN Security Council Resolution 242 (discussed in Sacher 1999:290), and reiterated the Community's belief in the internationalism of Jerusalem (*Venice Declaration on the Middle East*, Venice European Council, June 12-13, 1980).

As with the Euro-Arab Dialogue, American pressure led the EC to moderate its position in the Venice Declaration, referring to "association" rather than "participation" of the PLO in the peace process, and making no reference to a recent anti-Israel resolution in the UN. Because the PLO had then refused to accept UN Security Council Resolution 242, renouncing terror, and 338, recognising Israel's right to exist, Israel remained opposed to the idea of negotiating with the PLO, despite the Venice Declaration. France attempted unsuccessfully to upgrade the EU's relations with the PLO at the June 1982 European Council meeting. (France itself had invited the PLO to establish official representation in Paris in 1975.) Responding to Israel's continued occupation of Lebanon, the EU further recognised the PLO in January 1989 when, during the third of three dynamic presidencies in terms of promoting Euro-Arab dialogue (German, French and Spanish), the bicephalous troika, including Commissioner Abel Matutes, met PLO leader Yassir Arafat in Madrid.

The Community's first *linked* response to the Arab-Israeli conflict, bringing economic pressures on Israel to make political points, came in reaction to the Lebanese invasion.² Although the Community responded through EPC by condemning the action, it also froze the 1977 protocols to the 1975 FTA (although unofficial diplomatic meetings continued to take place), and temporarily refused to sign a co-operation protocol in protest. The EU also instituted an arms embargo against Israel (lifted in 1994). In 1982, the EC also instituted annual aid to the Palestinians, distributed to the PLO through a Jerusalem diplomatic representation.

Since its institution in 1974 until the mid-1980s, the Euro-Arab dialogue further influenced EU-Israel relations (though the dialogue was prevented, by American pressure, from addressing high political issues). In 1974, Germany proposed a simultaneous Euro-Israeli dialogue, but the wider Community never pursued this. The Euro-Arab dialogue was important to Israel, because crucial issues are located at sub-political levels. The Community's refusal to co-ordinate member states' anti-boycott actions is a case in point, despite Israel's continued request for action in this area, and its (unsuccessful) attempts to invoke anti-discrimination clauses in both the Treaty of Rome and in EC treaties with Maghreb and Mashreq states.

The EC similarly used trade mechanisms to further its political goal of increased recognition of Palestinian irredentism in its unilateral decision on 31 December 1986 to

² Israel invaded Lebanon in June 1982, originally to destroy the PLO bases which had long attacked northern Israeli towns. The crisis has its origins in the 1970 ejection of the PLO from Jordan, when it established its seat in Lebanon, which was then wracked by internal weakness. The 1969 Cairo Agreement governed Beirut's relations with the PLO, effectively giving the PLO a free reign of activities. Syrian intervention in the Lebanese civil war on the side of the PLO had begun in late 1975, and was initially met with tacit acceptance by Israel, which backed Lebanon's Phalangist faction, representing the Christian Maronite community. The informal 1976 US-negotiated "Red Line Agreement" established the Litani River as the southern reach of Syrian involvement in Lebanon, and bound Syria not to deploy ground-to-air missiles from Lebanon. However, continued PLO attacks into northern Israel drew Israeli responses, eventually triggering UNIFIL's presence on the border. By 1980, Israeli ties with the new Phalange leader Bashir Jemayel, and weakening Syrian control over the PLO, gave Israel the courage to contemplate wide-spread military action in Lebanon. This was triggered in 1981, when Syria launched ground-to-air missiles from Lebanon, and border fighting intensified. The initial Israeli invasion was supported by the Lebanese Phalangists, led by Bashir Jemayel, who was soon assassinated. His brother Amin assumed leadership, but could not command similarly wide-spread Maronite support. Israeli occupation of parts of Lebanon was heavily criticised within Israel and abroad, especially in light of massacres at two Palestinian refugee camps (Sabra and Shatilla) by Phalange forces; a later Israeli inquiry held then-Foreign Minister Ariel Sharon indirectly responsible. In January 1985, Israel began a three-phase withdrawal of all but a six-mile security zone in southern Lebanon. Israel withdrew from this security zone in 2000, after which attacks on northern Israel resumed.

extend to Arab products originating in the Occupied Territories all the trade conditions extended to Israeli products (Reg [EEC] No. 3386/86 [O.J. 1986, L306/103]). This led to a second instance of a Community institution using ostensibly economic sanctions to express political dissatisfaction, when between 9 March, 1988 and 18 January, 1990, the EP refused to ratify a financial protocol with Israel over this issue and because of Israel's occupation in general. The EP again resorted to sanctions to make a diplomatic point in regard to Israel through ostensibly "low" political means, when on 18 January, 1990 it successfully called on the Commission to freeze all funding for joint R&D projects with Israel. This sanction, which lasted over a year, officially came in response to the police's breaking-up of a demonstration in Jerusalem by the Israeli Peace Now group, which calls for withdrawals to Israel's pre-1967 borders. The wider motivations for the Community's actions in this context, however, were widely perceived to be the long-standing Arab-Israeli dispute, in general. (Following the conclusion and even the ratification of the 1995 Association Agreement, the EP would continue to call for its suspension to protest high political issues.)

One of the long-running diplomatic differences between the EC and Israel has been the role of an international conference in resolving the Arab-Israeli conflict. Israel has maintained that bilateral negotiations would be necessary in resolving the conflict; Europe has seen a multilateral conference as a possible final vehicle for resolution. In 1986, then Israeli Foreign Minister Shimon Peres altered Israel's position, allowing an international conference as a preamble to later, bilateral talks. The EC considered this in the Council of Co-operation considered this plan in January 1987, but rejected the plan the following month, when the Community reiterated its declaration that any regional resolution must be based on the EC's Venice Declaration, and any peace conference must be held under the aegis of the UN. The EU eventually participated in the Madrid Conference of 1991 and one of the resulting working groups.

The Gulf War marked a turning point in EU-Israel political relations. More broadly, it confirmed that for most EU member states policy towards the Middle East was mediated by their far more important relationship with the United States. European (especially German) long-term support for Iraq was discredited, and internal Community divisions became apparent after the Community's failure to endorse the international alliance of US-led forces. After the War, EPC was altered, becoming more conciliatory

towards Israel. This was likely motivated by a fear of missing out on the American-organised multilateral peace talks after the conflict. Although these were not as multilateral as the EC had traditionally envisioned, devolving into regional multilateral groupings and bilateral talks, the EU was perceptive in its realisation that this new development in the interminable Arab-Israeli dispute was to be significant, and did not miss the opportunity to be a part of it.

The EU was also conciliatory, bilaterally, with Israel. Although the EC-USA Gulf Crisis Financial Co-ordination Group (established in 1991 to give money to countries affected by the Gulf War) ignored Israel, the EC set up a separate \$213 million assistance fund for Israel that same year. It was in this atmosphere that trade negotiations were begun. At the national level, especially in Britain, these commercial negotiations were seen as a means of promoting the peace process. Within the Commission, the negotiations also had political overtones, though the details of the agreement's individual elements eventually overtook political ramifications in the minds of the negotiators, as is discussed in Chapters Six and Seven.

Despite a feeling in Europe that negotiating a new trade agreement encouraged Israel to pursue political policies supported by the EU, Israeli actions throughout did not stop eliciting political condemnation by EU member states individually and through EPC. Between 1993 and 1995, dialogue between the Commission and Israel was repeatedly held up by diplomatic incidents to which the EU protested at the EPC level, indicating a further link between CCP and EPC. Primary among the diplomatic differences during the negotiations was Israel's February 1993 deportation of 415 *Hamas* and Islamic Jihad activists from the occupied territories to Lebanon. The new EC representative in Israel, Albert Maes, was outspoken in his criticism of this, and talks were held up for one month.

Other diplomatic differences concerned Jerusalem, the final status of which the EU insisted had not yet been agreed (despite Israel claiming it as its capital). The EU had adopted a policy of encouraging all visiting member state diplomats to visit Orient House, the PLO headquarters in Jerusalem, which Israel does not recognise. During France's presidency in February 1995, Prime Minister Alain Juppé led an EU delegation on a visit to Orient House, prompting a formal complaint from the Israeli Government about treating the PLO's Jerusalem headquarters as a legitimate diplomatic site. Six months later, the EU intensified this diplomatic problem by announcing that it would boycott

Israel's "Jerusalem 3000" celebrations, citing the Jewish (not Moslem or Christian) character of the event. While these and similar diplomatic incidents had little effect on the actual pace of the negotiations, they created an atmosphere of antagonism between the EU and Israel, which is further discussed later.

Finally, diplomatic problems arose in the early 1990s in the Community's political and economic encouragement of Syria to participate in the peace process with Israel. Israel, which considered that no Syrian concessions had been forthcoming, resisted the EU's rewards to Syria. Nevertheless, on 28 November 1994, the EU, over Israeli objections, ended its 1986 arms embargo of Syria, imposed after an attempted terrorist attack on an El Al plane in London, as a reward for Syrian participation in the peace talks. Peres unsuccessfully argued that the arms embargo should be linked to Syrian progress within the peace talks, and to Syrian repudiation of the Arab League boycotts against Israel. Dramatically, Rabin announced that peace talks with Syria were at a standstill. Nevertheless, the arms embargo was dropped for Syria, as it also was for Israel that year.

European willingness to accord Syria special treatment was again shown at the December 1995 Barcelona Conference, where the EU, plus 11 Mediterranean non-member states and the de facto state of Palestine, committed to closer co-operation. Though much of the content of the discussions was economic, countries were represented by their Foreign, not trade or finance, Ministers. Free trade in industrial goods was envisioned in a Euro-Mediterranean Economic Area (EMEA) by 2010 between the EU and Morocco, Algeria, Tunisia, Egypt, Cyprus, Malta, Israel, Syria, Lebanon, Jordan, Turkey and Palestine. The declaration was delayed several weeks because of Syrian refusal to denounce terrorism within the context of the agreement, though eventually signed. Israel again complained of an unfair double standard in the EU's treatment of it and Syria, but received no satisfactory reply. Instead, the EU's courting of Syria during the EU-Israel negotiations indicates the primacy of wider European hopes for a Euro-Mediterranean "partnership" over its (contentious, from an Arab point of view) relations with Israel.

Conclusions

Overall, Europe's EPC-directed diplomatic stance toward Israel until and throughout the 1993-1995 negotiations differed from Israeli goals on several key points, including the desirability of concluding the Arab-Israeli dispute in a multilateral context, and the likely outcome of such a conclusion and the goal of establishing an independent Palestinian state. EU policy also differed from Israeli policy on such issues as the status of Jerusalem, Israeli settlements in the occupied territories, Israeli administration of the territories, and European commercial and political support for Arab countries such as Syria. It is difficult to characterise the diplomatic positions developed by EPC and EU member states as a foreign policy, as few direct actions were taken. Some economic sanctions were levelled against Israel, including an arms embargo, the non-ratification of trade protocols, Greece's delay in accepting EU trade obligations to Israel (discussed in Chapter Two), and the halting of scientific co-operation between Europe and Israel. Of all these actions, however, only the 1982 arms embargo was undertaken in response to overtly political, rather than economic, issues. While many of the EU's commercial policies reflect wider political motivations and goals, the actual connection is obscure. EPC / CFSP has indirectly assumed some economic tools as its influence within the Community has grown. These tools, however, are rarely direct, and the Community's external commercial policy remains primarily economic. An increasingly significant source of political content to EU trade policy is the growing role of the European Parliament in ratifying components of trade agreements, discussed in Chapter Four.

Community Mediterranean Policy

Introduction

EPC and Community relations with Israel were distinctive, but occurred against a wider background of European engagement with the entire Mediterranean region, expressed from the 1960s in a series of comprehensive Mediterranean policies. European attention to the Mediterranean was never the Community's first priority, and the history of the various Mediterranean policies reflect that: at times neglectful and at times

attentive, the Community's engagement with the Mediterranean lacked a clear direction and betrayed a number of shifting, disparate goals.

Because of historic links and because Mediterranean states were heavily dependent on trade with Europe, in the 1960s and 1970s it was considered natural in the EC to extend association to the region. Nearly 15% of EC exports went to the Mediterranean in 1960, and the area was strategically important. Furthermore, as the Community shifted its energy consumption from coal to oil in the mid-1960s (and as the promise of cheap electricity from atomic power plants faded somewhat), Europe became more dependent on Middle Eastern oil.

Yet, despite the European Community's strong historic, geographic, strategic and trade concerns, European Mediterranean policy has developed in a largely *ad hoc* manner, often in reaction to, rather than anticipation of, crises in the region.³ Until the 1990s, when the TEU had expanded the Community's security concerns, and geopolitical developments thrust the EU into a more autonomous political role, Mediterranean policies were essentially concerned with trade, rather than political dialogue or security. Non-reciprocity has been a hallmark of the Community's Mediterranean policy since its inception: non-member Mediterranean states have generally been regarded as developing countries within European Mediterranean initiatives, and offered preferential trading arrangements and provisions for aid. This spanned a number of incarnations of Community-level regional policy, which are here grouped into four periods: Early Mediterranean Policy (1961-1972); Global Mediterranean Policy (1972-1990); Renovated Mediterranean Policy (1990-1995); and Euro-Mediterranean Partnership (1995-). Within these frameworks, a number of Association Agreements were completed in the 1990s, of which series the 1995 EU-Israel Association Agreement was one. These are examined comparatively below.

³ For full argument of the reactive nature of the EU Mediterranean policy, see Featherstone 1989, Greilsammer and Weiler 1987, and Ifestos 1987.

Early Policies

Although the Kennedy Round of GATT in the 1960s began to tackle trade discrimination, GATT and the EEC still regarded it as tacitly acceptable for the Community to practice discriminatory policies in the Mediterranean and other regions with strong links to Europe. The early history of the EU's Mediterranean policy was equivocal, as the EEC attempted to balance "special" links with the region with a refusal to institute any wide-ranging arrangements. In the words of one observer, "(m)ost of (the first phase) agreements...look like temporary, if not extemporaneous, responses to local trade problems" (Grilli 1993:181).

The Community achieved policy uniformity not through the articulation of goals for the region, but through a series of broadly similar bilateral trade arrangements. These were of five types: limited association agreements and association agreements leading to eventual accession (negotiated under EEC 238); non-preferential and later reciprocal trade agreements (negotiated under EEC 113); and unilateral trade concessions. The trading arrangements initially encompassed twelve countries:

Early Phase of European Mediterranean Policy

Association	Greece (1961) Turkey (1963)
Limited Association	Tunisia (1969) Morocco (1969) Malta (1970) Cyprus (1972)
Non-Preferential Agreements	Israel (1964) Lebanon (1965) Yugoslavia (1970)
Reciprocal	Israel (1970)
Unilateral Trade Concessions	Spain (1970) Portugal (1972) Egypt (1972) Lebanon (1972)

The goals of these arrangements varied widely. Most notable for later arrangements is the 1961 Greek precedent for association to lead to eventual accession; the 1961 Greek agreement provided for “support” to “in future facilitate the accession of” Greece into the EC.⁴

Global Mediterranean Policy

The first articulated regional approach to the Mediterranean anticipated the Community’s first enlargement. Under the 1972 Global Mediterranean Policy (GMP), the Community extended tariff-free entry to industrial goods from Mediterranean countries, slightly beyond GSP, which applies unilaterally to developing countries, in return for most favoured nation status. The CAP prevented tariff-free agricultural imports, but in practice tariffs were dropped in some areas. (The minimum import pricing remained in force and constituted a powerful NTB.) The GMP also addressed issues beyond trade, mandating aid, joint co-operative programmes, and covering employment conditions for resident workers in Europe. (These provisions went beyond even the Association Agreements negotiated with Malta and Cyprus in 1970 and 1972 under the first phase of the Mediterranean “policy”).

The first generation of co-operation agreements concluded with the Mediterranean in the 1970s were guided by these principles, and encouraged increasing levels of Mediterranean manufactured exports to the Community. Between 1979 and 1993, the industrial portion of Mediterranean countries exports to the EU rose 28% to 54% (Cremona 1996:162), reflecting increasing outward processing of European textiles, and tight restrictions on North African agricultural exports.

⁴ Greece’s original Association Agreement provided for a ten-year transition to customs union and later was amended to provide for a 23-year transition to accession. The Agreement was suspended upon the 1967 Colonels’ Coup, and reinstated after the ending of military dictatorship in Greece in 1974. Greece applied for membership in 1975, and became the Community’s tenth member in 1981. Its accession was facilitated by the Integrated Mediterranean Programmes (IMPS), established in that year to work with Greece’s new, relatively anti-EC Socialist Government. IMPS existed until 1992, and funded programmes that aided Greece, southern France and southern Italy, particularly in adjusting to Iberian accession.

GMP Co-operation Agreements:

Israel (1975)

Maghreb (Algeria, Morocco, Tunisia) (1976)

Mashrek (Egypt, Lebanon, Jordan, Syria) (1977)

Yugoslavia (1980)

Within this GMP framework, however, the Israel agreement was distinct. Unlike the other agreements in the first wave, the 1975 FTA with Israel (discussed in Chapter Two) was modelled on the EC-EFTA agreements of the 1970s. It is reciprocal, unlike its contemporary Mediterranean agreements, and envisaged a free trade area for industrial goods. Also, it was different from other Mediterranean agreements in being negotiated under EEC 113, rather than EEC 238 (the Co-operation Agreements). In 1978, Israel was included in financial co-operation schemes extended to other Mediterranean states. (See COM[94] 384 final and OJ 1995 C232/5 [Draft Regulation on financial assistance to the Mediterranean countries]).

Another distinct area was financial aid: unlike other, less developed, Mediterranean countries, Israel was not eligible for budget funds, only loans from the EIB. This differed from other GMP Co-operation Agreements, which allowed EC aid, extended in a series of financial protocols, both directly from budget funds and through EIB loans (1337m and 1965m Ecus between 1978 and 1991, respectively).

Financial Flows to Mediterranean Countries

(in Ecu millions)

	1st Protocol	2nd Protocol	3rd Protocol
Maghreb	339	489	786
Mashrek	300	486	789
Israel	30	40	63
Total	660	1,015	1,618

(sources: Featherstone 1989:197, Cremona 1996:163).

The small amount of financial aid given to Israel indicates the relative unimportance of European assistance to Israel, and the consequent lack of real harm done by the EP in blocking the third protocol to Israel in 1986-1988 (discussed in Chapter Four). The symbolic value, however, is enormous. Observes the EIB, “\$30m to Israel a year is peanuts. They took it as a political gesture. Their Foreign Minister was interested. Their Finance Minister was less interested” (interview with Ottolenghi). The EIB illustrates the nominal nature of EU aid to Israel by describing their willingness to forgo the actual funds, once the gesture had been made, and the inefficiency of this form of bilateral aid to the region. During the bilateral phase of EU-Mediterranean relations (until 1995), for instance:

Some funds (which were earmarked for Israel) were not allocated (to specific projects). We (the EIB) went to Israel, and said what should we do with this? They said, you know, the Palestinians need money right now. This was during the bilateral period. They said why don't you give it to the Palestinians? We couldn't do this, because we had already allocated money to them (Palestinians). But this shows you that they don't always need this loan (interview with Ottolenghi).

EU aid to Israel takes the form of credit lines extended by the EIB to the Independent Development Bank of Israel, which in turn extends credit lines to small and medium sized enterprises. The EU extended only one infrastructure development loan (for a Jerusalem

water treatment plant, done “because [the Community] wanted to promote the peace process”), unlike other Mediterranean countries to which direct aid in infrastructure development is the “bread and butter” of aid (interview with Ottolenghi).⁵

Effects of GMP

The GMP stagnated during the late 1970s and 1980s. Enlargement, preoccupation with the internal market legislation, and internal recession halted the Community’s preoccupation with forming a comprehensive Mediterranean policy, and shrunk European markets for Mediterranean goods. In the late 1970s, amid recession and foreign competition, the EC restricted import of some industrial products, including textiles, which were a significant part of all Mediterranean states’ industrial exports. Iberian accession came at a particularly difficult time for Mediterranean states. Recession within the EU restricted their export markets, and after 1985, the Community expanded its definition of “sensitive” industries subject to import restrictions, including textiles and clothing. The EC itself recognised conflicting priorities among its new member states. A discussion paper commented at the time: “In short, there will be a variety of interests, most of them southern, though not all by any means, which will want the Community closed as much as possible against outside exporters of typical Mediterranean products.... On the contrary, the northern regions of the Community...will have primary interests in a dynamic Mediterranean as an outlet for their agricultural and industrial goods as well as services” (*EC and Mediterranean: 3-4, 1985*, quoted in Featherstone 1989:195-6).

The Community acted to “maintain and strengthen” preferential trade arrangements with the Mediterranean prior to Iberian accession (European Commission, *EC General Report* 1984:682). The Council of Ministers the following year mandated the Commission to negotiate new trade directives to do “all in its power...to ensure that traditional trade patterns were maintained” (European Commission, *EC General Report* 1985:831). Despite Spanish delays for this renegotiation in fruits and vegetables, the

⁵ Loans to Israel under both bilateral and multilateral Mediterranean policies are made at market rates; with Israel’s Standard and Poor’s A-3 grade, however, it could and does find loans in the commercial sector, and does not rely on loans from the EIB. Despite the near-perfect record of Mediterranean loan repayment to the Community (only Syria has defaulted), the EIB estimates that on a purely banking principle, between a third and a quarter of EU loans would go to Israel.

Community concluded revisions to existing agreements with Tunisia, Egypt, Lebanon, Israel and Turkey in 1986. The following year, revisions were signed in agreements with Algeria, Tunisia, Egypt, Jordan, Lebanon, Cyprus and Turkey. (Moroccan and Maltese agreements were held up for several years over political disputes.) Special agreements on protection for Spanish fruits and vegetables were signed in 1986 and 1987 with most Mediterranean countries.

Furthermore, the internal market programme displaced attention from the Mediterranean. After the Franco-German proposed treaty on European Union in 1985, France stopped pushing aggressively for further attention to the Mediterranean; "...having relinquished his earlier dreams of a Europe wider than the EC, Mitterrand now seemed content to see the EC as the core, to which EFTA, Mediterranean and even COMECON states could adjust" (Middlemas 1995:116). Mediterranean enlargement sharpened the contradiction between demands by the southern EC states for structural assistance and greater support for EC Mediterranean agriculture, and plans for a generous external policy towards non-EC Mediterranean states.

Also, the EC member states were vastly less dependent on trade with non-member Mediterranean states (and thus more easily able to suspend their concern with creating comprehensive Mediterranean policies) than non-member Mediterranean countries, which were heavily and asymmetrically dependent on trade with the EC. The following tables illustrate the enormous extent of the asymmetry in 1989:

Proportion of trade with non-member Mediterranean states, 1989

	% of exports	% of imports
Italy	5.1	6.5
France	4.9	3.1
Spain	4.2	3.7
Germany	2.4	2.8
Portugal	1.0	2.0
Rest of EU	2.3	1.7

(source: OECD, in Regnault 1997:97)

Proportion of trade with EC, 1989

	% of exports	% of imports
Libya	81.1	59.3
Tunisia	77.2	69.3
Malta	69.6	74.6
Algeria	66.2	65.2
Morocco	64.5	55.1
Cyprus	47.0	55.9
Turkey	46.5	38.4
Egypt	42.4	38.6
Syria	31.0	41.7
Israel	29.7	48.5
Lebanon	20.9	45.8
Jordan	6.9	29.7

(source: Eurostat, in Renault 1997:97)

Greater access to Eastern markets also weakened the Community's dependence on Arab states (primarily Gulf states, but also north African oil and gas suppliers such as Libya and Algeria) by opening up COMECON oil supplies to European buyers. With the real prices of oil and gas falling since the early 1980s (particularly after 1985), European access to new oil supplies greatly reduced Arab states' bargaining power with the Community, and this had a slight effect regarding the Mediterranean policy, to the extent that North African suppliers enjoyed diminished bargaining power, as well.

Renovated Mediterranean Policy

When Spain first joined the EC in 1986, there was some hope in the Mediterranean region that this would foster greater attention within the Community to its southern flank. Despite the appointment of the Spanish *Partido Popular* politician Abel Matutes as Commissioner in charge of the Mediterranean, little was done to redirect Community attention to the region.⁶ One reason was the lack of harmonisation among Spain's, Portugal's and Greece's efforts. The experience of southern states in placing the Mediterranean on the EC agenda during their presidencies as a very "southern" concern is not shared in other policy sectors. Wurzel (1996) has documented how even countries with very different policy preferences and political cultures tend to behave similarly during their presidencies, at least in the area of environmental legislation. Yet behaviour in this area was different. Even when Mediterranean member states did seize on Europe's relations with the wider Mediterranean as a vehicle to give their presidencies ambitious projects, their areas of concentration varied widely. While policy for the Mediterranean was indeed a natural area of southern member states to exploit, definitions of the region's concerns and primary members varied.⁷

⁶ As early as 1989, the EP's Committee on External Economic Relations warned that, in light of trade displacement due to the Mediterranean accession, the EC "need(ed) an overall vision, a global approach, as defined by the Commission years ago" in the original European Mediterranean Policy. In addition to helping the trade growth of non-member Mediterranean countries, the desire of the EC to appear to be a significant actor in international relations before 1992 was specifically mentioned as a goal of this new Mediterranean policy (EP Doc. No. 2-373/330, 1989).

⁷ Mediterranean policy did not figure greatly into Greece's presidential agenda in the latter half of 1988. Association/co-operation council meetings were held only with Cyprus, Malta, and, at the urging of the non-member nations themselves, with Algeria and Yugoslavia. Among these, only discussions with

It was not until three successive Mediterranean presidencies in the late 1980s (beginning with Greece in the second half of 1988, and continuing with Spain and France), and the start of Arab-Israeli peace talks, that calls to redirect attention and funds to the Mediterranean gained credence. Spurred by PHARE and the permanent agreements concluded with East European countries, Matutes requested similar movement in his region, calling for the Council to adopt an improved policy which would increase aid to the region, and see a series of Association Agreements extended to the Community's southern neighbours.

The Southern member states harboured very different priorities regarding the Mediterranean. Spain and Portugal, for instance, were much more interested in the Maghreb than the Mashrek, with France particularly regarding Algeria as a private relationship. Reflecting divisions in Mediterranean priorities among the Southern member states, Matutes' plan was eventually supported by the five *northern* members, whose alliance emerged in the December 1989 Strasbourg European Council meeting, and who were less hampered by fears of close agricultural competition and also less attached to particular Mediterranean countries which imbedded political interests desired to protect, as was the case for instance with France and its former colonies. The RMP was approved, with minimal delay, by the Council of Ministers in December 1990.

The resulting RMP was implemented between 1990 and 1992, incrementally and bilaterally, and consisted of opening negotiations for co-operation agreements with Maghreb and Mashrek countries, the Association Agreement with Israel, and more aid for the region. In the 1992-1996 period, this aid was increased 300%, eventually totalling Ecu 4.4b, with bilateral aid increased by 47% from Ecu 1618m to Ecu 2,375m. The remainder of aid was distributed in new forms, primarily EIB loans. In total, the Community extended Ecu 1,075m in individual grants under the RMP: Ecu 300m for Structural Adjustment Assistance, and Ecu 2030m to support horizontal co-operation. Later, funds to support the Arab-Israeli peace process and Ecu 500m to areas of Palestinian autonomy came from the RMP budget. Also, a separate aid budget of Ecu

Cyprus produced tangible results, in the form of negotiations for a third financial protocol (discussed in Ioakimidis 1996).

600m was set up to help overcome the effects of the 1991 Gulf War on Jordan, Egypt, Turkey, Israel, and the Palestinian Authority.

Other, more ambitious, initiatives could not be followed through. Turkey's 1987 membership application was rejected in 1989, and it was not until extensive domestic changes had occurred by 1996 that it had the promise of customs union with the EU. In 1992, Spain and France proposed an industrial free trade area with Morocco and Tunisia by the year 2000 in the Europe-North Africa Partnership idea. At the same time, a regional Development Bank was briefly discussed, though not pursued. The RMP, though it represented some real change, took the place of more substantial ideas for promoting closer co-operation between the EC and Mediterranean.

Effects

One Israeli academic questions how important the increased aid in the RMP was to countries in the region, concluding that "(i)n the trade domain, nothing of much significance was offered by the EC" to the Mediterranean region in the RMP (Tovias 1995:14). Though the EC increased its aid, EC funds still accounted for only about 3% of all foreign aid received in the region. Within the EC too, as a percentage of aid, assistance given to the Mediterranean was small. At Ecu 2.4 per capita per year, it was less than aid to the ACP (4.7) and east European countries (6.8).

Moreover, RMP trade provisions did not significantly open protected European markets. Agriculture continued to be tightly controlled, with two very small encouragements granted, mostly to make up for similar concessions to Spain (transitional period brought forward from 1996 to 1993, and tariff quotas increased progressively until 1996 by 3-5%). In textiles, Portugal was strictly opposed to concessions, and the EC hid behind the Uruguay Round in this area, claiming that the negotiations there on textiles were not finished. While Mediterranean countries have rules of origin agreements in their bilateral trading agreements, many have long wanted to define them more broadly, and pool their origin of products (as did Israel during the negotiations, discussed in Chapter Eight); this was ruled impossible by the EU early into the RMP, though the issue came up again later on. Tovias dismisses the RMP as reshuffling: "The Renovated Mediterranean Policy...can be characterised as a minor victory obtained by southern European countries

over their northern European neighbours in that more aid was to be distributed from Brussels without any changes being made to the international division of labour around the Mediterranean - a taboo subject" (1995:14). Similarly, from the point of view of the Mediterranean itself, he is cynical, dismissing the RMP as coming "too late to have any impact on the economic and social crisis developing in much of the Arab world" (Tovias 1995:14).

Yet to Israel the agreement was crucial, and not only because any sort of broad, regional co-operation raised Israel's profile on the international stage. One official, who sat on the committee established in 1989 by Israel's Ministry of Industry and Trade to consider the impact of the 1992 Single Market deadline, recalls that Israel was unable to negotiate provisions that would halt its declining economic position vis a vis the Community because at that time Israel lacked a position within an "umbrella" of interests identified by Europe. She identifies two impediments to European negotiation with Israel during this period: that the EC was "reluctant to negotiate only with Israel (because) they had to be seen to be forthcoming to the Arabs" as well, and the lack of the "umbrella" of a new policy framework. "The EU always negotiates agreements in a framework, for instance the Mediterranean Policy, or an Asian policy", she observes; "they don't negotiate with single countries" (interview with Hirshler). This view might explain the eagerness of some Israelis in embracing the RMP. Given that the RMP provided a framework for a series of Association Agreements with Mediterranean countries, the Israeli agreement might be seen as unremarkable. Yet, as these statements show, and as will be shown in later chapters, that the Association Agreement was negotiated at all, that it was the first concluded under the RMP, and the shape which the agreement took were all remarkable, and defy any neat explanations of the RMP mandating this type of agreement with individual Mediterranean countries.

Internal Trade Displacement after 1992

At its most basic, the completion of the internal market displaced trade from non-members to member states. This was felt variably in different industrial sectors, affecting various trading partners disproportionately. Another, more profound, effect of the internal market project was the identification of Community policy with the priorities of

some commercial actors. As the SEA was implemented, the Community experienced increasing influence of private industry on Community policy, new industrial consciousness amongst EC leadership, and structural changes in EC governance, which enabled a more cohesive industrial policy for the Community. This also represented a “philosophical” shift within the EU, as the Community began to identify its general political and diplomatic interests more closely with European industry.

Besides the obvious preferential treatment extended to Eastern Europe, the SEA raised fears in Israel of further economic displacement. Wessels (1992) has identified three distinct phases of Community foreign trade policy: the Community’s entrance into GATT and use of Association Agreements, primarily with Greece and Turkey, under EEC Article 238, in the 1950s and early 1960s; the foundations for the eventual second enlargement and establishment of EPC at the 1969 Hague Summit; and the SEA, first mandated in 1985. According to this conception, the post-SEA phase raises distinct questions of foreign trade and relations, necessitating new responses from the Community’s trading partners. The adoption of the SEA and accompanying pressure to complete a harmonised internal market by the end of 1992 led to fears that, in addition to trade displacement resulting from enlargement and the Community’s preferential trade deals with Eastern Europe, trade displacement to the Community itself would occur, as more economic transactions and trade would take place within the Community’s borders.⁸

This possibility was addressed at the European Council meeting in Rhodes in December 1988, where it was famously declared, at the urgings of the Greek Presidency, that the EC would be a “Partner Europe” to external countries, and not a “Fortress Europe” (Declaration of the European Council of Rhodes, 12.88; see Wessels 1992:161). Despite the Community’s pains to present the SEA as an innocuous process to its trade partners, however, concurrent initiatives to limit trade displacement adversely affecting the Mediterranean region were conspicuously absent in 1988.

The threat of a closed European market affected Israel differently from other Mediterranean states. The Single Market was expected to concern high-tech business and

⁸ From the 1960s through to 1973, the EEC had shown an increase in intra-regional trade, which then had accelerated again in the mid-1980s. The share of the original six increased until the mid-1960s, then decreased until the mid-1980s. Kitson and Michie (1995) account for this with trade diversion to new members.

financial services more than traditional industries, and Israel was more industrialised than other Mediterranean states. The most immediate problem presented by the SEA was preference in public procurement. Israel attempted, without success, to reverse this in GATT, but was unable to do so in its most pressing priority, telecommunications. European domestic preferences were later overridden by the Public Procurement Agreement and Telecommunications Agreement negotiated in tandem with the 1995 EU-Israel Association Agreement, but the SEA thus harmed Israeli telecommunications competitiveness for several years.

Another trade impediment created by the SEA is lack of mutual recognition of scientific matters extended to Mediterranean countries (later solved for Israel by a separate post-1995 agreement). As the EU tends to harmonise standards upward, the wider legislative programme mandated by the SEA placed extra burdens on Mediterranean states, though this represented less of a trade barrier to the relatively more industrialised Israel. A final issue which hardly affected Israel but which did affect the Mediterranean region as a whole was the Community's concurrent strengthening of immigration controls.

Affected to a lesser extent, Arab states recognised the challenges posed by the SEA much later than Israel (discussed in Tovias 1995). The challenges to trade relations presented by the Single Market therefore exacerbated the distinctions between Israel and its neighbours in so radically altering the Israeli conception of European trade, out of the bounds of its Mediterranean neighbours. In Israel, this sparked the creation of a special Foreign Ministry office in 1989 to consider responses to the SEA, which helped to bring about the review of the 1975 FTA and eventually led to the negotiations for the 1995 Association Agreement.⁹

⁹ Although the Mediterranean did experience trade displacement to the EU, due to the SEA as well as to accessions, Israel remained in an exceptionally strong position within the Mediterranean region to withstand this. Israel's economy increased significantly in the years leading up to the FTA, growing 33% in real terms in GDP between 1989 and 1994 (Kanovsky 1995). Israeli exports increased after the SEA, too, rising from \$11.1b in 1989 to \$14.8b in 1993, and then to \$15.8b in 1994 (measured in current dollars). This was all the more impressive given that the recession in many of Israel's western markets cut into Israeli exports. Kanovsky (1995) credits Israel's strong economic performance in the late 1980s and early 1990s to internal Israeli factors: with the adoption of new economic policies in the mid-1980s, which reduced the fiscal deficit by cutting government subsidies and reduced the military budget. As the Israeli economy became more reliant on non-traditional industries, public procurement remained the only significant area in which the EU could impose prohibitive NTBs.

New Mediterranean Policy

A New Mediterranean Policy (NMP) was proposed in 1992, to last until 1996, alongside the RMP. The NMP established a budget of 4.4b Ecus for Mediterranean aid, divided between budget funds, EIB loans, and regional and environmental projects. Reacting to requests from Mediterranean states, the Commission approved renegotiation of existing trade agreements with Israel, Tunisia and, Morocco. Later, these were championed as “Euro-Mediterranean Association Agreements” (see below); at the time, they represented a reversion to the EU’s reactive, *ad hoc* approach to the Mediterranean. The opening of negotiations with all three countries were linked; negotiations with Israel could not proceed unless negotiations with Arab countries were already taking place. Yet the renegotiation of these countries’ trade agreements showed no clear European vision of the Community’s long-term relationship with the Mediterranean.

Instead, in contrast with two major, and roughly concurrent trade initiatives, the EEA and PHARE, the NMP can be seen as weaker and reflecting the much lower priority of the Mediterranean to the EU.¹⁰ That these alternate economic priorities and programmes contributed significantly to the erosion in Mediterranean preference in trade was widely noted. One observer noted in 1996 that “(i)n spite of countless efforts, the EC Mediterranean policies are in disarray.... There is no open and clear acceptance (in the EU) of the Mediterranean as a vital area of interest” (Tovias 1996:23). Though member states with interests in the Mediterranean made some attempts to resist spreading aid and trade policies further east, until the resurgence of the Renovated Mediterranean Policy, discussed above, little was done to address the shift in the Community’s trade preferences from the Mediterranean.

¹⁰ Although this lower priority accorded the Mediterranean was not universally evident, for instance when Chancellor Kohl, after being disappointed that the Essen Summit of December 1994 did not go far enough in providing support to East European applicant states and facilitating their acceptance of the *acquis communautaire*, complained that Europe forgets “the Baltic Sea is just as much as European one as the Mediterranean” (quoted in Middlemas 1995:656).

Euro-Mediterranean Partnerships

The RMP/NMP failed to be an effective instrument of high policy in the area, and many Mediterranean countries remained dissatisfied with regional trading arrangements. In the view of one senior Israeli diplomat, posted to Spain, “The Mediterranean has not been taken seriously (by the Community), maybe from the whole start of the EEC, until 1995”, when the Euro-Mediterranean Partnership received renewed attention (interview with Bar). Whether the Arab-Israeli peace process sparked some of this new attention to the region, or whether the Partnership Programme was primarily concerned with the Western Mediterranean, not the Eastern Mediterranean, was keenly debated amongst Israeli negotiators who sought to capitalise on the Community’s attention to the region (interviews with Bar, Halevy). Three successive southern presidencies, however, plus a desire to balance Eastern European programmes, sparked renewed attention to the Community’s southern border.

Partnership marked a return to a regional approach to the Mediterranean., overall The first comprehensive EU policy toward the region, the Euro-Mediterranean Partnership, was first mandated by the European Council at its June 1994 Corfu summit, and announced on 18 October 1994 by Manuel Marín, another Spanish Commissioner who replaced Matutes, overseeing the Commission’s Mediterranean policy. It was modelled on the EEA agreement with EFTA, though without the prospect of eventual membership (COM[94]427 final). The programme was endorsed at the European Council at Essen in December 1994, where the importance of the Mediterranean to the Community was stated in strategic terms: “The Mediterranean represents a priority area of strategic importance for the European Union”. The Council also recognised the importance of “to maintain(ing) an appropriate balance in the geographical allocation of Community expenditure and commitments” (Conclusions of the Presidency, point I-14, Bull. EU 12-1994, in Cremona 1996:164). The European Council at its June 1995 Paris summit agreed to invest 4.7b Ecus under the Partnership. This would encompass action on technical, scientific and industrial co-operation, environment, immigration, and drugs. The EIB would also extend loans. It was also agreed that regional political stability would be addressed by CFSP. Although it was not stated overtly, this type of economic

“carrot and stick” approach to achieving political goals was the type of joint political-economic action envisioned by the TEU.

The Barcelona Declaration, signed into being by the EU, 11 Mediterranean countries (excluding Libya) and the PLO, on 28 November 1995, created this partnership. It widened the scope of co-operation to include new institutions such as banks, the private sector, and civil structures. At Barcelona, the signatories adopted a wide-ranging Declaration of Work Programme (Bulletin EU 11-1995), which identified three areas of partnership: (1.) Political and security, which includes democracy, the rule of law, human rights, self-determination, territorial integrity, peaceful dispute settlement, anti-terrorism, drugs and crime measures, and promotion of regional security through international and regional non-proliferation treaties. (2.) Economic and financial partnership, based on: FTA by 2010¹¹; economic co-operation; and increased regional aid, deriving from the budget agreed at the Cannes Summit.¹² (3.) Partnership in social and cultural areas: education, cultural exchanges; promoting democracy and civil society; actions to reduce immigration. The agreement was endorsed at Cannes in June 1995.

The Barcelona Work Programme promotes co-operation in relevant areas, with no formal legal commitments (outside the bilateral agreements). It establishes a Euro-Mediterranean Committee for the Barcelona process, at the senior official and Foreign Ministerial level. An annexed Work Programme includes a political dialogue, and economic and financial partnership. This mandates: establishing an FTA; promoting intra-regional investment; modernising agriculture; creating transport links; association of Mediterranean countries with the Treaty on the European Energy Charter; telecommunications development; regional planning; co-operation in tourism; environmental dialogue and standards; scientific co-operation; a reaffirmation of the Mediterranean Water Charter adopted in Rome in 1992 and further co-ordination of programmes; and co-operation in fishing research and environmental protection.

¹¹ The incompatibility of economies in the Mediterranean region, documented by Kanovsky (1995) in the case of the Eastern Mediterranean, indicate the unrealistic nature of calling for a FTA in the Mediterranean by 2010. The WTO, however, allows multilateral trade discrimination only when such arrangements purport to lead to an eventual customs union; the goal of FTA thus satisfies this requirement.

¹² Aid was meant to increase between 1995-99 from about Ecu 2.8bn to 7.07bn, though this was later reduced because of ACP pressure and Norwegian rejection of membership to 5.5bn.

Finally, the Work Programme identifies a number of goals within Social, Cultural and Human affairs exchanges: development of human resources; eliciting co-operation of municipalities and regions in projects; dialogue between cultures and civilisations; interaction in media; youth exchanges; exchanges between civil societies; social development, especially women; joint health actions; attention to the conditions of migrants in the EU, terrorism, drug trafficking, organised crime, and illegal immigration. The provisions for these, however, reflect that it may be some time before extensive results are seen in these areas. Institutional dialogues established by the Barcelona Work Programme are the Euro-Mediterranean Parliamentary Dialogue, and regular contacts among other EU institutions, especially the relatively weak ESC and Mediterranean counterparts.¹³

Effects

In some ways, the Euro-Mediterranean Programme exceeds the EEA, in going beyond the four freedoms, and beyond areas covered in the Treaty of Rome. It is as wide in its coverage as the TEU, including trade, environment, CFSP (it aims for a “political and security partnership” establishing “an area of peace and stability”), and Justice and Home Affairs (addressing migration, terrorism, drugs and crime). Association Agreements negotiated in this context join the Europe Agreements in mandating that third countries with Association Agreements under these systems give priority to other countries within these frameworks in conducting their own foreign trade relations¹⁴. The ramifications of this would seem to be a greater cohesion between EU external economic relations, CFSP and CJHA, and the anchoring of these Community competencies in a common external economic policy, in which the Euro-Mediterranean Partnership programme is based. While some see in this the future of European external relations

¹³ Due to lack of ESC resources, however, the Committee is unable to hold many of the annual meetings mandated in the EU-Israel Association Agreement (interview with Bence).

¹⁴ An example of this mandate is provided in the Council Decision establishing Turkey’s Association Agreement, provides that Turkey give priority to, and conclude preferential agreements by 1.1.01 with: Israel, Hungary, Bulgaria, Poland, Romania, Slovakia, Czech Republic, Estonia, Latvia, Lithuania, Morocco, Tunisia, and Egypt (Article 16, Association Council Decision No. 1/95, and Annex 10).

(Cremona 1996), others interpret the different decision-making structures of CFSP and CJHA as a permanent barrier to closely co-ordinated action (Wallace and Wallace 2000).¹⁵

Practically, the Partnership Programme offered little. Most of the EU's trade concessions to the region remain unilateral, although the programme does require that the Mediterranean countries begin to eliminate tariffs and quotas on manufactured products from the EEA and other Mediterranean countries. In return, the Commission undertook to accept rulings on: cumulative rules of origin; standards; certification and quality control; intellectual property rights; encouragement of technology sharing and competition rules; customs co-operation, including in smuggling and drugs; progressive liberalisation of trade in services, including right of establishment. Financial, technical, and administration issues would not be harmonised, though the EU did offer to hold dialogues in these areas. Agriculture was to be liberalised within GATT and through reciprocal preferential access. Also, the EU asked the Mediterranean countries to act to reduce illegal immigration. Political elements to economic arrangements include parliamentary delegations which arise from trade agreements calling for "facilitation" of "necessary co-operation and contacts" of the EP and parliaments in other countries.¹⁶ Such delegations are called for by the EU's agreements with the Maghreb and Mashrek, Cyprus, Malta and Israel.

Finally, another emerging issue not addressed by the Euro-Mediterranean Partnership Programme concerns the extreme economic instability of many Mediterranean states, evidenced by spiralling foreign debt. Morocco, Algeria and Egypt, particularly, have heavy debt burdens (\$22.3b, \$24.3b and 35.2b respectively in 1990); altogether, the southern Mediterranean countries had combined foreign debt of \$200b in 1990 (Bin

¹⁵ Under the TEU (Article J), CFSP mandates the Council of the European Union to act on the basis of guidelines from the European Council. The Commission is "fully associated" under Article J, with no right of initiative (TEU J.5.[3] and J.9.). The EP is consulted, and may make recommendations and ask questions (TEU J.7). The ECJ has no role in CFSP (TEU Article L). CJHA is based on intergovernmental agreement. TEU K.3 allows Commission (acting within the narrow areas addressed in TEU K.1[1]-[6]), or member state initiatives to mandate the Council to adopt non-binding joint positions or actions in areas related to TEU K.1; this is approved by QMV. CJHA allows supranationalism only within narrow bounds: the ECJ can interpret any Community convention, but only when it is mandated to do so unanimously by the Council. The EP's role in CHJA is purely consultative.

¹⁶ In the case of authoritarian regimes, however, it is doubtful how much real work takes place as a result of inter-parliamentary dialogue.

1996:137). As international lending institutions call for domestic reforms, the EU too has had to grapple with the decision to make promotion of domestic reform an element of its wider Mediterranean policy.

Israeli perceptions of the Euro-Mediterranean Partnership programme were mixed. On one hand, some Israelis worry that being considered part of a region that is generally (from a Community point of view) troublesome is negative, especially as many Israelis like to think of themselves as more “European” than “Mediterranean” (discussed further in Chapter Five). Others, however, feel that “if we have an communication in any context for development, it is good”. This was spoken by one senior Israeli diplomat long based in Madrid, who observed that being considered part of the “Mediterranean basin” gives Israel more “opportunity” in Europe than simply being relegated in policy-makers’ minds to the even more troublesome region of the “Middle East” (interview with Bar).¹⁷ Regarding the questionable economic value to Israel of trade and aid provisions under the Partnership, this official explained that in his view “political consideration is more important than economic” relations, and “the ability of Israel to be a partner to North African countries is a wonderful concept for Israel. We don’t need donations in the context of MEDA (but) if we can have any joint venture with an Arab and European country (under the diagonal provisions of European trade with the region), in the long run, this increases our value to the region, and thus to the EU” (interview with Bar).¹⁸

¹⁷ His reasoning was that Israel, being neither a former colonialist like many European countries, nor an Arab country, but somehow a hybrid, would be used “as an ally vis a vis Europe” in various political and economic negotiations. He continued hopefully that, after that, further substantive co-operation would follow, as “there is a tendency for negotiators to co-operate”. His words call to mind the experiences of many Israelis who fostered numerous co-operative projects with African states in the 1950s and 1960s, only to see those links collapse after the 1967 Six Day War.

¹⁸ While this view rests on the assumption that Israel will somehow be seen as “unique” in the region, and consequently approached for joint projects by a wide variety of North African states who view it as “non-threatening” other diplomats are more blunt. Another diplomat in the Israeli embassy in Madrid, for instance, noted that regarding Israel under the Partnership, “we never belong anywhere (diplomatically)”, and was dismissive of any real benefit to Israel under the policy (interview with Roie).

Association Agreements after Barcelona

The eventual goal of the Euro-Mediterranean Partnership programme was to create Euro-Mediterranean Partnership Association Agreements with all Mediterranean states (except Libya), and with the Palestinian Authority. Yet gone are the days when Association Agreements implied eventual accession. Indeed, with the Euro-Mediterranean Partnership, the term “Association” is indiscriminately applied to all agreements with Mediterranean countries, whether or not such agreements would have been considered Associations in the past. The only Association element in the disparate Mediterranean agreements seems to be the fact that they are negotiated under EEC 238, rather than EEC 113. The ubiquitous “Euro-Mediterranean Partnership” affixed to any commercial agreement struck between the Community and a Mediterranean country after 1995. Provisions for political and cultural dialogue are added to trade agreements, and a Euro-Mediterranean Partnership Association Agreement, which might be limited in scope, which might maintain significant tariff barriers, which might even be non-reciprocal, is born.

Instead, association agreements vary. Some do imply eventual accession; the Eastern European association agreements call for this in their preambles. Some, like Turkey’s, call for a customs union. The EEA association agreements call for a free trade area. Others establish large development assistance programmes: the Lomé Convention, Europe Agreement, and the Turkey Agreement. Some address the four freedoms (EEA, Europe Agreements). Others address only trade (Cyprus, Malta). Some allow political dialogue (Europe Agreements, Israel); older ones and the EEA do not. The preambles of the Mediterranean association agreements call not for accession, but for political dialogue, a free trade area, liberalised trade in services and capital, and for Mediterranean regional integration. The agreements with Morocco and Tunisia call for integration within the Maghreb; Israel’s calls for “regional co-operation with a view to the consolidation of peaceful coexistence and political stability” (Article I).¹⁹ The Turkey Customs Union agreement goes further, committing Turkey to the EU’s CET and preferential regime.

¹⁹ One crucial difference between the Moroccan/Tunisian and Israeli agreements is the provision of diagonal cumulation of origin extended from the Community’s previous FTAs with Algeria, Morocco and Tunisia to the new Association Agreements with Morocco and Tunisia.

Turkey's first step in this was signing an agreement with Israel to remove tariff barriers between them by 2000. This fulfils one of the major goals of the Euro-Mediterranean Partnership: the encouragement of liberalisation *between* target countries in the Mediterranean. No other Euro-Mediterranean Associate is similarly committed, however.

During the period of Israel's negotiations, Euro-Mediterranean Association Agreements were concluded with Tunisia (12 April 1995 COM[95]235 final), Morocco (15 November 1995 COM[95]740 final) and Israel (28 September 1995 SEC[95]1719 final). Similar agreements were envisaged with Algeria, Syria, and the PA (Conclusions of the Presidency, point I.14, Bull. EU 12-1994). These were "mixed agreements", because both the member states and the EC itself were party to the agreement. Provisions on political dialogue necessitate the inclusion of member states in the agreements, whose competence political dialogue is. Also during this period, thirteen membership applications were outstanding: Turkey (1987), Cyprus (1990), Malta (1990), Hungary (1994), Poland (1994), Romania (1995), Slovakia (1995), Latvia (1995), Estonia (1995), Lithuania (1995), Bulgaria (1995), Slovenia (1996), Czech Republic (1996). The Association Agreements concluded under the Partnership programme could not at all threaten the queue of these eastern European states.

Euro-Mediterranean Partnership target countries are the Maghreb and Mashrek countries, Libya, Israel, Cyprus, Malta, Turkey, Lebanon, Jordan, Syria, and (though they were different cases, caught up in successive conflicts, and now included within the South-East Europe Stability Pact) Albania and Yugoslavia. The needs and levels of industrialisation amongst these countries vary enormously. The World Bank has identified a number of incentives for Mediterranean states to enter into Euro-Mediterranean Partnership Agreements. The agreements help to overcome domestic opposition to economic liberalisation, anchoring domestic reform more effectively than can the WTO. Mediterranean states recognise the possible increases in intra-regional trade resulting from harmonised regulatory and bureaucratic requirements. The removal of NTBs facilitates intra-regional trade. Finally, EU fund transfers (FDI and/or aid) would help overcome lost trade revenue (Hoekman and Djankov 1996). That almost none of these were factors in Israel's decisions to enter into a Euro-Mediterranean

agreement, for instance, illustrates the extremely wide nature of these Partnership Agreements.

Euro-Mediterranean Partnership Agreements Compared

How, then, does the 1995 Israel agreement differ from other Euro-Mediterranean Partnership association agreements? Among the six elements of the standard Euro-Mediterranean Association (or “Partnership”) agreement, the Israeli agreement is distinct in four areas.

Political provisions:

All agreements (Morocco, Tunisia) have a “human rights and democracy” clause, though use slightly different language. Europe Agreements, after the first two (Hungary and Poland) contain similar clauses, as do the Partnership and Co-operation Agreements with the former Soviet Union. These clauses have become standard for new Community trade, co-operation and association agreements (See Cremona 1996). Also, in the 1990s, “Political Conditionality” became an important factor in EU negotiations with its eastern neighbours, and a source of deep frustration in relations with the southern neighbours.

Goods, Persons, Services and Capital:

The agreements with Tunisia and Morocco envision a fully reciprocal FTA by 2010. Like the Europe Agreements, the Mediterranean states are allowed an infant industry (and sector in difficulty or restructuring) protection before then, characterised by the reintroduction of customs duties. These measures cannot exceed 5 years without permission from the Association Committee.

The Israel Agreement, in contrast, removes all quantitative restrictions and tariffs on industrial goods immediately and reciprocally. Anti-dumping and safeguard clauses are the same in all agreements, and are in accordance with the EU’s interpretation of GATT rules (OJ 1994 L 336/1). Internal regulations include Regulation 3283/94 [dumping] OJ 1994 L329/1; Regulation 3284/94 [subsidies and countervailing duties] OJ

1994 L349/22; Regulation 3285/94 [safeguard measures] OJ 1994 L 349/53; Regulation 3286/94 [enforcement of Community rights under international trade rules] OJ 1994 L349/71). Services are left to future widening of the agreements (and are discussed in terms of firms only, not self-employed individuals); the Europe Agreements provide for scheduled, asymmetric, and ultimately reciprocal trade in services, including self-employment.

The Europe Agreements, but not the Mediterranean agreements, contain “seconded workers” provisions, which give companies the right of establishment for “key personnel” in the EU. The Israel agreement, however, goes farther than the Moroccan and Tunisian agreements in capital movement. Articles 31-34 allow for free movement of capital and remove restrictions on payments connected with the four freedoms, qualified by safeguard clauses. The Tunisian and Moroccan Agreements provide for “fully liberalising when the time is right” capital markets (Articles 33-35 Tunisia Agreement). This liberalisation would be on the part of the Mediterranean states; the TEU had already liberalised the EU’s movement of capital to third countries (EEC Articles 73b-g, as amended by TEU).

Competition Policy:

This area is like the Europe Agreements, and not as extensive as the Turkey Agreement. The EU’s standard clause, which appears in the 1975 Israel Agreement, is present in all three agreements, prohibiting restricting competition, abusing dominant positions, and using state aids to distort competition. The language follows EEC 85, 86 and 92. Beyond this, the Europe and Mediterranean agreements contain two new agreements. (1.) They discuss “criteria arising from the application” of EEC 85, 86 and 92, which in practice includes Commission, CFI, and ECJ decisions. As these agreements were to form the basis of a FTA, consistency was important. (2.) The Association Council must adopt implementing rules within five years.

Reflecting Turkish hopes for accession, the Turkey Customs Union Agreement goes far beyond this, copying EEC 85,86 and 92, and calls for Turkey to pass a competition law based on EC legislation and case law, and establish a competition authority before the customs union can be formed. The Europe and Mediterranean

agreements contain no such provisions. Regarding state aids, the Israel agreement is distinct from the Tunisian and Moroccan agreements and the Europe Agreements. These provide that what qualifies as “state aid” will be assessed according to situations described in EC 92(3)(a): “an area where the standard of living is abnormally low or where there is serious underemployment”. All agreements also stress transparency of aid, and mutual commitments for defining and enforcing intellectual property rights, in accordance with international agreements.

Approximation of EU Laws (in the Mediterranean):

This is likely in areas of competition policy and intellectual property. All countries assert their desire to promote EC technical rules and standards in industry and agriculture. Approximation of laws is stated as a desired good in the Tunisian and Moroccan agreements, but the content of that is left vague, reflecting the EU’s recognition that progress will be slow: “Co-operation shall be aimed at helping (Tunisia) to bring its legislation closer to that of the Community in the areas covered by this Agreement” (Article 39 Tunisia Agreement). In the Europe Agreements and the Turkey Customs Union Agreement, this is more specific. Only in the Israel Agreement, however, is the approximation of laws clause *reciprocal*: “The Parties shall use their best endeavours to approximate their respective laws in order to facilitate the implementation of this Agreement” (Article 55).

Economic, Social, Cultural and Financial Co-operation:

This co-operation were informal, and carried few firm obligations. While Israel is included in the financial assistance regulations the EU adopted for the Mediterranean area (Israel OJ 1975 L136/3), Morocco’s and Tunisia’s agreements (but not Israel’s) contain titles on financial co-operation. These set forth objectives such as modernising the economy, promoting private investment, and modernising economic infrastructure. The agreements set out financial dialogue, and allow for EU aid to meet these objectives. The Israel agreement, however, is distinct. It emphasises growth, employment, and *reciprocity* in economic co-operation: “the rapprochement of the economies of the

Community and Israel” (Article 42). Further agreements are called for in the 1996 agreement in the following areas: standards and conformity assessment, financial services, scientific and technical co-operation.

In social matters, the Tunisia and Morocco agreements address migration, social protection, family planning and mother and child programmes, and cover basic rights of Mediterranean workers legally employed in the EU: the “equal treatment” clause. The Turkey agreement and Europe agreements also addresses worker rights and equal treatment in the EU. In contrast, the Israel Agreement does not contain an equal treatment clause. Instead, it does address rules on aggregation, transfer of benefits and family allowances (Article 64). This can be attributed to the fact that because the 1975 FTA did not address equal treatment, it thus did not establish a precedent (Cremona 1996). More likely, Israel did not face the same social problems of mass migration to Europe as other Mediterranean and Eastern European countries, so this was not an issue.

The Institutional Framework:

Association Councils at the ministerial level, and Association Committees at the official level, are created by each Euro-Mediterranean Agreement; both have decision-making powers. The Association Council can resolve disputes, possibly referring them to arbitration. Either party can seek conciliation with the Association Council after an alleged breach by the other party, and can “take appropriate measures” to resolve this (Tunisia Article 86). This differs from the Turkey Customs Union Agreement and the EEA Agreement, in which associated states can take grievances to the EU decision-making institutions for resolution.

Israel's Diplomatic Positions

Israel's Principal Political Parties

Outside of economics, relations between the EU and EU member states and Israel are even more complex. Many Israelis feel that the European origins of so many of their compatriots, as well as the affluent, liberal democracy in which they live, make them in a

way “honorary” Europeans. Milan Kundera, accepting the Jerusalem Prize for Literature in 1988, famously (and romantically) remarked that

... the great Jewish figures, exiled from their lands of origin and thus lifted above nationalist passions, have always shown an exceptional feeling for a... Europe conceived not as territory but as culture. Even after Europe so tragically failed them, the Jews nevertheless kept faith with that European cosmopolitanism. Thus it is that Israel... strikes me as the true heart of Europe – a strange heart, located outside the body (quoted in Sachar 1999:195).

Put another, much more prosaic way, one Israeli official noted that membership in the European Broadcasting Association was of paramount importance to the country, because it ensured Israel’s participation in the Eurovision Song Contest, and thus maintained Israel’s “status” as a “European” country in this vitally important arena of popular culture (interview with Nachum).

Israel’s natural Euro-philía found diplomatic expression in a long-standing, reflexive support for the prospect of European integration (discussed in Chapter Two), and in a unity of the most basic goals for the Mediterranean region: peace, the promotion of secularism, and economic stability (discussed in Rhein 1995). Israel’s Labour party, especially, has fostered links with European socialists, particularly through participation in the Socialist International. Moreover, starting in the mid-1980s, some Labour politicians succeeded in creating diplomatic thaws in some formerly hostile European countries, thus forging new bonds and common goals between EU member states and Israel.

The example of Greece is a case in point. At the same time as Greece’s turn towards Europe, economic conditions for relations between Greece and Israel improved as trade increased. Coupled with this was Israel’s targeting of Greek opposition Neo-Democratic parties in the 1980s to cultivate closer Israeli-Greek relations. Sachar (1999) chronicles the “cajolery and sheer bulldog tenacity” of Israel’s diplomatic representative to Greece, Moshe Gilboa, who forged links with political and business figures after his appointment in 1986. Gilboa particularly targeted Constantine Mitsotakis, who became Prime Minister 1990, and extended *de jure* recognition to Israel that year. Gilboa also forged ties with academic and business figures, most notably persuading a group of business owners to sponsor a Greek-Israel Chamber of Commerce. This nascent

normalisation of Greece's ties with Israel was uniquely possible in the late 1980s and early 1990s, as Greece's closer integration within EPC allowed Greece to modify its foreign policy goals to fit into a trans-European framework.

The example of Spain provides an even clearer example of the pre-existing diplomatic links between Socialist politicians in Europe and Israel, as well as the renewal of much closer relations starting in the 1980s. Since 1977, Spain's Socialist Party had indicated it would consider establishing relations with Israel, though it maintained condemnation of Israeli occupation of post-1967 territory.²⁰ When Felipe Gonzales, who had long had personal ties with the Israeli Labour party, was elected Prime Minister in 1982, Israel sent a permanent representative to the International Tourist Organisation in Madrid. Israel likely would have broached the issue of diplomatic recognition, but its invasion of Lebanon that year made such a move politically impossible in Spain.

When it became clear that Spain was to join the EC, however, establishing relations with it gained importance in Israel, and Shimon Peres, when Prime Minister in 1983, targeted Spanish relations as a high priority for Israel, appointing then-MK Micha Harish as emissary. Both Peres and Harish had close relations with Gonzales through the Socialist International, and they worked closely to court Gonzales. Ten years later, during the Association Agreement negotiations, Peres and Harish would again find themselves working closely, though less smoothly, with Europe, as Foreign Minister and Minister of Industry and Trade, respectively. Spain's biggest obstacles to recognition of Israel were fears of Arab economic retaliation (as had been threatened in 1975), and the pro-PLO sentiments of the left wing of Gonzales' Socialist party; nevertheless, full relations were established in January 1986.²¹

²⁰ Despite Spanish overtures, Israel refused to establish diplomatic relations with Spain following the Second World War, saying it would not recognize a Fascist Government. After the death of Franco, in 1975, Israel made overtures to Spain, and King Juan Carlos announced in November of that year that Spain would indeed establish relations with Israel. After pressure from Arab allies, however, this offer was soon withdrawn.

²¹ The moderation of Spain's relations, once considered by Israel a "new Greece" within the Community, with Israel after accession reflect the eager Europeanisation of Spanish diplomacy overall (discussed in Nuttall 1992, Salomon 1996, Barb, 1996, Story 1991). As the Arab-Israeli conflict had assumed a high profile within EPC, it was imperative that Spain have diplomatic relations with all parties to it. The Netherlands particularly insisted on Spanish recognition of Israel as a condition of entry. Like Greece, however, though Spain accepted recognition of Israel as part of the *acquis politique*, it retained a distinctive position vis a vis Israel within the European context. In accepting the Venice Declaration, Gonzales nevertheless went beyond its conditions, specifying that "a just and peaceful solution...will have

Yet, despite the closeness of some, usually Labour, Israeli politicians to their European counterparts, and a feeling in Israel that Israel is somehow culturally European, there is also an extremely strong anti-European streak within Israeli consciousness and diplomatic behaviour, often (though by no means exclusively) associated with the right-of-centre Israeli *Likud* party and its antecedents.²² (While Labour and *Likud* have often governed in coalitions with a plethora of other Israeli parties, since the late 1970s, they have been Israel's principal political movements.) Perhaps no Israeli politician excites such expectations of anti-European stereotype as Menachem Begin, who served as Israel's first *Likud* Prime Minister from 1977 to 1983. As a *Herut* MK in 1951, Begin had organised a violent protest of 15,000 Holocaust survivors who threw stones at Israel's Knesset as it voted to accept the FRG's *Wiedergutmachung*, or reparations. His disgust at the thought of having relations with Germany found political resonance, and in the following years, mutated into anger at the FRG for helping to arm Egypt, especially for providing German scientists to develop German-Egyptian rocket projects.²³

It is ironic, and illuminative of the differences between Israel's Labour and *Likud* parties that while the leader of the prime antecedent party to *Likud* was opposing relations with Germany, the Labour official Shimon Peres, then Director-General of Israel's Ministry of Defense, along with Franz Joseph Strauss, was in 1957 organising secret arms

to be based on Israel's retreat from all of the Arab territories occupied since 1967" (quoted in Story 1991:67). It would later use initiatives affecting the Mediterranean to boost its influence within the EU, easing the long-standing Spanish fears of being a peripheral, middle-weight power, which were exacerbated within the context of EU co-operation.

²² This anti-European sentiment was given voice, for example, by Israeli author Amos Oz, another Jerusalem Prize winner whose following quote is a coincidental mirror image of Kundera's, above. In a fictional work, Oz puts the following sentiment in the mouth of a left-wing Israeli:

What are we doing squabbling with the Poles about who owns Auschwitz?What makes Auschwitz a Jewish site anyway? It's a Nazi site. A German site. As a matter of fact, it really ought to become a Christian site, for Christendom in general and Polish Catholicism in particular. Let them cover the whole death camp with convents and crosses and bells. Wall to wall. With a Jesus on every chimney. There's no more fitting place in the world for Christendom to commune with itself. Them, not us. Let them go on pilgrimages there, whether to beat their breasts or to celebrate the greatest theological victory in their history. ... It's quite right that a Jew who goes there to commune with the memory of the victims should see a forest of crosses all around him and hear nothing but the ringing of church bells. That way he'll understand that he's in the true heart of Poland. The heart of hearts of Christian Europe (1994:198).

²³ When the details of these were publicized in 1965, Israeli agents intervened to sabotage the rocket projects.

sales from Germany to Israel. Yet to characterise the *Likud* and its antecedent parties as non-engaging and Labour as the sole major party to advocate engagement with problematic countries is misleading. Following the 1973 “Yom Kippur” War, European Socialist parties turned away from Israel profoundly; though some politicians did indeed owe their acquaintanceship to international socialism, this resulted in little diplomatic closeness in the 1970s, much of the 1980s, and in many cases, beyond. (This extremely complex relationship is discussed in detail in Sachar 1999). Moreover, in later years, especially after the mid-1980s, right-of-centre Israeli parties behaved increasingly as right-of-centre parties in other developing nations often do, advocating fiscal responsibility (though, in a quirk of Israeli domestic politics, *Likud* generally spends more on social policies than Labour) and commercial privatisation.

Instead, *Likud* continued to be at odds with EU policies and expectations because the party in the mid-1980s adopted a platform of planning for eventual sovereignty over the territories Israel captured from Syria, Jordan and Egypt in 1967, and of refusing to negotiate with the PLO: both positions which were at odds with EC policy. In 1982, when then Prime Minister Begin oversaw Israel’s invasion of southern Lebanon, the bifurcation of *Likud* (and Israeli in general) and EC policies and desires vis a vis Israel and its neighbours was deepened further.

From a *Likud* perspective, and indeed, from a general Israeli perspective, European scrutiny is considered unwarranted. Yet, such are the complex links between Israel and Europe that Israel is very important to many Europeans. Even the smaller EU member states, including those with no direct strategic concerns or ties with Israel, have generally maintained strong domestic positions on Israel and the Arab-Israeli conflict. The religious significance of the region, and the adoption of the Palestinian cause by Left-wing parties in Europe, has led many Europeans to feel that Israeli politics are personally relevant to them. Israel's relatively open press laws ensure widespread media coverage, and many foreign journalists use Israel as their Middle East base, which further encourages international scrutiny of the country. These religious, symbolic and practical factors partially explain the continued fascination of many Europeans with Israeli domestic politics, yet they do not entirely explain Israel's centrality to European foreign policy.

Some Israelis see in Europe's concern for their country traces of irrationality. In the words of the former editor of the *Jerusalem Post* (later a cabinet minister under Netanyahu):

The very fact that this little dot on the map, which contains less than one thousandth of the world population, has been a target of 30 percent of the UN's condemnations - this in an era of totalitarian repressions, wholesale massacres, expulsions of vast populations, expanding slavery and unspeakable acts of genocide - is a measure of the anti-Israel venom. The world media have played a crucial role in this development. Most journalists seem to view the Arab-Israeli conflict...as a cross between a war of national liberation and a civil-rights struggle, between Algerians fighting French colonialists and Alabama blacks resisting white sheriffs (Bar-Ilan 1993:ix-x).

This viewpoint is naive in regard to countries with complex understandings and concerns in of Israel, but it has some validity in explaining the anti-Israel positions adopted by, for instance, Greek or Irish Socialists. The simplicity with which some European parties view the Middle East has harmed Europe's credibility overall in Israel, by convincing many Israelis that European attitudes toward the region are irrational. Within this context, the moderating influence of EPC has been useful in forging a common, centrist policy that carries significantly more weight internationally than that of the smaller EU member states. However, the feeling of being wounded remains amongst many Israelis. It informed Israeli negotiators, who at times felt that the EU "owed" something to Israel (discussed further in Chapters Six and Seven).

Direct Export of Palestinian Products

The central commercial dispute underpinning EU-Israeli diplomatic relations is that of direct Palestinian exports from territories captured by Israel from Syria, Egypt and Jordan in the 1967 War. The Community's decision to press for Arab exports from these to be treated separately from Israeli produce was a clear call for the establishment of a proto-Palestinian state, at a time when Israel refused to consider this possibility, and when the principal proponent of such a state, the PLO, was actively engaged in terrorism.

Besides forming an issue around which the Community was able to form an seminal political consensus, the Community's pressing for independent, direct Palestinian exports is also an early example of the Community's use of trade rules to press for political changes. Israel, however, has resisted treating Palestinian produce as its own.

Both Israel and the PLO (in a rare case of direct negotiation) reaffirmed the Israeli position that the occupied territories and Israel form a single trade envelope as late as 1995, in the Paris Accord. The Community, nevertheless, has since 1986 rejected Israeli-Palestinian unity in exports, when it unilaterally called for direct exports from the occupied territories,²⁴ and would later dismiss the Israeli-PLO negotiated accord. Long a barrier to closer European-Israeli relations, differences between the Community and Israel in this matter contributed to the imposition of partial sanctions on Israel in 1988, and later dogged the ratification period of the Association Agreement.

In 1986, the Council consolidated the disparate sources of Community aid to Palestinian Arabs, totalling ECU 3m in 1987,²⁵ and began a new process of distributing this aid directly to the PLO, instead of through governmental or inter-governmental agencies.²⁶ As part of this new aid distribution method, the Council also adopted, in October 1986, Resolution 33/63, according the preferential customs status for agricultural products already extended to Arab countries in the region to Palestinian Arab communities in the occupied territories. This had ramifications for labelling laws, but more importantly, created European pressure on Israel's Citrus Marketing Board and AGREXCO, Israel's agricultural export cartel, to allow produce grown by Arab

²⁴ The Community's decision to cool relations with Syria after a Syrian government official, Nezar Hindawi, had attempted to place a bomb on an El Al aeroplane at Heathrow airport in October 1986, worried the Arab world. Predictably, this incident pitted France, which opposed censure of Syria, against Britain, which felt a need to react to attempted terrorism on its soil. After fifteen days of negotiation, the Community adopted a weak protestation to Syria. Later that year, a permanent Working Group on political aspects of terrorism was established within EPC, largely at British urging. Against this background, renewed attention to the issue of Palestinian self-determination reassured Arab states that the EC was not about to become critical of Arab states' actions regarding Israel, overall. This was particularly easy given the rotation of Israel's premiership from Labour's Peres to *Likud's* Shamir in 1986, and Arafat's moderation that year, when he implied the PLO might accept UN Resolution 242, which implicitly recognises Israel's existence.

²⁵ In contrast, the USA spent a yearly average of \$9.37m on Arabs in the occupied territories between 1975-1984 (Greilsammer 1989:38).

²⁶ The Community approach of funding the PLO directly is in contrast to that of the United States, which distributes aid through NGOs.

producers to circumvent Israeli restrictions and tariffs. This had real economic goals. From the 1970s, Arab producers had become increasingly dependent on Israeli markets, particularly for the agricultural produce, which formed the basis of the Palestinian economy. Both Israeli organisations such as AGREXCO, and Jordanian marketing restrictions, had limited Palestinian marketing, and resulted in a mere 2% of Palestinian produce being sold directly to countries other than Israel and Jordan in 1986 (Greilsammer 1989:39).

Predictably, Israel refused to implement the European demands, for a number of reasons. Both Labour and (particularly) *Likud* resented European goals of Palestinian statehood. Israel's agricultural lobby reacted strongly against the proposal, as well, as did the marketing boards. Israel refused to allow direct Palestinian export from its ports (though Jordan and Egypt did allow the few producers who engaged in direct export to use their air and sea-ports). As political relations worsened, the issue of direct Palestinian exporting and marketing gradually gained prominence in European-Israeli relations. Although there was agreement on some issues (such as listing cities of origin, Arabic labelling, and direct contacts between Palestinian producers and European importers), other differences, over packaging, marketing, and rules of transport within Israel, remained. As the deadline for signing the planned Fourth Additional Protocol loomed in 1987, the issue of direct exports emerged as the primary difference between Europe and Israel, and eventually led to its temporary non-ratification by the EP. Eleven years later, the EP again held up ratification of protocols to the 1975 FTA over this issue, this time delaying financial protocols 22 months until January 1990.²⁷

Although the decision was taken on economic grounds, the EC's treatment of the Palestinians was necessarily highly political. At a time when Jordan was distancing itself from the PLO, the Community's decision to encourage direct export strengthened that organisation once more. Direct exports also fit into the Community's six-year-old stated preference for an independent Palestinian state; encouraging the trappings of economic independence was clearly a step on the (long) road to a degree of political autonomy. Moreover, the programme strengthened European influence in this matter. As the first

²⁷ The parallel issue of exports from Turkish-occupied Northern Cyprus has proved similarly contentious, for similar reasons.

Community programme in an area under military occupation, that the EC chose trade as its means of response indicates the greater flexibility of commercial decision-making than EPC.

Israeli Foreign Policy in 1990s

The international recognition that Israel received following the 1991 Madrid Conference led to a psychological change in the country, which had its expression with the new attitude among Israelis who began to envision the practical benefits of wider recognition of their country (discussed also in Chapter Five). This resulted in a new appreciation of traditional diplomacy as opposed to the strong-arm force in which many in Israel had traditionally had greater faith. In the past, Israel had displayed a duality of foreign policy expectations, vacillating between a cynical expectation of universal hostility and an expectation that mere recognition and bare tolerance in the international community was the most that Israel could hope for. In the early 1990s, however, Israelis began to assert a more robust view of themselves as possessing a unique political philosophy.

Israel's Foreign Ministry during the 1990s adopted a regional approach to its foreign policy, and under Shimon Peres' guidance, began to develop a political strategy of identifying and securing regional hegemony as strategic allies and trade partners. Within the EU, key countries were seen to be Germany and, in the Mediterranean region, Spain (after it recognised Israel in 1987), and Italy, which was seen to have been significant in driving EU Mediterranean policy. When the Vatican recognised Israel in 1993, Israeli attempts to woo Italy were increased. Also during this time, Israel's Foreign Ministry took a conscious decision to augment its bilateral ties with multilateral diplomacy. Thus, Israel's presence was increased at the UN, EU, and other international organisations. As its relations with traditional enemies was increasingly being conducted directly, this heightened multilateral role was directed towards other political goals, such as enhanced economic relations internationally.

The experiences of the early 1990s, when Israel experienced massive increases in exports to China, India, Japan, Turkey, the former Soviet Union and Eastern European nations, all countries which had earlier refused even to recognise Israel, convinced many in Israel's Foreign Ministry of the economic benefits of a more active, internationalist approach to foreign policy.²⁸ The flurry of recognition and normalisation of relations during this period enabled Israel to cultivate secondary regional allies in Europe, as well. After Netanyahu's election as *Likud* party leader in 1992 (when he effectively became Israel's "shadow" prime minister), his higher focus on the economic challenges of the EU influenced public debate in Israel, as he posited that the solution to the marginalisation of Israel in the European agenda was engagement on all fronts, particularly economic. Moreover, at this time, there began to be a recognition in Israel that if union brought less political cohesion, Israel could exploit this in its commercial bargaining (Tovias 1995). The extent to which this occurred is discussed in Chapters Six and Seven.

EU and the Peace Process

Since the Venice Declaration, the EU has called for an internationally-overseen multilateral conference, involving the PLO, to resolve the Arab-Israeli conflict.²⁹ Israel

²⁸ This new-found economic success has also been helped by what Kleiman refers to as a *Protocols of the Elders of Zion* factor (1994). Referring to the infamous book alleging an international Jewish financial conspiracy, he notes that Israeli diplomats themselves "seem intent upon exploiting to their country's advantage this presumed ability to mobilise Jewish capital, business leaders, opinion-makers and power-brokers in the united States and elsewhere on behalf of overseas governments willing to improve relations with Israel".

²⁹ An integral part of the EU's traditional stances regarding Arab-Israeli peace talks has been belief in a massive "peace dividend" accruing to Israel and the greater region as a result. While some major Israeli politicians and business-people do see economic gain emanating from enhanced intra-regional trade (Peres, Gaon), the peace agreements between Israel and Jordan and the PLO in the early 1990s, and even the resulting weakening of Arab League boycott compliance has not revolutionised Israeli trade with Arab countries. Kanovsky (1995) questions the entire concept of the peace dividend in the context of the Middle East, citing two main reasons: that military spending is unlikely to decrease, even with regional peace treaties, and that negative economic policies in Arab countries prevent prosperity. Israeli exports were set to grow throughout the 1990s with the non-Arab world, as the Arab League boycotts lapsed, even before the Declaration of Principles was signed in 1993. Rather than the search for gains, loss-avoidance can instead be seen as a credible motive for engaging in peace talks (Stein 1993). With the *intifada* significantly harming Israel's prestige internationally, the Labour party was able to capture a clear majority and significant political momentum in the 1992 Israeli elections. A feeling of crisis allowed a clear centre-left ideology to capture the popular imagination during Rabin's primiership; this, more than the eventual economic gains of regional peace, motivated Israel's eventual participation in internationally-brokered peace talks.

rejected this idea until 1992, and refused to recognise the PLO as anything other than a terrorist organisation, attempting instead to develop alternative Palestinian representation. EU-Israel relations were particularly strained under Yitzhak Shamir's leadership from 1988 to 1992, when the EC's and Israel's political attitudes towards each-other were frequently openly hostile. In January 1989, Shamir complained to EP Chairman Lord Plumb that the Community's pro-Palestinian stance meant that it could never serve as peace-maker in the Middle East.

These political strains occurred during the EU's Single Market Programme, and Israel was left in the frustrating position of wanting to renegotiate its trade relations with the new Europe, and yet being unable to do so because of intractable problems between the EU and *Likud* administration. In May 1992, Israeli Foreign Minister David Levy attended a Council of Ministers meeting, at the same time as the EU was sponsoring a multilateral talk on Middle Eastern co-operation (which, as it featured PLO representatives, Israel was boycotting). Levy requested a renegotiation of the 1975 FTA. The Council decided that while Israel continued to boycott Community-led efforts at stimulating regional trade, additional trade concessions from the EU could not be forthcoming.

In addition to the erosion of Mediterranean trade positions, shared security concerns and the need for co-operation on international issues like the environment and migration, the start of peace talks between Israel and its Arab neighbours presented yet another external condition in the region to which the EC had to respond during this period. This aspect of EC-Israeli relations highlights the duality with which the Community has viewed Israel; at times both "Middle Eastern" and "Mediterranean", and with a strong and controversial tie to Europe historically, Israel has defied easy diplomatic categorisation. As Israel embarked upon peace talks with Jordan and the PLO, however, the EU increasingly saw Israel as a Middle Eastern country, participating in for a such as the Barcelona Process, and not a Mediterranean country of the type envisioned when creating the GMP or even the RMP. The peace process also identified Israel even more closely with America in the eyes of EC policy-makers (discussed in Tovias 1996), and might thus have distanced it from the EC had the peace talks not presented the Community with an opportunity to raise its international stature in this new diplomatic arena.

Both the EP and Commission desired throughout this period for the Community to be more active in world affairs, and early 1990s saw the EC deliberately try to boost its international presence. This was partly aided by external countries' shift in perception, for instance the recognition of the EC by East European countries in 1988; by 1992 the number of countries with diplomatic relations with the Community had increased to 140. During this time, the Commission increased its representations, sending more delegations to outside countries. Regarding the Middle East, In addition to real concerns about Israel, European support of the peace process gave the Community an opportunity to achieve a prestigious foreign policy success. Whereas the 1979 Camp David Accords, which brought peace between Israel and Egypt, enhanced expectations of American diplomatic capabilities, the EU had no such experience. As the peace process developed in the early 1990s, therefore, there began to be a determination in Europe that the next peace agreement involving Israel would be at least partly a European concern. Just as the Venice Declaration was an important milestone in the development of a common European foreign policy, so the desire to participate in the peace process of the 1990s could be seen as a similarly significant foreign policy action for the EU.

The Gulf War also galvanised European action in the Mediterranean region, and specifically in relation to Israel. In addressing the EP on 30 December 1991, Commissioner (DG-IB) Abel Matutes, who was then in the midst of helping to define the RMP, used European inaction during the Gulf War, and the case of American leadership, as a reason to call for a stronger European presence in international affairs. He identified three conditions on which the new Community policy ought to be based. In addition to showing the wide scope of Matutes' evolving plans, they illustrate the particular importance by which Israel continued to be viewed by the Commission, even in the midst of a crisis elsewhere in the region:

1. We must be capable of adopting a *global* approach to the problem, so as to include all the issues, all the questions that are outstanding, whether they are the competence of the Community in the strict sense, or matters of Political Co-operation.
2. Within that global approach, that analysis of all the problems at present outstanding in the region, *between Israel and the Arab countries* within secure and mutually recognised frontiers; a security plan for all the

countries of the region and a plan for economic and other co-operation for the Middle East-Mediterranean region as a whole.

3. Realism. The issues are difficult. Much time will be needed to solve some of them, and consequently a gradual and differentiated approach must be adopted. In some cases we shall only be able to advance as a Community; in others, a broader, multilateral framework will be necessary; even the framework of the United Nations (European Commission Doc. No. 3-399/3, 1991, emphasis added).

These emphases would be born out in the Community's actions on the eve of negotiations for the 1995 Association Agreement. Marrying the "global approach" with specific concerns over Israel/Palestine, the Community embarked upon a process of renegotiated Association Agreements in the context of innovative policies within renewed Mediterranean relations. In addition to allowing the EC to become more involved with the region, the peace talks helped it to negotiate with Israel because economic negotiations were thus seen as "reward" for conciliatory political behaviour. The relation between trade negotiations on real economic issues and trade negotiations for perceived political ends proves, however, to be far more complex, and is discussed in Chapters Six and Seven. Overall, however, the EU expected the peace process to last for a long time, and saw participation in it as a way of reasserting their role in the region. As can be seen from the EU's behaviour in its role of gavel-holder in the multilateral parts of the negotiations, too, the EU envisioned the Israel-Jordan Palestine area as one of great economic and political possibilities, and as vehicle for the EU to spread its influence throughout the region.

Since 1991, the USA had overseen the Arab-Israeli peace plan (later displaced by the Oslo plan), with the EC's only role being advisory in the context of the multilateral part of the negotiations. Israeli opposition to European involvement was dropped in June 1991 when the EC promised a renegotiation of the 1975 FTA; in return, the EC chaired the multilateral Regional Economic Development Working Group. These negotiations had as their goal "laying the foundations for a new era of peaceful and co-operative relations in the region" across a broad area "ranging from the Gulf states right through to the Maghreb" (Peters 1996:32). It was an ideologically ambitious objective, and

therefore appealed to a Europe that had long thought of the Arab-Israeli conflict in the broad terms of a primarily moral debate.

Multilateral talks began in Moscow in January 1992, and established five working groups: arms control and regional security; economic and regional development; refugees; water resources; environment; and a steering group. These groups met regularly until May 1996 when, at the request of Arab states frustrated by lack of progress in talks over Israel's continued deployment of troops in Hebron, most were halted. Though they remained in existence, by 2000, the multilateral working groups had ceased to feature prominently in any mainstream proposals regarding the Middle East.³⁰

³⁰ For a more detailed discussion of the peace talks, see Peters (1999).

<i>Working Group</i>	<i>Mandate</i>	<i>Gavel Holder</i>	<i>Co-Organisers</i>
Environment	Oil spill cleanup, demographic studies, establish regional academic centre	Japan	EU, USA
Refugees	Establish joint Israeli-Palestinian-Jordanian-Egyptian committee for future bilateral agreements, compile current data	Canada	EU, USA, Japan
Water	Data-collecting, water supply, conservation, regional co-operation	USA	EU, Japan
Arms Control and Regional Security	Confidence-building, establish regional crisis resolution centre, foster long-term regional security and arms control	USA	Restricted. Palestinians invited only in May 1993; EU invited in May 1994
Regional Economic Development	Encourage intra-regional trade and investment, develop regional economic infrastructure	EU	USA, Japan

In these, the EU's chairmanship was extremely dynamic and productive. Being restricted (until 1994) from the Arms Control and Regional Security Group, which was seen as the immediate crux of the talks in general, made the Community even more determined to make something lasting out of its own groups. Also, regional economic development was ripe to start in a few countries; centred on Israel and a nascent Palestinian state, which would be heavily dependent on Israel, and the EU's approach to this goal was heavily reminiscent of its own early, post-war beginnings. Negotiations got seriously under way after the Israeli-PLO Declaration of Principles was signed in 1993, and found expression in the Copenhagen Action Plan (below), which earmarked Ecu 9.2m to the project. The EU's Regional Economic Development Working Group was divided into categories which closely resembled the structure of the EC's own integration arena, the Commission, with various countries assigned subjects in which to lead the negotiations:

**Leadership in Subject Areas of the
Regional Economic Development Working Group**

EU as a whole	networks
France	communications and transport
Spain	agriculture
UK	financial markets
Germany	trade
USA	training
Canada	bibliography
Egypt	institutions, sectors, and principles

The EU's vision was set out most clearly in the June 1994 Copenhagen Action Plan, which called for the free movement of people, goods, services, capital, and information. One could hardly draw a closer parallel to the original four freedoms of the ECSC; the EU clearly approached its mandate of the peace talks as a repetition of Europe's own experiences. Due to procedural delays over whether Europeans would sit on the Plan's monitoring committee (It was eventually decided that Egyptians, Jordanians,

Israelis and Palestinians only would make up the committee.), the committee finally sat in Cairo in September and December 1994. Even before this got underway, however, the group was used by outside organisations to monitor the economy of the occupied territories. At the October 1992 meeting in Paris, the group requested that the World Bank undertake a study of the territories, and come up with a list of goals and projects for the region. This Bank's data was later used to distribute the \$2.4bn in international aid pledged to the PA at the International Donors Conference, held in Washington in October 1992.

Conclusions

The EU-Israel relationship has been unique both in its role in forging common European positions, and also in being distinctly substantive within the context of wider Euro-Mediterranean relations (particularly in trade). While the Community and Israel have differed, at times greatly, over diplomatic issues, particularly before the start of multilateral peace talks in 1992, they have remained engaged with each other, particularly in the commercial sector.

Formulating diplomatic responses to Israel, particularly to Israeli occupation of lands gained in 1967, has been used as a means for EU institutions, especially the EP and the Council, to raise their profiles and gain consensus for ambitious courses of action. Few other conflicts gained the same urgency or unanimity of opinion. In engaging with Israel, the EU was able to reflect a broadly cohesive popular opinion, avoid conflict with any member states with historic or colonial links to the country, and was able to define itself in opposition to American goals for the region. Having taken a strong stance on the Arab-Israeli conflict, much of the good-will experienced by Israel during the negotiations with Europe between 1993 and 1995 can thus be attributed to European encouragement of Israel as it pursued the course of action long advocated by the Community, and participated in multilateral peace talks. The inclusion of the EU and EU member-states as gavel-holders in these negotiations served as an additional inducement to Community munificence to Israel in the commercial negotiations.

At the same time, the Community began to identify much more strongly with commercial interests. Although the EEC had historically viewed foreign economic policy

as a means of promoting political goals, this link became more overt with the TEU. Internally, extensive commercial regulation, and the emergence of an internal market as a central EC goal, closely identified the Community with industrial policy, and afforded industrial interests enhanced access to and value within Community policy-making. Encouraging internal competition and external competitiveness were identified with institutional reforms in the SEA, and helped the EC to come to regard its value at least partly as an example of free trade to hold up to its southern and eastern neighbours. In the context of EU-Israel commercial relations, this emerging Community identity had two main effects. It ensured that mutual liberalism would gain priority in the negotiations, as the Community sought to export its vision of free competition. The enhanced position of private industrial interests within the EU also ensured that an additional level of bargaining, at the private level, informed the diplomatic negotiations.

Chapter Four

The EU's Ability to Negotiate and Ratify External Trade Agreements 1984-1995

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Chapter Four

The EU's Ability to Negotiate and Ratify External Trade Agreements 1984-1995

Introduction

The Community's Common Commercial Policy (CCP) has since the 1960s been a means of affecting foreign regions through non-political (economic) means, on which EU-wide consensus is easier to achieve than through high-diplomacy (Smith 1994, Ugur 1997, Rousso 1995). The ongoing struggle within the Community between its intergovernmental and federal natures as it constructs commercial policy continues to present negotiators with a uniquely elaborate system. This structural complexity and tension is exacerbated by the changing nature of international trade itself:

EC Commercial policy decisions also affect an ever-increasing number of 'domestic' policy preferences. When the theories of customs unions were written in the 1950s, the trade agenda was essentially about tariffs. In the 1970s non-tariff barriers (such as subsidies, anti-dumping actions, technical barriers to trade, and preferential government purchasing policies) were added. In the 1980s regulatory barriers were added in services, as well as structural barriers to market access, such as the existence of public monopolies or the absence of effective national competition/anti-trust policies. Now environmental law, labour law, and investment and company law have already found their ways on to the...agenda. The distinction between 'domestic'...including EU...policies and 'trade' policies no longer exists and a much wider range of domestic constituencies must now be seen as endogenous factors in commercial policy (Woolcock and Hodges 1996:304).

As the EU's trade remit evolves, CCP emerges as a means of influencing third countries in ever-wider arenas. And as the spectrum of domestic concerns affected by the EC's common trade policies expands, the institutions negotiating and ratifying those agreements become more subject to targeted lobbying by an ever-widening range of private, industrial, ethnic and foreign interests.

Changes in Negotiation between the EC and Third Parties 1984-1995

The Community's external trade relations are defined in EEC Article 3 as within the Community's competence, set out in detail in EEC 110-116, altered slightly by the Treaty on European Union (TEU) in 1993. While mandating agreements and ratification is left to the Council of Ministers, both the opening and conducting of negotiation is entrusted to the Commission, "in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it" (EEC 113). The resulting "113 Committees" vary from topic to topic in their constitution, and this can lead to variable strengths in inputs from the Council of Ministers. For example, whereas Agriculture Ministers meet regularly, Trade Ministers do not, resulting in a freer hand for the Commission in industrial areas than some others. When issues are particularly sensitive, they are referred to Coreper, and then to the Council. The TEU allowed Member-States, the Council, or the Commission to refer external agreements to the ECJ to rule on their compatibility with the Treaty of Rome. More significantly, TEU innovation allows the Community to use economic relations as a tool of political negotiation: breaking off trade as a part of the new CFSP.

EEC 112 mandates harmonisation of export aids, and EEC 113 calls for the "uniform principles" of tariffs within a Common Commercial Policy (CCP) (although EEC 115 does allow for Member-States to impose individual quotas or voluntary export restraints, with authorisation from the Commission). The CCP thus mandates a Common External Tariff (CET). Since 1963, negotiations on the CET in international forums such as GATT have been conducted on behalf of the Member-States by the Commission, mandated by and in consultation with the Council of Ministers.¹ GATT compliance requires the CET to be maintained at a level at or below an average of earlier national import tariffs; from 1962, however, the Community has departed from this principle of non-discrimination. The Community negotiates a range of preferential external trading arrangements, including, in descending order of reciprocity, Accession Agreements (TEU

¹ This competence was split in 1994 by an ECJ ruling. Following divisions in the Uruguay round of negotiations, member-states gained shared competence to negotiate intellectual property rights and some services.

Title VII, Article O), Association Agreements (EEC 228, 238), Trade Agreements (EEC 110-116), and Trade Agreements with Aid Provisions (131-136).²

Association Agreements allow the Commission to stray into non-economic territory. Between 1987 and 1993, the Commission negotiated Association Agreements, and the Council ratified them, subject to Parliamentary approval; the TEU removed the SEA-imposed addition to EEC 238, altering Parliamentary input into Association Agreements to require a simple majority for assent, while the Council of Ministers provides final, unanimous, approval. Since 1993, EEC 228 allows the Council to (unanimously) conclude Association Agreements without Parliamentary input, effectively granting the Commission greater power by decreasing its burden of domestic ratification. In practice, as will be seen in this thesis, Association Agreements conducted under EEC 228 and 238 are done in much the same way as ordinary trade agreements conducted under EEC 110-116, with the Commission assuming a co-ordinating role, and consulting with the Council only intermittently through committees.

Association Agreements serve both as pre-accession agreements, and as substitutes for the promise of accession. In recent years, Association Agreements have been considered in three groupings: the European Economic Area (EEA) Agreements, Europe Agreements, and Development Association Agreements. The first, extended to former EFTA members, were designed to offer an alternative to Community membership for West European Member-States; the second, extended to countries in central and Eastern Europe, overtly imply, though do not guarantee, eventual accession. The Association Agreements concluded with Greece in 1961, Turkey in 1963, Malta in 1970 and Cyprus in 1972 mentioned eventual membership, and are similar to the Europe Agreements negotiated in the 1990s. Development Association Agreement is a catch-all phrase, encompassing the upgrading of the trade agreements with Maghreb, Mashreq and Lomé/Cotonou states.

Association Agreements go beyond mere trade relations, encompassing scientific and cultural co-operation, trade promotion, and other ad-hoc related arenas. The difference between Association Agreements and ordinary trade agreements can be

² EEC 110-116 governed the GMP, in which EU-Israeli relations took place before 1994; the EU-Israel Association Agreement was negotiated under EEC 228 and 238.

considered that between distributive politics, and redistributive ones, in which potential “winners” and “losers” are created, leading system-wide interests and coalitions to fight over the distribution of costs and benefits. Lowi (1972), and later Wallace and Wallace (2000), identify a further, third policy type: the constitutive, in which the political system is redefined, leading to further differences between potential winners and losers. To the extent that Association Agreements can be seen as precursors to accession, the political questions raised amongst Europe-wide interests can extend from contests over distributive and redistributive goals to constitutive issues of the Community overall.

Although approximately 75% of the Community’s external trading agreements (120 countries) are preferential (Church and Phinnemore 1994:184), they must conform to GATT rules. These stipulate that preferential agreements must lead eventually to free trade areas or customs unions, encompassing all goods, with a few specific exceptions. Frameworks such as the various Mediterranean policies, discussed below, which ostensibly have the eventual establishment of free trade unions as their goal, should therefore be considered in this light. Nevertheless, at the start of negotiations with Israel in 1993, the EU employed a number of preferential agreements. Free Trade Agreements, featuring largely liberalised trade in industrial areas, exist with the EEA, EFTA, and Israel (since 1975). Association Agreements, featuring free access for industrial goods into the EU have existed since 1961 for Greece, since 1963 for Turkey, since 1970 for Malta, and 1972 for Cyprus. Customs unions were in the early 1990s planned with Turkey and Malta in 1995, and Cyprus in 1998.

The Europe Agreements created with the Czech Republic, Slovakia, Hungary and Poland in 1991 and with Bulgaria and Romania in 1993 envisioned FTA established over 10 years in industrial areas. In 1993, the EU’s relations with Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia were governed by co-operation agreements (since 1975/6), allowing free access for most industrial and agricultural products by 1995 with no reciprocal obligations. The Lomé Convention of 1990, applying to 69 ACP countries, provided for free access into the EU for industrial and some agricultural products, and separate commitments to import sugar and bananas from some signatories under the separate Sugar Protocol and Protocol on Bananas. The GSP has, since 1971, proposed yearly arrangements for specific industrial and some agricultural products with approximately 130 developing countries and 20 dependent territories.

Council of Ministers

Negotiation:

The initiator and the final ratifier of the Community's international treaties,³ the Council's formal role in treaty negotiation is limited to representation by its 113 Committee, which is mandated to work alongside the Commission in negotiations with third parties.⁴ In practice, however, the input of the Council on negotiations is much greater. For although the functions of the Council and Commission are technically quite separate, many instances of co-operation have evolved, through the extensive network of committees under the Council and the Commission, effectively merging the functioning of each institution into a single negotiating body.

In cases of initiating a review of trade procedure or status, as with the decision to renegotiate the 1975 EU-Israeli FTA in 1993, the Council's role as sole actor can become muddled. Under anti-dumping and safeguard regulations, complaints from Member-States or companies can spur legislative action. This power of initiation was strengthened in 1984, as European companies' influence over Community goals and procedure was helping to bring about plans for the SEA, to extend the ability to trigger trading action against non-member countries. Regulation 2641/84, on the strengthening of the common commercial policy in the area of illicit commercial practices, enabled individual companies

³ EEC 114. EEC 115 allows a derogation to the Member-States in exceptional cases.

⁴ The Treaty of Rome mandates a Council presence at negotiations between the Commission and outside government representatives:

(1) After the expiry of the transitional period the common policy shall be based on uniformly established principles, particularly in regard to tariff amendments, to the conclusion of tariff and trade agreements, to the establishing of uniform practice as regards measures of liberalisation, to export policy and to commercial protective measures, including measures to be taken in cases of dumping or subsidies.

(2) The Commission shall submit proposals to the Council for putting into effect this common commercial policy.

(3) Where agreements with third countries require to be negotiated the Commission shall make recommendations to the Council, which shall authorise the Commission to open the necessary negotiations. The Commission shall conduct these negotiations in consultation with a special Committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may address to it.

(4) The Council shall, when exercising the powers conferred upon it by this Article, act by qualified majority vote (EEC 113).

or citizens to impel the Commission to investigate complaints about trade with specific countries. This does not represent a complete dilution of the Council's powers, however, for while this was meant to be done in a separate committee from those normally involved in foreign trade negotiations, the special committee mandate by 2541/84 is, in practice, in the words of one lobbyist, "generally subordinate to" the Article 113 Committee.⁵ Nevertheless, this remains a significant institutional change, transferring some power of initiation to private actors at the domestic level.

Even when the Council of Ministers mandates the opening of negotiations with an outside country, the form this takes necessitates informal co-operation with the Commission. Acts that extend authority to the Commission to enter into negotiation often do not stipulate the end goals of the talks; instead, the content of the negotiation is frequently left to the Commission and the 113 Committee to decide in unofficial collaboration. In cases where the Council withholds a formal mandate for negotiation until very late, this informal co-operation can be seen even more clearly. That the Council is able to give last-minute authorisation to negotiate particular trade issues is evidence of extensive dialogue between the Council and Commission beforehand, allowing those institutions to maintain relatively clear foreign trade objectives in their dialogue with outside interests, even where no formal negotiations are yet in evidence. One illustration of this is the GATT's 1986 Punta del Este declaration, which was debated extensively by the Commission, the 113 Committee, and occasionally by the Council of Ministers, which was consulted by the Commission, 1985-6. The Council only extended formal powers to sign the Uruguay Round's agenda on the day that the declaration was adopted. Although this example took place within the constraints of an external negotiating forum, it shows the extent to which the Commission can consult with the Council even where no formal mandate for foreign negotiation yet exists.

The structure of the 113 Committee also aids co-operation. The Council members of the Committee are limited to full-member titularies, usually the senior advisers to their national foreign ministers, and deputy *suppleants*. Some Member-States draw *suppleants* from their foreign ministries, at a level lower to the titularies; other members use non-

⁵ Internal document, professional public affairs company, Brussels.

governmental experts.⁶ Because most Member-States' foreign offices, from which 113 Committee officials are drawn, have a high degree of continuity, most of the 113 Committee members know their domestic officials and fellow 113 members well, are used to each other, and so act more efficiently on the Committee. The result tends to be negotiation by consensus; indeed, the internal workings of the Council of Ministers in cases of external trade negotiations have been compared, by one EU lobbyist, to Japanese-style consensus building.⁷ This is further encouraged by the qualified majority required in the Council in cases where Article 113 was involved in the negotiations. The co-operative style of the 113 Committee is reinforced by the fact that most members are experienced and have an intimate knowledge of their governments' foreign policy goals and preferences, and thus retain confidence in their ability to determine those positions their national ministries will accept, without having to query every decisions. Though some states, such as France, are stricter than others about maintaining direct control of their 113 Committee members, all representatives know that the negotiations they inform will have a chance of later being ratified only if their Member-States and relevant ministries approve.

Another aspect of the Council's complexity is the rotating presidency, during which Member-States are able to highlight specific issues or legislation. Israeli negotiators during 1993-5 were very concerned with the presidency of certain states setting the tone for negotiation, though generally it was found that even states perceived as hostile did not negatively affect negotiations during their presidency (discussed in Chapter Seven). Instead, the most influential presidencies for Israel were most likely Spain's (feared in Israel nonetheless because of Spain's strong agricultural interests), which saw the initiation of the renewed Mediterranean Policy in 1989, and the Barcelona Euro-Mediterranean Partnership Conference in 1995, and France's and Germany's.

Before Maastricht, the Presidency was constrained by the Council of Minister in formulating EPC, but was able to influence policy through the use of informal Council summits, the use of the Troika as adviser within the EC, through spreading specific

⁶ In most Member-States, the level from which titularies comes is that under the official who directs and entire department; in the UK, these are drawn from the level of Designated Deputy Secretary.

⁷ Internal industry document, *op cit*.

messages on foreign visits, and through informal contacts with Council members. The specific duties of the president have been clarified periodically, in 1979 and again in 1987, when it was introduced that the Council must vote on initiatives of the Presidency state. In 1993, the President gained the right to draw up a formal work programme, propose issues for debate, call written votes on important questions, and chair meetings before their presidential term for issues related to their work programmes. The 1993 changes also raised the profile of the Council Secretariat in the Presidency's work, thus giving the government holding the Presidency added resources within the Council (and giving the Council Secretariat more influence over each passing Presidency).

The Council of Ministers is generally lobbied only indirectly by independent commercial interests: through Member-States' various ministries, or Coreper. Hayes-Renshaw and Wallace (1995) note the "nested games" that exist as various government ministries, themselves influenced by a myriad of sources, vie for influence within the Council. Thus, during a member state's presidency, or in areas in which a particular state is strong (such as Spain for fisheries, or Portugal for textiles), domestic interests will have a stronger influence through their national Governments. (This was seen in the specific case of Bordeaux sweetcorn producers during the EU-Israel negotiations, discussed in Chapter Eight.) In cases like these, state-based interests influence the Council through the sheer weight of pressure they are able to exert on their national governments, making their interests those of national priority. The location of national interest groups' influence is also important. Increasingly, Foreign Ministries take on the role of co-ordinating national positions in the Council, rendering domestic interests with influence here particularly successful. With the exception of Austria, no member state maintains a representative of its industrial association within its Permanent Delegation to Coreper, which would give those industries represented still more influence.

Industrial lobbyists also target the Council through the Commission, which itself both participates formally in and lobbies Council meetings (Donnelly 1993, Cini 1996). Direct lobbying of the Council is risky, and the nature of negotiations is intense. Also, issues related to trade policy encounter strong interests both for and against protectionism, rendering the resulting policy "variable and unpredictable" (Hayes-Renshaw and Wallace 1995:261). While environmental and women's groups do favour direct lobbying of the Council (Mazey and Richardson 1993:15), this appears to be a

strategy of the weak. The Council's working groups, where real changes to Commission proposals are decided, are difficult to influence, and often favour compromise. Instead, companies try to target national representatives or Commission allies after a first reading discussion in a Council working group, before any decisions have begun to "crystallise" (Hull 1993:85), and then guard their approved legislation throughout the system until ratification (Pedler 1994).

Ratification:

QMV had the most obvious ramifications for the EC's level-two ability to ratify internationally negotiated deals, in that it became impossible for individual Member-States to hold up adoption of a level-one agreements in the Council (with the exception of free movement, employee rights and taxation). While this had not occurred in the past on issues of trade with Israel, the 1986 accessions might have brought the possibility closer with the introduction of countries with similar agricultural industries to Israel's, had majority voting not been introduced. If an issue over which a Mediterranean member state would want to reject an agreement with Israel arose, however, it is possible that a Mediterranean "bloc" of the requisite two large members and one small could emerge in Council voting, if the issue were broad enough. As ratification ceased to be the difficult procedure that Council modification of Commission proposals (which still required unanimity) was, it became possible that non-ratification might be used in the future as an instrument of bargaining within the Commission, instead of modification during the negotiating phase. In Association Agreements, however, unanimity is required in Council approval (following majority-approval by the EP).

In affecting the dynamics of ratification of Commission-inspired legislation, this institutional change in the Council of Ministers thus affects the Community's level-two capabilities overall. This change is further complicated when the affected influence of industrial lobbyists on this institution is considered. When industrial interests approach the Council of Ministers,⁸ they generally do so through permanent national representation,

⁸ Lacking the early and technical nature of Commission policy-making, the Council of Ministers is more often lobbied by social interests such as environmental or women's groups than by industrial interests (Mazey and Richardson 1993).

rather than working groups, which are subject to majority voting and face strong pressure for compromise from the Council itself (Hull 1993). This pressure for consensus affects too the way in which actual negotiation is carried out, and, in the absence of any veto, creates a “process of negotiation by exhaustion” (Grant 1993:28-9), further eroding the possibilities that outside interests will succeed in imposing their goals on the Council’s agenda.

The Council of Ministers cannot be ignored by outside interests, however, despite its unwieldiness, as it constitutes the site of greatest changes to Commission proposals, both in its working groups and its ministerial meetings. Successful lobbying affords the particularly influential and well-connected interest a chance to “jealously guard” any changes procured throughout the Council’s ratification system (Pedler 1994:311). Yet the introduction of majority voting has had a profound impact on industrial behaviour in approaching the Council: in imposing a necessity of consensus, the 1986 institutional change forced pressure group alliances to become much broader, driving companies and groups to co-operate with interests in other Member-States to achieve a desired vote in the Council. This seems to be a permutation of Putnam’s expectation of cross-national coalitions of domestic groups. Rather than seek level-two allies in one’s “opponent’s” home, majority voting here encouraged industrial interests to pursue allies in a number of negotiating partners, some of which would become opponents at voting times, while others became allies. Moreover, the fluidity of this distinction, as different issues come up for ratification in the Council, suggests that Putnam’s distinction between self and other necessarily varies from issue to issue.

Commission

While the Commission is unable to easily act to censure foreign countries, as individual Member-States or the EP are able to do, the Commission is somewhat able to project a general feeling of encouragement or discouragement to negotiating partners. Regarding Israel, the Commission in the early 1990s, during the Palestinian *intifada* but before the start of the Arab-Israeli peace process, was able to censure Israel by acting on

an EP recommendation to block Israeli access to fifteen projects of the EC-Israel Joint Scientific Committee, and postpone discussions on energy cooperation (discussed in Sachar 1999). These actions, in protest against Israeli occupation, lasted in most cases under a year. Three years later, however, (discussed in Chapters Six and Seven), the Commission was able to convey its approval of Israel's participation in multilateral peace talks by creating a favourable negotiating atmosphere.

Negotiation:

The Commission remains the Community's primary level-one negotiator, and as such, the main destination for industrial lobbyists in Brussels. Major studies have focused on the "communitarian" aspects of Commission-mandated foreign policy, conducted through economic packages of trade and aid (Peters 1998, Cini 1996, Nuttall 1997). Although the period examined in this thesis saw the establishment of the first organisation of MNCs devoted specifically to influencing foreign trade policy, the Transatlantic Business Dialogue, this was limited in scope, in both the geographic and issue areas addressed. (Discussions of the Dialogue include Cowles 1998 and Hocking and Smith 1997).

Mazey and Richardson (1993), authors of one of the more definitive analyses of pressure group influence on the Commission and the EC's other institutions at the end of this period, are fairly typical in documenting an exceptional reliance in the Commission on information from outside actors. Their approach is a structural one, stressing the Commission's large case load and the continued inadequacy of its in-house resources and workforce. Positing at least two degrees of permeability, this conceptualisation characterises the Commission as an "adolescent bureaucracy", whose continued openness to pressure and reliance on nationally-based experts ensures structural weakness. This observed "chaos" has two sources: disrupting and often unpredictable contributions from member governments through such forums as post-policy formulation negotiations and summits, and the saturation of Commission offices with industrial political pressure. Indeed, during this period, there developed in the Commission itself a consensus that the number of actors vying to influence the Commission was becoming unmanageable, and

the Commission recommended steps to restructure relations with industrial pressure groups, though no changes were adopted.⁹

Pedler has argued that registration of certain interest groups or companies as Commission lobbyists would solidify certain groups' dominance, becoming essentially a "licensing arrangement giving special privileges to lobbies which are permanently on-the-spot" (Pedler 1994:310), a situation to which Mazey and Richardson refer as "agency capture". Other fears concerning the regulation of lobbying include that an increasing number of lobbyists would "clog" the system with conflicting pressure goals.¹⁰ Extreme confusion was avoided, however, throughout this period, as industrial lobbying in Brussels became more sophisticated. Creativity, ad hoc alliances, and professionalism increasingly became the by-words of EU lobbying, and while indeed "saturating" the system with conflicting pressure goals, the evolving EU pressure community seems to be creating ever higher standards of political influence, ensuring that the threat of "chaos" identified by Mazey and Richardson has not yet led to their feared state of nullification of influence.

By neglecting consideration of a potential ideological predisposition towards openness to outside influence, approaches which explain Commission accessibility by focusing on potential practical threats to Commission procedure from outside interests risk overemphasising the confusion inherent in all legislative processes. This is illustrated by Donnelly, who comments in his discussion of lobbying in the Commission that it "underlines the extent to which the policy-making role of the Commission is shaped in particular by the absence of a single political ideology and the commitment to collegial respect within the Commission itself" (1993:74). Though the threat of "chaos" is real, it ought not to be considered the predominant factor in Commission policy formulation. Instead, a more profound debate about the Commission's openness might be framed by

⁹ These include MEP Marc Galle's 1992 report and recommendations, Delors' 1992 proposal for a "structured dialogue" with pressure groups, and the Commission's 1993 document *An Open and Structured Dialogue between the Commission and Special Interest Groups* (OJ 93/C63/02).

¹⁰ To illustrate this danger, Mazey and Richardson quote an official at the German umbrella group *Industriegerwerkschaft Chemie-Papier-Deramic*, who confided that "it found the Commission receptive, but was fearful that the increasing numbers of organisations seeking to influence the Commission would mean that the Commission would be incapable of dealing with all of them and would lose interest in talking to organisations as 'partners'" (1993:10).

asking whether the Commission is a “consensus-builder” among various national, social, agricultural and industrial interests, or whether the institution acts as an “agenda-setting policy initiator” (Cini 1996).

For although the Commission has had an ambivalent relationship with groups whose indispensability might be seen as a weakness by the Commission, at least two factors can be seen as evidence of a mandate for the Commission to function in a consensus mode. Early neofunctionalist logic of Community integration, whose emphasis on “expert” decision-making can be interpreted as collaboration with industrial interests on technical matters, indicates this conception. Cowles points out that it is Moravcsik, an advocate of intergovernmentalist explanations for Community behaviour in the SEA, who has applied the label of neofunctionalism to discussions of extensive pressure group involvement in EU decision-making, a phenomenon which does not conform strictly to neofunctionalist expectations (Cowles 1995, Moravcsik 1991). Others, too have made the link between extensive and diffuse industrial lobbying of the Commission and what Van Schendelen has called “bottom up integration” (1993:282), in which the persistence of national lobbies weaken the position of Member-States, especially smaller nations, against the Commission. Also, in its role as inter-state policy co-ordinator, the Commission has shown a willingness to commit to short-term, “imperfect” policies, rather than lose out on initiatives through a veto by Member-States (Discussed in Smyrl 1998). In these cases, private interests can provide backing for Commission goals at the national level.

The Council of Ministers put forth a consensus-model vision of the Commission at the Edinburgh European Council in December 1992, when the Community recommended greater transparency in Commission work. Consensus was further encouraged with advocacy of the greater use of Green and White papers and notification in the official journal, informing the Council of what was being considered in order to solicit national opinions early in the legislative process. For, while some observers have pointed out that “(i)t would be wrong...to assume that the Commission merely acts as a filter for policy ideas emerging from other institutions and actors” (Cini 1996:145), its proposals must still be ratified by the Council of Ministers, and bear the hallmarks of careful consultation and wide appeal. In encouraging consensus, and also in recommending that the Commission

deliberately expand its consultation on some types of legislator,¹¹ the Council endorsed a conception of the Community as a more thoroughly integrated and responsible whole. Though these decisions reflect the traditional conflict between intergovernmentalists within the EC and those in the Community who believe in more institutional integration, the Council's view here indicates an expectation that the Commission's role is one of consultation with external interests and institutions is tempered with internal consultation, as well. The Commission's continued co-operation with both national and independent interests ensures that both conceptions are appropriate for various aspects of policy.

From the point of view of the foreign lobbyist, or the domestic lobbyist concerned with foreign agreements, these tensions offer an opportunity to exploit divisions between Community institutions and Member-States. Van Schendelen's "bottom-up integration", and the consensus-based policy-making which also draws decision-making away from Member-States, create a realm of legislation where traditional state channels of access and influence are weakened. Perhaps the most "natural" realm of exclusive power for the EC to adopt, then, is the emerging "globalism" of economic relationships, trade, and international standards. This allows the Commission to exploit the strength of its broad base, and to create an area of policy-making in which new private or semi-private actors, more than the traditional state organs, can be included and empowered as consultants in the new policies.

Pointing out that the institutional changes contained in the SEA affected individual states as well as the EC at the transnational level, Helen Wallace identifies the "bifurcation between transnational regulation for transnational markets, engaging transnational regulators and large market operators, and encapsulated intra-national politics, engaging those charged with and dependent on the reduced domestic political space, smaller-scale

¹¹ Notes one observer:

Though more difficult question could be phrased as follows: is it the Commission's responsibility to build consensus with actors *outside* the Commission at (the drafting) stage in the policy process?; or should the Commission only perform that function later, once it has taken *its* decision? It certainly seems sensible to assume that the Commission ought to be proposing legislation that has the most chance of success in the Council, in order to avoid delay and time-wasting. However, it is also clear that the requirement that the Commission consult more widely with all interests - including national governments - suggests an attack on the Commission's monopoly of initiative beyond that already confirmed at Maastricht. It implies that even at this early stage the Commission is acting as a consensus-builder rather than as an agenda-setting policy initiator (Cini 1996:151).

entrepreneurs, local regulators, and national or regional politicians” as the new realms in which EC power was felt (1996:127). This separation allows the Community to adopt new, non-state actors as legislative consultants, creating possible tensions between domestic and international expectations, which might in turn be exploited by foreign negotiators. When the changes that produced the SEA and 1992 programme are seen in this broader context, it is easier to understand Wallace’s view of how non-EU countries, particularly EFTA, align themselves with EU aims and standards (1996). In this case of EFTA, particularly, this was facilitated by the Luxembourg process, the EEC, and in some cases membership; nonetheless, outside countries are increasingly adopting the same, as will be seen.

The potential for exploitation of differences between EC institutions and Member-States by foreign negotiating partners increased in other ways, as well, during this period of the mid-1980s to mid-1990s, as the Commission expanded its jurisdiction to new areas of external relations, often at the expense of the prestige and actual power of Member-States. One study illustrates the Community’s anticipation of policy with the example of the European Energy Charter, a state-level agreement between Russia and western European countries, guaranteeing Russian energy supplies. Although proposed by the Dutch Prime Minister in 1990, the European Council gave a mandate to negotiate such an agreement, and the Commission’s Charter, produced in 1991, eclipsed concurrent efforts on the part of the Netherlands, Germany, and Britain. The resulting Charter was a state-level document, but the Commission gained in two ways by designing it: Commission prestige was enhanced both within the community and internationally, and the Commission used the occasion to establish a special energy policy section within DG-XVII (Energy), a move into an area which, before the Commission established itself a serious presence in this field, was jealously guarded by the Member-States (See Marks, Hooghe and Blank 1995:25-6).

As the margins of state power during this period became increasingly muddled, so did interest group activities. The replacement of the state in industrial regulation, and sheer inability to effectively regulate an increasingly technologically complex industrial background, in effect forced business lobbies to become more independent. Also, in

accordance with the first determinant of increasing one's level-one win-set - forming coalitions - national governments began to turn to alliances with private interests. Unlike the two-level game metaphor, however, these alliances of domestic institutions, or state institutions with independent interests, then can go into level-one negotiations together. This increasingly represents a mixing of coalitions at the level-two and level-one tables, illustrating the intergovernmental nature of the two-level metaphor, which assumes that state interests remain separate from their domestic interest bases. The character of lobbying has itself changed as a result of this convergence of power in the centre. Further growth, less individualistic and more collective action, the short-cutting of political routes, generally bypassing national governments, and more varied lobbying patterns has occurred (Nonon and Clamen 1991, Pedler and Van Schendelen, eds., 1994, Hocking and Smith 1997, Greenwood and Aspinwall, eds., 1998). This is consistent with the third expectation of win-set maximisation in Putnam's metaphor: namely, that cross-party or even cross-national alliances occur, except in this case, alliances take place in a complex decision-making atmosphere which can be linked to neofunctionalism (Moravcsik 1993, Van Schendelen 1993).

Corporate lobbying expanded significantly after 1985, in response to the 1992 Programme. Both the immense scope of the Commission's new agenda, and the increased speed and efficiency of the Community after 1985, led to a revolution in corporate representation in Europe.¹² Both the end of the veto and the realisation that, with the new 1992 agenda, states' goals were not necessarily those of their national champions, caused many firms to feel more isolated, and prompted some to act more independently in European matters. Although many firms persist in using national channels, both to influence the Council of Ministers, and to affect implementation at home, by 1992 the Commission was much more the focus of interest groups' activities than ever before.

In situations where a European framework of external trade or relations exists, as with Israel during this period, Member-States do remain targets for third-party lobbying.

¹² Whereas before, delays of five to ten years for individual EC directions were the norm, the SEA set an ambitious agenda of more than 250 individual pieces of legislation to shape, vote on, and implement in just one or two years. At the same time, what Cowles calls the "rules of the game" shifted: her analysis of German firms (1995a) at the time showed that the end of the single-nation veto in 1987 caused some firms to move away from their previous close relationship with national government.

This is partly because Member-States do still wield some power in Community negotiations, through their participation in the Council of Ministers, through their agendas during turns at the presidency, and through the implicit recognition that they will in future have power over negotiated bargains at the ratification stage. At the beginning of this period, one Israeli academic, addressing the potential of trade displacement arising from the second enlargement, advised that “(u)nder such a scenario Mediterranean countries are well advised to activate traditional bilateral links in order to be supported by a member-country *sponsor* in negotiations with the Commission” (Langhammer 1988:210, emphasis added). The underlying question here is how much autonomy the Commission has in practice from specific member governments in negotiating trade agreements. In the case of Israel, agricultural issues, on which there is considerable overlap between Israeli and EU Mediterranean state growing cycles, is most fought-over by Member-States (interview with Di Cara). In industrial products, as will be shown in the second half of this thesis, issues of public procurement were the most likely to attract a narrowing of the Commission’s win-set by Member-States, particularly France and Germany.

An awareness of what individual Member-States’ ministries will ratify is a crucial concern of level-one negotiators in the Commission. There is a “natural” tendency for Commission negotiators to keep in mind likely positions on ratification by the Member-States, both in the Council of Ministers, and at the national parliamentary level. The fact that many DG-I trade negotiators have worked in trade negotiation in their home governments enables them to liaise with national representatives more easily, and to have a clearer sense of what their home countries will approve. Moreover, the high degree of continuity among DG-I trade experts generally creates good relations with titularies in 113, and a resulting sensitivity to their constraints. Within the Commission itself, there are three formal checks for internal co-ordination: the Secretariat General (SG), the Cabinets of relevant Commissioners, and potentially, the full College.

Ratification:

As the Community's "executive", the Commission has little role in EU ratification. Aided by the speedy endorsement of the Council's Internal Market Council, the SEA shifted power away from national governments, more to the Commission than to Parliament (Grant 1994).¹³ The Commission gained competencies in its ability to propose laws in new areas extended to it by the treaty, and gained power relative to the Council of Ministers, whose qualified majority voting greatly increased the Commission's real power, as more of its proposals became law with less opposition.¹⁴ No major institutional changes occurred to the scope nor functioning of the Commission, although Ludlow points out that the passing of the SEA gave the Commission for the first time in twenty years "accepted terms of reference it could use as a basis for real leadership" (Ludlow 1991:118). Against the Member-States, the impetus of the SEA gave the Commission a psychological weapon, as none of the members wanted to be accused of returning to the bad old days of "eurosclerosis" in blocking legislation,¹⁵ particularly in the optimistic aftermath of the SEA.¹⁶ To outsiders, in addition to its obvious role as head of the EC delegation in international treaty negotiations, the Commission represented an enhanced value to foreign negotiators in its role as "broker" within the Community and between various EC institutions and foreign negotiating partners (Wessels 1992:167).

¹³ The strong position of the Commission prevented the type of Executive-Legislative partnership experienced in the USA and predicted by some writers on European union. Bieber, Pantalis and Schoo (1986), for example, expected the SEA's main legacy to be parity between the Commission and EP in the negotiation of Association Agreements. Chapters Seven and Eight illustrate how the EP's strong ideological stance, and "follower" (rather than "leader") position in Commission-led negotiations ensured its marginality in the negotiating process.

¹⁴ Grant (1994:76) notes that "When unanimity had been the rule, few people bothered about the commission's schemes, for they seldom passed the Council of Ministers."

¹⁵ Typical is Taylor (1993:53), who noted this new optimism: writing that, by 1985, "(t)he striking thing, again reflecting the change in tone in 1984 (since the Fontanbleau conference), was that there was now a measure of confidence, in the absence of any hard evidence, that it would all come out more or less all right in the end". Others note the rapid deflation of Commission self-confidence some years later. One observer characterises the Commission's post-Maastricht state as one of "*lourdeur*" in grappling with new policy initiatives (Cini 1996:91).

¹⁶ Margaret Thatcher resented the Commission's renewed dynamism following the Single European Act. Writing in her memoirs, she recalls that the "trouble" with the Commission in the SEA was "that the new powers the Commission received only seemed to whet its appetite" (Thatcher 1995:556). It is an apt evaluation.

Council-Commission Co-operation

Few studies of the EU's external relations accord discussion to Council-Commission co-operation in trade negotiations (Keohane and Hoffmann, eds. 1991, Nelson, Roberts and Veit, eds. 1992, Wallace and Wallace, eds. 1996, Edwards and Regelsberger, eds. 1990, etc.). Aided by the close relationship between many Commission and Council officials, co-operation, while not assured in every case, is likely to begin before the start of formal negotiations with third parties, thus minimising potential disagreements in the scope or aims of the Community's level-one negotiations. Yet this co-operation is not evident in all negotiations. In the case of the 1995 EU-Israel Association Agreement, the results of the Commission working towards goals unsupported by the Member-States is evident: non-ratification dilutes many of the provisions of the resulting agreement.

Two models of Council-Commission co-operation exist in EU external relations: one governing free trade agreements, and one governing association agreements. For trade agreements negotiated under EEC 110-116, Council-Commission co-ordination takes place in technical committees, as directed by EEC 113. The resulting "113 Committees" operate with three sub-groups: ad hoc meetings to discuss particular issues at an expert level; co-ordination of the EC's position in the GATT Uruguay Round through the EU delegation in Geneva; and the Article 113 Committee on textiles, which meets fortnightly, supervising administration of MFA. There are also six permanent 113 Subject Committees, chaired by the Commission. Member-state representatives to these are generally experts from relevant national ministries: the Anti-Dumping Committee, consultation with which is mandatory in certain issues; the Origin Committee, which votes by weighted majority on Commission provisions implementing origin regulations; the Safeguards Committee; the Advisory Committee on Public Procurement, which also includes representatives from the economic Question Group and an advisory committee of industrialists; the Steel Liaison Committee, which meets monthly to discuss external issues; and the Working Groups on Customs Issues. The last contains four different

groups: tariff quotas, temporary suspension of duty; inward processing relief; and UNESCO relief.

Other committees with input into the Commission's trade negotiations include the Commission's Eastern Countries Working Group, the Council's Eastern Europe Working Group, the DG-III Group (made up of national department heads, convened 6 times a year), the Generalised system of Preferences Working Group (which meets at the national expert level, is consulted by the Commission on all proposals, which then go to Coreper and then to the Council of Foreign Affairs), and the EC-Japan Experts Working Group (chaired by the Commission). Inward investment is discussed in the DG-III Group and the Origin Committee. These groups, technically co-ordinated by the Commission and Coreper, with input from 113 Committee members, in reality have minimal influence in ordinary trade agreements. One lobbyist has observed, regarding non-113 Committee constraints on the Commission's external bargaining position, that "in practice there are so many detailed daily decisions required that significant power lies in the hands of the relevant Commission and member state officials";¹⁷ i.e., it sinks below the political level, becoming apolitical, technical decision-making.

For association agreements negotiated under EEC 228, Council-Commission co-operation ostensibly takes place within both 113 Committees *and* the Council's more political specialist standing committees. Here, the non-113 Committees are dominant, with 113 Committees used to debate technical matters, rather than broad policy goals. In reality, the 113 have even less relevance to Association Agreements, as the plethora of specialist Council committees covering aspects of foreign political and commercial relations discourages Commission negotiators from approaching them. One negotiator captured the frustration of negotiating agreements subject to various specialist groups, in the context of the EU-Israel negotiations:

In the Council, we got the feeling there is competition among the different committees. There are lots of different committees it would be nice to go to, to get their opinion on specific issues. But it would be impossible. They each only have their own perspective. It would be a nightmare to go to each one. For example, compatibility with GATT should be handled by

¹⁷ Internal industry document, *op cit*.

a 113 Committee, but we didn't go to them. It would be a nightmare.

They all only have their own specific perspectives; they don't have a view of the agreement for the whole Community (interview with Di Cara).

The result is a mixed use of 113 Committee consultation among Commission negotiators.

While some DGs are more likely to continue to consult with the Council as and when EEC 113 mandates (interviews with Spitz, Deboyser), other Commission negotiators, particularly in DG-I, operate a "gentleman's agreement" with Council committee members to forgo ponderous discussion in technically-focused 113 forums, and instead use only Council working groups to co-ordinate positions on trade issues (interview with Di Cara).

In its post 1995 dialogue with Israel, DG-I thus consulted with the Council's wider-mandated Maghreb-Mashrak working group. This group is divided into two parts, which co-operate closely (there were plans in 1998 for the two parts to merge): external political affairs, which takes its cues from the Presidency; and external trade. The trade half of the Maghreb/Mashrek and Middle East working group reflects diverse member state opinions only weakly, and tends to follow the Commission's lead in commenting on negotiations (interviews with Sarat, Halskov). These groups are supposed to be aided by expert help from the Council's Permanent Secretariat, but budgetary constraints prevent this mechanism from functioning effectively. Moreover, the groups themselves are often responsible for too wide a region to investigate issues as closely as more narrowly constituted 113 Committees are able to do.

Also, for Mediterranean negotiators, Coreper became increasingly relevant in the 1990s as it gradually increased its capabilities in this area. By the time of the 1993-1995 EU-Israel negotiations, Coreper operated separate sub-committees for the Mashrek and the Maghreb. Israeli negotiators lobbied these committees intensively, reflecting the enhanced influence on the Commission of the permanent national representatives.

The character of relations in the various types of Council-Commission dialogues varies widely. During the EU-Israel negotiations, for instance, DG-III, Food sub-group, had regular contact with member state Agriculture Ministers in 10 Management Committee meetings per annum, plus "constant contact" informally (interview with Spitz). While the Commission maintains a general familiarity with each member's preferences

and non-negotiable issues, DG-III also engages in negotiation with Member-States. In the EU-Israel negotiations, the chief DG-III negotiator noted:

Sometimes they need more persuasion in the Council than you would expect. (For example,) (t)he French, who are sensitive about sweetcorn, reduced quotas initially for two years. After two or three rounds of discussion, then, we maybe altered the negotiated agreement. We did this in a variety of ways: first we split the quota into frozen and canned, second we adduced the quotas for the first two years (interview with Spitz)

This Commission-Council bargaining was absent in other areas. In another DG-III subgroup, Pharmaceuticals, for example, there was no significant Commission-Council discussion, in any forum, about the EU-Israel negotiations (interview with Deboyser). Co-ordination can be particularly difficult when a proposal of the Commission is already the result of political compromise, for instance in those proposals presented to the Council already marked "A" (officially approved) on the Council's agenda. If this is not done, Commission committee members will usually advise their ministers of the situation, and prevent damaging debates on an already precarious political goals. In the case of intractable problems, the first forum for member state discussion with the Commission is formally within the 113 Committee, and then between the Member-States themselves. This is done either bilaterlly, or if the disagreement is widespread, then within the Council, which attempts to settle it within some sort of compromise or bargain; only then does further Council-Commission debate. Once a resolution to a particularly difficult problem is found in this way, the Commission is expected to resume its normal relationship with the Council.

The effect of these disagreements, however, is a narrower win-set at the level of international negotiators. This can be seen in the vivid comments of one EU lobbyist, describing the Community's resulting level-one

....the necessity to act in double harness in this way inevitably introduces both rigidity and clumsiness into the process. The official sitting at the negotiation table will be from the Commission. But he will have the representatives of each of the member states sitting behind him (literally or metaphorically) to see that he stays within the limits of his mandate. If the mandate is one which has been tightly negotiated between the member

countries in the first place, it may be equally difficult to negotiate modifications in it meet the possible requirements of a changing negotiating situation. The Community negotiator has much less negotiating freedom than the representative of a single Government. He will very seldom be given the sort of instructions which say, as a government's instructions often do, 'Get the best deal you can'. Apart from the institutional mechanics, it may be the clear fact that the best deal for one of his twelve constituents will be a very bad deal for one or more of the others.¹⁸

If member state relations are considered the Community's level-two, then avoiding disagreement at this "domestic" level widens the level-one win-set. Several mechanisms in effect remove this "domestic" input from the Commission, in order to give it a broader negotiating mandate. In cases where intergovernmental consensus is impossible, Member-States sometimes give a very general and wide-ranging negotiating mandate to the Commission, in effect transferring their authority in this area. While the commission does maintain close contact with the Council committees, in order to determine which courses of action would be most acceptable to states, a wider negotiating goal gives the Commission more freedom in talks with third parties. Another trend in Council-Commission relations is for the Council to fail to endorse a goal ahead of time, thus forcing the Commission to be more creative in its negotiations, maintaining its own set of goals as negotiations progress. In such cases, member state approval comes as a "vote of confidence"¹⁹ from the Council, when it is presented with a complete piece of negotiation for ratification. Generally, in such cases the Commission is almost always successful; this in turn has fuelled the Commission's increasing feeling that it "come(s) to the 113 Committee as a consultative committee" rather than as a more practical guide.²⁰ Alternately, the Commission can disregard the 113 Committee by appealing directly to the Council, or to Coreper, which discusses trade matters often, and which has the sole mandate of preparing discussions in the Foreign Affairs Council; though Coreper does not

¹⁸ Internal industry document, *op cit.*

¹⁹ This analogy is used in an internal industry document, *op cit.*

²⁰ Internal industry document, *op cit.*

have formal responsibility for the Article 113 Committee, in practice this committee is the “next court of appeal” for the Commission.²¹

Were this system to function in reality as it does in theory, the Community would represent not a two-level game in its negotiations for external trade agreements, but a three-level game, in which Member-States provide an additional layer of decision-making to internal Community checks (Wessels). When 113 Committees do not act rigorously, however, the Community appears to function as a type of two-level system. In this case, however, the Commission is less accountable to its “constituents” than the executive envisioned in Putnam’s model. Especially in cases where an interim agreement can be established, the Commission negotiates with impunity, behaving like the dictator in Putnam’s model. This inordinately wide win-set would indeed explain the conclusion of the Association Agreement, and particularly the related agreement on public procurement, on terms which were broadly favourable to Israel even after Benjamin Netanyahu was elected and the peace process appeared troubled, discussed in Chapters Six and Seven. Also explored later is Community policy, in which many neighbouring countries such as Israel receive economic concessions in the form of favourable trade policies. Israel’s treatment in the Association Agreement can be seen as part of the EU’s broader Mediterranean Policy, rather than as an oversight of an overzealous Commission not significantly accountable to the Member-States. Both explanations will be discussed later.

EP

Even before its institutional role was enhanced through the SEA, Parliament was engaged during this period with increasing its presence in the international system through the limited means available to it. Seeking to cast itself as an institution on a par with other elected assemblies internationally, it established delegations to the US Congress and the Israeli Parliament (amongst many others), established a Joint Assembly with ACP MPs, and established extensive international Association Committees. The EP throughout the 1980s raised its stature by inviting significant international politicians to

²¹ Internal industry document, *op cit*.

address it, and generally “tried to make the moral voice of EC-Europe heard in the world” (Wessels 1992:168). When the EP is thus viewed as an expansionary institution at this juncture, whose authority has been increasing informally for years,²² the surprise with which many within the EC greeted the Parliament’s alacrity on seizing on and interpreting its expanded institutional roles seems unwarranted. In 1985, the EP was clearly attempting to carve a greater political role for itself in EC foreign policy; the SEA gave it additional tools to this end.

The Parliament’s relative status vis a vis other EC institutions had been greatly enhanced through the extension of Parliament’s right of consultation: both the formal process mandated in the ECJ’s *isoglucose* ruling of 1980, and extensive informal consultation developed by the Council beyond that which was mandated by the Treaty of Rome.²³ Nevertheless, for the most part, Parliamentary debate of Commission proposals remained “anodyne” (Ludlow 1991:125). The Parliament’s increase in power can also be seen from the tradition of unofficial consultation by pressure groups, especially after the 1979 move to direct elections and accompanying rise in legitimacy.²⁴ Although primarily weak pressure groups direct their attention to the Parliament, viewing it as an agenda-setter,²⁵ the traditional panoply of environmental and social groups seeking to influence

²² See Judge and Earnshaw (1994), who document this, arguing that academic literature betrays a lack of understanding of the extent to which the EP’s informal powers increased during this time.

²³ Although the cooperation procedure applied to only 10 articles of the Treaty of Rome (7,49,54[2], 56[2], 57, 100A, 100B, 118A, 130E, and 130[Q]), a significant amount of legislation fell under the Parliament’s cooperation procedure: approximately a third of all legislation considered by the Parliament, and two-thirds of the 1985 White Paper on the internal market. Unofficial pressure was also felt from other EC agencies, particularly by Commission officials eager to slip in amendments to a given proposal, which the Commission could then adopt as its own after consultation. See Hull (1993:84) and Earnshaw and Judge 1994, 1995).

²⁴ This was especially true through its “own initiative” and “Rule 63” reports, at the early stages of legislative planning (the Parliament could recommend legislation under EEC Article 155 and developed rules of procedure to regulate this, especially after the establishment of direct elections in 1979).

²⁵ Difficulties in lobbying Parliament concern the relative impossibility of lobbying entire parties, although this is attempted by some pressure groups (Hull 1993:84). A more common scenario is for private interests to enter dialogue with Parliamentary committees, which discuss proposals and prepare draft opinions for Plenary Sessions. Technical information is most often welcomed by these committees, and pressure groups have better chance of affecting proposal details than broad attitudes. Even after the SEA, Parliament remained much more important in its unofficial capacities than in its official ones. Writing of its expanded powers under the SEA, Judge and Earnshaw observe that “(t)he real significance of the second reading was the enhancement of parliamentary power *before* legislation reached that stage” (1994:267, emphasis in original).

the EP were beginning to be joined by the time of the start of formal negotiations with Israel in 1993 by larger-scale industrial producers.²⁶ Overall, the institution of co-operation by the SEA in 1986, by giving the Parliament increased powers (of initiation), and eliminating the use of majority voting in the Council in some areas, radically altered the lobbying environment in Europe. Lobbying activities were upgraded from the national in many cases, as now even a coalition of two states could be overridden in the Council.

Formally, the SEA altered the co-operation procedure followed by the EP, allowing the Parliament the power to carry out second readings of all Commission legislation before passing it on to the Council of Ministers. This power, which was extensive in theory, was in practice limited.²⁷ Although the Luns-Westendoerp procedure continued to preclude Parliamentary involvement in commercial policy, a new, and unforeseen at the time, change in ratification behaviour was the ability that the SEA granted the EP to use its veto power to impose economic sanctions on outside countries, through the non-ratification of negotiated trade agreements. This ability has been noted as a potential source of leverage in intra-constitutional bargaining for the Parliament, mimicking the Parliament's history of holding budgets "hostage" until the Council granted related concessions in other areas. (See Wessels 1992, Earnshaw and Judge 1995:17-18.)

Parliament did use its new ability to hold ratification of trade agreements twice in the 1980s, the first time against Israel in 1987, holding up for nearly a year the Fourth Additional Protocol to the 1975 FTA (necessitated by the Iberian accessions) in response to a policy of which the EP disapproved (Israeli refusal to provide for direct export of agricultural exports from the occupied territories). Sanctions against Turkey were imposed for its treatment of the Kurds in 1987-88. In 1992, the Parliament refused to ratify financial protocols again, this time with Syria and Morocco, in protest at their

²⁶ The 1992 concerted action taken by tobacco producers, advertisers and publishers, which resulted in the European Parliament delaying a ban on cigarette advertising, is an example of the new interest paid in this institution by producer groups. See Mazey and Richardson (1993) for further discussion of this phenomenon.

²⁷ In the first year of this new arrangement, fewer than half of motions adopted by the Parliament after one reading, and fewer than a quarter of those adopted after a second reading were eventually passed by the Council. This prompted the Parliament itself to complain in 1988 (See European Parliament: Resolution on the Results obtained from the SEA's implementation, 27.10.88. Doc. 82-176/88). See Murray (1992:23).

record on human rights.²⁸ Whilst the EC had extended sanctions before, both total (Iran and Argentina), and partial (Iran, USSR, Libya, South Africa and China), never before 1986 had this instrument of foreign policy completely bypassed the traditional channels of decision-making, in a move that “surprised” the Council of Ministers (Wessels 1992:167).

The institutional innovations that extended power to call *de facto* economic sanctions were the SEA revisions of EEC Article 194, affording the EP a second reading of Council legislation, at which a majority could reject the bill, and of EEC Articles 237-8, requiring Parliament’s approval in the cases of accession and association agreements. Generally, however, relations between the Parliament and the Commission were conciliatory, as both institutions recognised the potential for disruption, and both to some extent saw the other as an ally against national governments. After a number of informal compromises on working practices, the two institutions eventually codified a formal code of conduct designed to facilitate smooth co-operation. In fact, a Parliament-produced report noted that the warmer, informal bargaining between individuals and committees in the two institutions which took place after the SEA was at least as important as institutionally-mandated co-operation during this period (Earnshaw and Judge 1995:11).

The use of Parliamentary veto of trade agreements can be seen as a conscious decision on the part of the institution to maximise its influence, both within the Community and on the international stages. Although it was not immediately recognised as such (see Greilsammer 1988), the non-ratification of the Israeli protocols was the EP’s first demonstration that ratification was not an institutional certainty, but rather a power wielded by the Parliament. As one MEP recalled the use of this non-ratification, the EP, which had become “increasingly concerned at the cavalier way we (the EP) were treated by the other institutions, which assumed that we would simply rubber-stamp whatever they put in front of us for approval” adopted this action deliberately in order to prove otherwise.²⁹

Yet this device highlighted deep splits within the Parliament, and the original debate over non-ratification of the EU-Israel protocols featured nearly as much discussion

²⁸ The resultant rift with Morocco became a major political difference when Morocco later refused to renew fishing agreements with the Community.

²⁹ See the statements by Socialist MEP Hindley, in EP Doc. No. 3-384/238. The debate took place on 14.12.89.

about cross-floor relations as about the 1975 FTA and the Community's external trade with Israel and the territories themselves. The Socialist and Communist groups were accused by one centre-right MEP, of the European Democratic Alliance, of conducting a "filibuster" on this issue (Cassidy MEP; see EP Doc. No. 2-363/8), and by a range of centrist and right-wing MEPs for targeting Israel unfairly and inappropriately for unrelated political reasons (unrelated to the trade agreements being discussed) such as human rights and the legality of occupying land captured from Jordan in 1967, as part of their broader support of Palestinian nationalism. With the institution nearly evenly split between left and right, with a slight weight towards the Left, such bitter differences can be seen as larger discussions on the whole slant of EP policy.

European Parliament, 1989

Left	Centrist	Right	
Far-Left: 13 Greens: 28 Socialists: 198 Rainbow: 16	Liberals: 44	Euro. People's Party (incl. Conservatives): 163 European Democratic Alliance: 20 Far Right: 14	Independent: 22

(Source: Middlemas 1995:354)

These splits also pointed out an institutional problem created by the SEA, namely the great difficulty of obtaining the 260 votes needed for approval, which was duly noted as a major institutional problem in debates over the EU-Israeli protocols.³⁰ The Parliamentary Left was seen by many opposing speakers in the debate at the time to be imposing its will unfairly on the rest of Parliament, *not* as a concerted action taken by that institution to improve its standing with respect to the other Community institutions. The

³⁰ This problem was summed up cogently by MEP Arndt, who noted that "the approval of agreements or protocols relating to external affairs places us in a very special position. On the one hand we need 260 votes under the Single European Act if these agreements are to take effect. It has to be said that this creates problems in that considerably more than 100 Members are absent from each plenary and thus do not take part in the vote...if fewer than 400 out of 518 Members take part in a vote, it is exceedingly hard to obtain 260 votes in favour. That is the institutional problem we face" (EP Doc. No. 2-363/8).

MEP quoted above as crediting this non-ratification with increasing EP stature in the Community was, in fact, a member of ARC who had consistently opposed Israeli policy during the original debates. It is possible then that his motives in blocking the Additional Protocols were *both* political *and* institutional. It is likely, however, that with the passage of time and the legacy of this vote, the 1988 actions were seen by many more as a defining moment in the history of the EP, and not only as the one-sided and heavily opposed action by left-leaning Groups, as it was viewed by some centrist and right-wing MEPs at the time.

The action can also be seen as an expression of emerging Community policy and goals, though expressed by the Parliament in such a way as to garner a more institutional power for itself. For the diplomatic ramifications of the sanctions were much wider than specific issues of trade policy, or even of EU-Israeli diplomatic relations. Although by imposing what amounted to trade sanctions, the Parliament could censure Israel over its wider policy of occupation, as separate trade agreements between the EC and the territories could imply a form of Palestinian autonomy or statehood that was not currently on Israeli's political agenda. Simultaneously, integrationists in Parliament were able to use this dispute as a valuable means of consolidating an otherwise nascent EPC. Greilsammer supports this view by quoting a British member of the EP in another, earlier, debate on sanctions, this time over Poland in 1982.

The way in which the Community responds...will determine whether we have a joint foreign policy or not, or whether we are going to have one, or whether foreign policy will consist only occasionally in making our points of view, our interests, and our will to take initiative coincide.³¹

Thus, in a time of early political co-operation, creative use of existing punitive action was valuable in forming Community external policy. It follows that four years later, when the EP could itself wield such power in limited circumstances, it might similarly regard the use of sanctions as a tool of foreign policy-building.

While the official role of the EP in association agreements is one of consultation (EEC 228), the SEA's amendment to EEC 238 in 1987 renders majority approval by Parliament necessary for ratification of accession treaties and association agreements (into

³¹ Debates of the European Parliament, 21.1.82 No. 1-279-34, quoted in Greilsammer (1989:27).

which category the financial protocols of basic trade agreements falls). The SEA also extends co-operation, an enhanced form of the consultation between Council and Parliament (dating from 1975 and tested in the 1980 Isoglucose ruling) to Treaty Articles, which cover most Community R&D programmes. The TEU extends co-decision to these areas, establishing formal conciliation committees between the Council and Parliament, and allowing Parliament to reject legislation that the Council has approved. This added layer of Parliamentary approval gives the EP additional power, especially in cases where a deadline is in place, and hold-ups by the Parliament can affect whole pieces of legislation.

Another development of EP power in the context of association agreements is its role in monitoring the state of the agreements, through inter-parliamentary delegations. The first such delegation was established in the mid-1960s with Turkey, and until 1989, remained the Parliament's only one. At the beginning of 1992, only four delegations were in place; by 1995, 26 existed, with 623 places for European parliamentary representation. This system was curtailed somewhat in 1994, for budgetary reasons, and the bulk of committee members were prohibited from travelling extensively to their designated countries. Israel's delegation in the mid-1990s contained 20 members, led by the French Socialist MEP Gérard Caudron, (whose choice as *rapporteur* would indicate a low priority given to this delegation). Caudron, member of three committees, and delegate to Cyprus and Israel, appears seldom in Parliamentary debates pertaining to Israel in the years before the conclusion of the Association Agreement in 1995. The low attention paid to this delegation does not preclude that EP regarded Israel as politically important, however. Parliament's continued attention to the issue of product labelling in Israel and the Occupied Territories indicate that the Parliament indeed regarded Israel as diplomatically important. MEPs from all parties, especially Socialists, regard Israel as central to EPC and Community concerns. Discussions of Israel thus transcended specific committees devoted to the subject, which in this case, due to budgetary constraints and committee membership, were weak.

Judge, Earnshaw and Cowan, while recognising the institutional limits on EP influence, emphasise its often under-valued inter-institutional impact in the form of "policy waves": "recommendations that washed against the portals of the Council and Commission and prompted them into a policy response" (1994:29). From small "waves" created by advocacy of various policies to large "waves" such as the EP's Draft Treaty on

European Union, which helped encourage the eventual SEA, bringing up certain items for discussion within the EP can create interest and possibly opinions on new issues. The EP's legacy in its record of engagement on issues pertaining to Israel might best be considered in this light, where attention paid to human rights issues and territorial occupation continue in the EP to have a profound effect on wider debates on EU-Israeli relations.

ECJ

During this period, the ECJ acted both to increase harmonisation of EC directives and guidelines, and at times to increase the competencies of specific Community institutions. In fact, although the Court does not enjoy a role in ratification, the fact that it can interpret legislation in a wide variety of ways has led it to behave as a "supreme" court in the vivid use of its ostensibly limited powers, and in its continued sympathy for the Commission over the Council. The Court has consistently interpreted cases in such ways as are most likely to ensure the unification and cohesion of the Community-level legal system, and to extend the Communities' remit. In extending the internal competencies of the Community, the Court, which has always maintained that the "external competence" of the EC is as wide as its "internal competence" (Wessels 1992:165), thus significantly widens the scope of EC foreign policy as well.

Moreover, in the mid 1980s, the Court created a two-tier understanding of foreign trade policy, distinguishing upper diplomatic level policy within trade practices and agreements from lower level trade commitments (coincidentally, in an agreement concerning EU-Israel trade). The former it protected as a state competence in 174/84 Bulk Oil (Zug) AG v. Sun International Ltd. and Sun Oil Trading Co. ECR 559, where the Court resisted propagating a broader foreign policy for the Community under the guise of co-ordinated trade policy (discussed below). Instead, in considering a challenge to a British company's embargo of crude oil to Israel (in compliance with the Arab League boycott, discussed in Chapter Two), the Court ruled in favour of the company maintaining this sanctions. The 1975 FTA was thus interpreted very narrowly, in a technical manner, and was deemed insufficient to override this boycott.

Member-States

Strictly, national governments of Member-States participate in external trade negotiations only through the Council of Ministers; also, ratification of association agreements takes place in national parliaments. Yet these roles, in reality, are reversed. Interim agreements, concluded on the basis of EEC 113, can bypass Member-States' ratification of co-operation and association agreements, transferring power from state to intra-governmental organisation. Instead, Member-States' real power often lies in being integral to negotiations, in at least four ways: officially, through the Presidency; officially, through consultation with the Commission through; unofficially, through other forms of lobbying of the Commission and other actors; and unofficially, through implementation of agreements later on.

The 1984 Bulk Oil (Zug) AG v. Sun International Ltd. and Sun Oil Trading Co. widened state input into Community trade policies by allowing a loophole in compliance with Community policies. The 1975 EU-Israel Free Trade Agreement already contained a clause (Article 11) allowing Member-States to impose sanctions on Israel for reasons vaguely defined as "public morality". The Sun case concerned a British company, Sun International, which made an oil sale, but upon discovering that its buyer wanted it shipped to Israel, refused to do so. The British courts backed Sun International, and following the ruling in the Commercial Court of the Queen's Bench Division of the High Court of Justice, the case was reviewed by the ECJ, which concurred with the British decision, but for different reasons. Instead of citing the cause of "public morality" precluding trade relations in the specific case Israel during occupation of territories gained in 1967, as it might have done, the Court instead gave three broad rulings which expanded the rights of Member-States to resist implementation of Community-negotiated trade agreements, overall. It was decided that Article 10 of Regulation 2603/69, concerning quantitative restrictions, recognised that Member-States retained residual power, which allows them to limit certain important exports, such as oil, until the Community specifically overrides this (Case 174/84, *Bulk oil v. Sun International* [1986] ECR 559, discussed in Mengozzi 1993 and Einhorn 1994).

A more overt means of exercising power in trade negotiations is afforded Member-States by the rotating Presidency. While the troika provides the Community's

official representation in most external relations, the bicephalous troika, the Council troika plus the Commission, is the official representation of the Community to external countries engaged in trade negotiations. It is therefore quite usual for foreign national lobbyists to maintain contact with national ministries throughout trade negotiations; representatives from Member-States' Foreign and Trade Ministries are thus usually cultivated alongside relations with the Commission (discussed in Wessels 1992 and Van Schendelen, ed. 1993). The extent to which the institutional nuances of Community institutions affect the negotiating positions of outside bargaining partners, however, is debatable. Discussing the various relations of EC institutions in relation to each other, one Israeli diplomat, directly involved in the negotiations with the Community, concluded that "The Commission, the Parliament; it's no big change for us who has power in relation to each other" (interview with Chokron). Clearly, complex inter-institutional and member-state power struggles are lost on many outsiders.

Yet power is not only that which is "usurped" or "left" by centralisation; state power may also be "rescued" by the existence of a European framework working in tandem with state structures. Within the Community itself, the continuing use of national channels by commercial and other lobbyists is evidence of enduring national relevancy, though whether it actively ensures that relevance is questionable. Increasingly, lobbying at the national level reflects the integrative assumption that national autonomy exists within, and is dependent or even derived from quasi-federal structures. It is the nature of regional integration that the definition of national interest is continually in flux. A constant "upgrading" of this interest, as apolitical competencies expand to perform more commonplace, technical tasks, is a basic tenet of neofunctionalism, and is acknowledged by various forms by regionalist and globalist theories of integration, as well. Whether public, "federal" agencies monitor and legislate in technical areas, or whether industry associations or MNCs, as is increasingly the case in advanced industrial fields, self-regulate, national jurisdiction is upgraded to a narrower high political level. While there remains room to appeal to national interests at this level (the British defence of its beef industry within the EU in the late 1990s is an example of industrial interests becoming linked to perceived national self-interest, for example), most national lobbying on issues dealt with at the European level has as its goal advocacy within Community agencies.

Observers of the lobbying community within the EU have taken it for granted that bureaucratic complexity necessitates what Grant has called “Euro-federations” of pressure groups.³² This has had the effect of strengthening the centralising mechanisms of the Community, both by overcoming nationally-based rivalries, which split commercial interests, and by providing EU institutions with industry-wide bargaining partners. Such partners are better able to ensure industry compliance than smaller, often competing nationally-based industry groups, or even loose or ad-hoc alliances of business groups, as often occur over particularly contentious issues. Yet Euro-groups have equivocal success. McLaughlin notes that “while the Commission would have preferred the Euro-consciousness predicted in the neofunctionalist model, leading to the establishment of strong authoritative umbrella groups in Brussels, the national strategy and use of bilateral contacts have been resilient” (1993:199-200).³³

One reason for this is the fragile nature of many international industry federations; national lobbying is seen by many as a contingency in the frequent cases of internal pressure group disagreements. Often reactive, international efforts also tend to have overloaded mandates; the resulting “lowest common denominator” of policy consensus has been documented by Grant (1993), Hull (1993) and others. Because it is difficult to reach consensus on important issues amongst various commercial interests, however closely related, group positions tend to be inflexible, and not credible to Community agencies. Whilst the Commission does encourage trans-nationally organised industrial pressure, company defection, multinational company hegemony within the group, lack of funding, and stagnation of policy counter this encouragement, forcing individual companies to seek other levels of access.

Even when international federations are functioning, lobbyists might persist with national dialogues that complement higher-level action. Especially for medium-sized firms, national government is often more accessible, and routes established over years

³² Despite the trend towards Euro-level organization, European-level associations remain at present, with few exceptions, confederations in which the national member associations retain better staffed and funded.

³³ See also Hull for a discussion of the reasons behind this: “...Commission officials tend to appreciate a representative lobbyist or interest group which can speak on behalf of a cross-section of interests throughout the Community rather than the interest of an individual company or organisation” (1993:86).

sometimes make up in ease of access what lost as national power is ceded to Community decision-makers. Large firms, too, benefit from the certainty of established political relations; in some cases very large firms are considered national champions, wielding inordinate influence with their national governments. Whilst the largest groups and companies do enjoy *cabinet* access with the Commission (discussed by Spence 1993), if it is possible to convince national ministers of an industrial position, they will do so, pushing Member-States into the role of defender of national industry in the face of an interfering, “foreign” Community.

National governments, too, encourage nationally-based lobbying on duplicate issues in order to maintain close relations with industry and ensure reliance on association members for policy implementation (Greenwood 1994). Sargent has gone so far as to assert that governments use interests as “sectoral governance mechanisms” for European affairs (1987). Moravcsik, too, has observed this tendency on the part of Member-States, dubbing as “agency slack” what he regards as desirable occasions when third party actors have less control over government, permitting government to be more rational in its actions (1993). This can also occur as industry-Government axes remain more technical in nature, complimented by a more “political” range of issues discussed in Brussels.

A strong national bureaucracy will likely form bonds with outside (particularly industrial) interests, and act to protect those links. One outcome of this is new forms of Government identification with national industries, as industrial liberalisation pits against each other increasing numbers of interests at the domestic level, in the context of larger-scale international bargaining at level-one. As the systemic-level leadership becomes divorced from domestic interests, the resulting level-one win-set narrows considerably. This is illustrated in a study of the domestic determinants to France’s level-one win-set in the context of international trade negotiations in the 1860s and in the late 1980s and early 1990s (Messerlin 1996). These reflect the interaction of domestic determinants (coalitions, government structures, ratification procedures and personal standing of the President) with negotiators’ ability to act persuasively in the international setting much in the way predicted by Putnam. One new facet of Putnam’s first win-set determinant, that the size of the level-one win-set depends on the distribution of power, preferences, and possible coalitions amongst level-two, presented by Messerlin in the French case is that these relationships, rather than representing true trade policy “nationalism”, rather favours

certain domestic industrial (or agricultural) interests over others. “The ‘us against them’ smokescreen of nationalism turns out to obscure a quite different game: the dirty fights of ‘some of us against the rest of us’” (1996:295).

Messerlin blames the traditionally weak French leadership for this inability to balance domestic factions more fairly, and points out that the leadership’s weak relationship with domestic factions narrows their win-set abroad, and forces France into bilateral, rather than multilateral, trade negotiations. In this way, negotiators can offer fewer domestic concessions, maximising their gain whilst minimising domestic cost, and gaining domestic support for the negotiators. This “generates broad support for the country’s rulers by offering the best political camouflage of what trade policy is really about, namely a policy of *domestic transfers*” (1996:296, emphasis added). When the cost of domestic transfers is too high, namely to a weak politician, close Government relationships with some commercial interests, and a reluctance to negotiate multilateral talks, thus results, a factor born out by this study. Moreover, Messerlin describes how, for various reasons, the French government is unable to raise long-term coalitions, relying instead on *ad hoc* coalitions of producers, and thus allowing, in the context of the Uruguay Round of GATT, the United States to intervene to procure coalitions favouring free trade. This illustration of the third of Putnam’s win-set determinants, which expects cross-national alliances, is particularly possible in a weak system’s such as France’s.

Yet change is possible, and domestic interests can provide an impetus for evolution, not only in the wider level-one expectations, but in their very structure, as well. Messerlin, for instance, also writes that France today represents a country “in transition” to liberalisation, and that it is “fairly typical” of West European countries in being so. This transition, according to Messerlin, reflects the new-found attitude that “insist(s) on multilateral trade as the essential engine of competition for resources among domestic industries” (1996:294). This analysis develops the idea, absent in Putnam, that “ideas count” (1996:308), or that evolving domestic expectations are a crucial element in determining the win-set of negotiators at level-one. This is seen again in the context of pressure from MNCs in the wider EU at this time.

Another crucial shift within France, allowing it to broaden its win-set to include freer and multilateral trade deals, is institutional, beginning with Mitterand ending attacks on the constitution, and then his proving, through his cohabitation period, that the office

of president was able to endure. Putnam wrote that “(t)he greater the autonomy of central decision-makers from their level-two constituents, the larger their win-set and thus the greater the likelihood of achieving international agreement” (1993:449). This is born out by Messerlin’s description of Mitterand’s evolution into the “decision-maker of last resort in essential trade issues” (1996:299), particularly as his long rule allowed him to reap the benefits of trade liberalisation in terms of enhanced domestic popularity. These changes occurred at a time when French trade and thus dependence on the EC was increasing. From 1960 to 1991, French trade shifted significantly towards the EC, particularly after 1984. In 1960, 4.3% of French GDP was dependent on exports to the EC; in 1991 it was 11.2% (Messerlin 1996:297). The proximity of wider markets and the shifting domestic constraints on reaching them provide a complex interplay repeated throughout the EC during this period.

Another arena for national lobbying is implementation, the Community’s “abiding weakness” (Grant 1993:28). Indeed, the often-variable nature of implementation of Community regulations and directives in the Member-States makes this area an attractive one, especially as a method of last resort when European action has failed. Moreover, since lobbying to delay or even modify implementation involves traditional channels of national access and closely resembles the purely national lobbying within which most groups first developed their national contacts and expertise, this option often has encouraging, albeit short-lived, success.

Mazey and Richardson have described Britain, with one of the best records of EU compliance, as pursuing a “level playing field” agenda, struggling to close the EU’s implementation gap (1993:19). This goal, they maintain, is an integral factor in national differences in lobbying styles. With a variable of implementation ranging from 80% in Denmark and the UK in 1989 to Italy’s 30% in that same year, some members’ national industrial associations, for example the Federative Association of German Meat Packers, make this sort of lobbying their main national goal. This frequent fallback lobbying agenda indicates a normative public acceptance both of the legitimacy and desirability of EU jurisdiction in a number of areas; battles over implementation comes to be seen as damage control once direction of relevant legislation at the Community level has been lost. Others adopt a more moderate view in which “implementation failure” is an “important characteristic of the EC policy process” (Grant 1993), with national-level

pressure groups featuring in this aspect of policy-making. Indeed, the legislative process is an ongoing one: "The process has not stopped when a measure has been adopted. It is necessary to follow even its implementation, and to keep monitoring", he writes of agendas for nationally-based commercial pressure groups (Pedler 1994:311). Industrial lobbying is here given more legitimacy, placed within the European legislative system as an active component. It thus influences not only national and EU policy itself, but determines too the relations between Member-States and Union.

This has radical implications for traditional determinants of state power and national agendas. The twin integrative priorities of freeing business from its traditional constraints and solidifying national governmental structure with the imperative of continued international negotiation remove means of access to smaller and more local groups, usually social organisations, and awards very large business interests disproportionate influence. This is a feature of economic globalism in general, in which international relations become more economic, and multinational companies are seen as ever more integral to national economic performance. Another view is that the EU structure allows a sort of wider corporatism, with European multinationals increasingly seeing the EU, and not their national governments, as champions and protectors (See Schmidt 1995). Others have advanced Marxist arguments about the resulting "Neo-Fordism", or downplaying of social influence in favour of industrial influence, to explaining the rise of this commercial influence (Spence 1993, Scott 1994). Close identification of corporate interests with the national interests can be seen in both the EU, especially in context of the SEA (Helen Wallace 1996, Green-Cowles 1992, 1998), and in Israel. The Israeli case is complicated by the fact that labour and employers' interests are intertwined in the unique nature of Israeli corporatism, discussed in Chapter Five.

Regions

One debate within integration theory concerns the empowerment of regions within the EU. As supranational power expands, regions with well-defined and recognised governments are able to exert enhanced autonomy. Regions have emerged, after substantially influencing the TEU in favour of subsidiarity, and achieving a common, often German-directed position in the Assembly of the European Regions pressure group, as a

“third level” of European policy making (Jeffrey 1996). The “Four Motors of Europe”, founded in 1988 to unite the dynamic and highly autonomous regions of Baden-Württemberg, Catalonia, Lombardy and the Rhône-Alpes, has also focused on the regions’ power as a “third level” within domestic decision-making. Concurrently, between 1985 and 1988, German *Länder* upgraded their traditional “Observer” representation, each establishing a *Länderbüro* in Brussels. The focus of these bureaux is, generally, the internal changes wrought in the Community by the SEA: subsidiarity, promotion of direct access to EU institutions, and increasing *Länders*’ role in Germany’s EU relations. Calls for increases in regions’ power are most often used to create intellectual support for a common European “domestic policy”;³⁴ the role of regions in foreign trade relations is small and ignored. Yet the rise of particular regions’ political power in Brussels has affected the Community’s external relations, as well.

While this debate is most often argued in terms of subsidiarity and regionally-based policies such as regional development, it is possible for European regions to conduct autonomous policies of trade promotion. This is compatible with Keniche Ohmae’s conceptions of “region states”: areas able to participate directly in the global system, through international investment, industry, IT and individual consumerism (1996). While Ohmae stops short of examining regions’ ability to directly negotiate international trade promotion agreements, in some areas this has become a defining feature of regional autonomy. Corsica’s nationalist goals, for example, have been consciously promoted by the various bilateral accords between it and Sardinia. Regarding Israel and EU-Israel trade relations, such agreements also exist for trade promotion and joint R&D between it and three German *Länder*: Baden-Württemberg, Bavaria, and Nordrhein-Westfalen.

Since the mid-1980s, German *Länder* have been charged with conducting a *Nebenaußenpolitik*, or “auxiliary foreign policy”, though the content of this remains ill-defined, subordinate to the *Reich* under Article 78 of the republican constitution, and has never encompassed foreign trade policy. The Lindau Agreement of 1957 and Kramer-Heubl Paper of 1968 resolve disputes (in practice, not constitutionally) about *Länder*

³⁴ Both Florian Gerster, European Affairs Minister for Rhineland-Palatinate, and Hans Eichel, representing Hesse, express the *Länder* view that Community policy was no longer “German foreign policy, but European domestic policy” (*Independent* 1.4.92) and “European politics will be seen as domestic rather than foreign politics” (*Independent* 16.5.92), respectively (quoted in Scott, Peterson and Millar 1994: 56).

autonomy, granting the federal government exclusive authority in external treaties in return for extensive consultation and the necessity of unanimous *Länder* approval of foreign agreements before federal ratification can take place.

Yet various *Länder* do maintain their own trade promotion programmes. Foremost among these is Baden-Württemberg, which, as the only German member of the Four Motors of Europe group, is particularly international in its focus. The *Land* is partnered overseas with Ontario, Kanagawa in Japan, Liaoning and Jiangsu in China, and at the national level with Russia and Singapore. It also has maintained a trade promotion scheme with Israel since the 1960s. Germany's regional structure, and the close links between *Land* governments, *Land* banks and local companies, affords German business people a natural outlet through which to exercise particular interests in or attachments to foreign countries or causes.

Both historical ties and Israeli-German industrial compatibility account for the plethora of *Länder*-Israel industry co-operation. The Director of the European Department in Israel's Foreign Trade Administration notes that while it may be difficult for other countries to penetrate the German market,

(i)t is easy for us. It was easy, for example, for Israeli technology to be very much involved with the market. We have a long trade history with Germany. Some of that was bilateral, and focused on military trade, and it made very good and strong connections for the Israeli industry there. And also, of course, very strong representation for the German industry here in Israel (interview with Ben-Zvi).

Contrasting Israeli trade with Germany, she notes that Israeli-British trade is constrained; "there is hardly any co-operation; we are almost all trading (as opposed to FDI or joint development) with Britain". She attributes this to the traditional nature of British-Israeli trade in sectors such as diamonds, textiles and agriculture, whereas Israel's economic strengths increasingly are in value-added high-tech fields. Also, the perception in Israel's Foreign Trade Administration is that German companies were less afraid of the Arab boycotts than their British counterparts, and than the British Chamber of Commerce.

In the case of Baden-Württemberg, local industry links with Israel were boosted by the state's Ministry of Economic Affairs, which in the early 1990s began a programme of facilitating trade links of small and medium firms with "difficult" regions in the developing world. Israel was included in this programme not because of personal or social links, but because the peace process made the region seem attractive to German companies. Most of Baden-Württemberg's trade with Israel is high-tech, and this heavily industrial *Land* identified Israel, to which Baden-Württemberg exported DM 620m in 1997 (more than to Egypt, and nearly as much as to Saudi Arabia), as a natural partner in these areas. Israel's position as peaceful neighbour to several poorer Islamic states, where manufacturing could be shared, also made Israel more attractive to German investors. A high-profile trade mission targeted Israel as a business partner in 1994, and in 1995, Baden-Württemberg and Israel signed a Memorandum on Technical Co-operation. This clearly created an additional level of EU links with Israel, and regional ties between Baden-Württemberg and Israel became an additional motivation for the EU to create favourable trade links with Israel, expressed by the Ministry of Economic Affairs to the Prime Minister of Baden-Württemberg, and ultimately to the Federal government in Bonn (interview with Miller-Koelbel).

At the level of individual companies and business people, contacts between Baden-Württemberg and Israel are sparked by the religious sentiments of German Catholics, by economic and investment motivations, and by the current desire to be seen to have Jewish links. The religious motivation can be seen most clearly in Theodore Heuss, former president of the *Land*, who visited Israel on Catholic missions in the 1960s. As president of a major *Land*, he encouraged local business leaders to accompany him, thus creating linkages between Israeli institutions and companies and mid-size firms in the region. The President of Baden-Württemberg during the negotiations examined in this thesis, Erwin Teufel, also a staunch Catholic, travels to Israel once a year as well. Economic motivations for links with Israel go hand in hand with this religiously-inspired link with the country. The Bosch group, with subsidiaries and production plants in 125 different countries, is an example of a Baden-Württemberg firm with uncomplicated (more purely "commercial") motivations for entering Israel. A desire to appear to be a friend of Jews or Jewish causes inspires still other firms to consider Israel as an overseas partner.

Daimler Benz's relations with Israel, for example, go deeper than mere export: the company president is president of the Stuttgart chapter of the Friends of the Hebrew University, and cultivates Jewish associations. In seeking to appear more "Jewish", regional companies rely on the Jewish community in Baden-Württemberg, whose *Geschäftsführer*, or head, for 27 years notes that "most firms are coming to me (rather than the Israeli consulate in Stuttgart); firms don't know the difference between the Jewish community and the Israeli ambassador" (interview with Fern). With close relations to the Bonn Embassy, the *Geschäftsführer* works actively to promote further co-operation between individual *Land* and Israeli companies. Social ties facilitate closer official ties, as well. Daimler Benz, for example, cultivated links with Israel's diplomatic representation in Bonn, and subsequently employed former Ambassador Binyamin Navon as its company spokesman in Israel.

The Community's Ethnic "Level Two"

While lobbying by Europeans with ethnic ties to Israel was not decisive nor even particularly strong in influencing the course of the EU-Israel Association Agreement, it nevertheless played a part. Perhaps surprisingly, Arab groups did not engage in lobbying on this issue, though some European Christian groups did; these are discussed briefly at the end of this section.

Domestic Interests

The emphasis placed upon alliances with foreign domestic interests in multi-level analysis models (Putnam 1993, Stein 1993) raises questions about the nature of "ethnic politics" within negotiating bodies. Are ethnic voters, and activists in favour of preferential treatment for a particular country or region, domestic policy participants (Reich 1984, 1995, Pollock 1982, Kenen 1981, Goldberg 1990)? Or are they "agents" of a foreign government (Curtis 1990)? This issue is often discussed in terms of domestic ethnic groups' affiliations, but such an approach neglects a more nuanced evaluation of the nature of communal political participation. For political culture, communal cohesion and leadership, and political structures are all variables which determine the feasibility of

effective domestic lobbying within the civil sector, and these conditions vary enormously, even within countries.

Goldberg (1990) identifies six factors which determine an ethnic group's potential impact on foreign policy: (1.) behavioural attributes of the groups; (2.) the groups' organisational characteristics; (3.) the structure of the state's foreign policy decision-making system; (4.) the domestic political environment; (5.) the international political environment; and (6.) the given policy issue. This comprehensive framework for evaluation of domestic lobbying on foreign policy thus represents three types of variable: those that relate to the nature of an ethnic group's representation and its place in society; the openness of a government to civil political pressure; and the flexibility of a state on a given foreign policy issue. This last factor is the easiest to address: in cases where a country's strategic well-being or entrenched foreign policy runs counter to an ethnic group's foreign policy goals, the power of the ethnic group's domestic lobby will be severely weakened. In the USA, for instance, pro-Israel Jewish groups have succeeded in ensuring consistent American support for Israel because they have encouraged the USA to identify American national interest with Israeli national interest (Reich 1984, 1995); support for Israel is seen as a self-evident goal, and not as a "favour" to the Jewish community. Similar identification has not been achieved as widely in Europe. Groups which are seen as political "insiders" are more likely to be able to do this, and most Jewish political groups in Europe do not maintain this status. The two main pro-Israel groups in Britain are exceptions within Europe, and one example of a pro-Israel domestic lobby successfully equating British national interest with a particular pro-Israel foreign policy goal is discussed below.

Thus, a second factor in detecting a group's success is the composition of the group itself, and its relation to national policy-makers. Permanent, "institutionalised" groups will seek to maximise their power over a long period of time, while ad-hoc groupings and "issue-oriented" groups, are more aggressive in their pursuit of limited goals. Ethnic lobbies can further be categorised as "advocates" or "antagonists", with the former operating within the established political system, and the latter appearing as an outsider. Factor Number Six, above, identifying the policy issue, "includ(es) the amount of attention a particular issue receives relative to other features of the ethnic group's foreign policy agenda" (1990:10). This is particularly relevant in explaining the relative

inaction of Continental Jewish groups, which focus primarily on issues of domestic Jewish life, thus weakening their ability to gain consensus and influence on issues related to Israel.

The nature of decision-making within a given state has been addressed in several different frameworks. Much current literature reflects statist theories of civil society (Krasner 1995), in which liberal democratic states have “their own vision of the national interest, policy preferences, and sources of power and authority. In the making of public policy, the state is insulated from the pressures of civil society” (Goldberg 1990:9). Elements of civil society may enter this élite policy process, though the exclusivity of state policy networks means they act as gatekeepers to the governing circle. Structural analysis attempts to quantify the nature of government interaction with corporate or civil élites, though few studies of ethnic groups within European decision-making systems, particularly Jewish groups, have yet been undertaken.

An often neglected factor in determining the efficacy of lobbying is the degree of clientilism in Government, which affects the public’s choices in political representation. Clientilistic regimes create incentives for personal government relationships, or “vertical” political organisation. More open regimes are responsive to a wider group, and so encourage citizens to express their political agendas communally, leading to a “horizontal” organisation of social expression. This conception of the degree of public participation in policy making has its roots in de Tocqueville. More recently, the distinction between vertical and horizontal public political organisation was shown by Putnam (1993). Comparing regional government in the North and the South of Italy, he identifies ways in which the resource of “social capital” can be organised vertically, resulting in its internalisation as a private resource, or can be exercised horizontally, creating wide-ranging policy networks throughout society.

Thus, in the South of Italy, public life is “organised hierarchically, rather than horizontally”, which in turn “stunted” the “concept of citizen”:

(F)ew people aspire to partake in deliberations about the commonwealth, and few such opportunities present themselves. Political participation is triggered by personal dependency or private greed, not by collective purpose. Engagement in social and cultural associations is meagre. Private piety stands in for public purpose. Corruption is widely regarded

as the norm, even by politicians themselves, and they are cynical about democratic principles. Compromise has only negative overtones (115).

In the North, in contrast, “an unusual concentration of overlapping networks of social solidarity” led the region to become “among the most modern, bustling, affluent, technologically advanced societies on earth”. People

are engaged by public issues, but not by personalistic or patron-client politics. Inhabitants trust one another to act fairly and to obey the law. Leaders in these regions are relatively honest. They believe in popular government, and they are predisposed to compromise with their political advisers. Both citizens and leaders here find equality congenial. Social and political networks are organised horizontally and not vertically. The community values solidarity, civic engagement, co-operation and honesty (115).

Originally directed toward explaining the responsiveness of Government to local issues, the factors of corruption and clientilistic relationships reflects Governments’ responsiveness to larger manifestations of popular preference, as well. The effect of diaspora politics on foreign policy has generally been addressed within a narrow American context, often using the American Jewish lobby as a case study (Goldberg 1990). The distinctive and diverse nature of European political structures, which incorporate statist, clientilistic, and liberal governments, renders these studies of the American experience often irrelevant to the European case.

Because the American model is so often taken as the definitive example of Jewish civil pressure, a few facts about this experience are worth examining. The American pro-Israel lobby has its basis in civil society, rather than in industrial interests, and is spread amongst many locally and nationally-based Political Action Committees (PACs), which distribute campaign contributions, and interest groups, which lobby politicians and do not distribute money. The power of the PACs comes from the amount of absolute, not relative funding which they are able to raise, as individual contributions to American election campaigns are capped at both personal and corporate levels. Rather, PACs gain power through their ability to direct the individual campaign finances of large numbers of people, who donate money to pro-Israel candidates under the guidance of PACs, and their role in advising their members to vote for particular candidates. With a Jewish population

of approximately 6 million in the USA in 1995, this amount can be significant. The American Israel Public Affairs Committee (AIPAC), which is not a PAC, is the most influential of American pro-Israel lobby groups, and operates at the national level, and smaller interest groups also function at regional and local levels. The extreme degree of horizontal organisation displayed by the well-organised and significant pro-Israel lobbies in the USA indicates a clear identification with legislators at a communal level, as well as an equating of support for the American relationship with Israel with Jewish identity throughout American Jewish communities. Both of these factors are absent in EU Member-States, and at the supranational EU level. Moreover, campaign finance is not such a dominating issue in European domestic politics as in the USA.

The well-entrenched character of the American “Jewish” or pro-Israel lobby, and the extensive literature surrounding it, has led to an exaggeration of its influence. Recent works have sought to amend this interpretation of America’s close links with Israel, emphasising the strategic nature of the relationship (Reich 1995, Pollock 1982), Christian support for Israel on religious grounds (Reich 1995, Kenan 1981), and support for Israel as an expression of guilt after the Second World War (Novik 1985, Reich 1995). More nuanced studies point out the unique nature of the USA’s split decision-making institutions, in which a heavily-lobbied legislature, reflecting both the pro-Israel sentiments of politically active American Jews and pro-Israel Southern Christians, is pitted against a sceptical Executive branch (Novik 1985, Stein 1993). Within the United States, some observers also note, the lobbying of Congress by pro-Israel groups has created a backlash within the State Department, resentful of a perceived unfair influence in support of Israel within the American political system (Tivnan 1987). There is a perception among some American policy-makers that the American public is somehow manipulated into support for Israel by a Jewish-controlled and ideological press (Reich 1984). “Ethnic politics” are thus seen to leave the realm of pure political pressure, and encompass all public activities conducted by a particular ethnic group.

What is missing in these studies is an exploration of the heterogeneity of a given ethnic bloc. It is misleading to equate a pro-Israel lobby with a “Jewish” lobby, either in the United States or elsewhere, as most Jews are not political activists, and cannot either be assumed to hold common views on Israel or on other issues. This is particularly so in Western Europe, where communities are smaller, generally declining in numbers, are less

willing to define themselves as politically distinct, and are fearful of being accused of dual loyalty in their support for Israel (Wasserstein 1996). Also, in the largest European Jewish communities, France and Britain, Jewish opinions on Israel throughout the 1980s and 1990s increasingly reflected those of the larger community; Jews became more suspicious of Israeli occupation, for instance, and increasingly ready to criticise Israel, like their non-Jewish neighbours. Furthermore, the willingness of European Jews to engage in political lobbying, whether for Israeli or more general Jewish causes, reflects the conditions of political openness and responsiveness identified by Putnam, above. The only EU Member-States in which the dual criteria of a substantial Jewish community and a political tradition of civil lobbying intersect is the UK, where indeed a significant pro-Israel civil lobby operates, though along quite different lines from the American organisations with which it is sometimes erroneously compared.

**Size and Primary Political Representation
of European Jewish Communities, 1995**

	Jewish Population	Major Domestic Political Representation
Belgium	40,000	<i>Centre Européenne Juive pour Information (CEJI)</i>
Denmark	6,000	---
France	700,000	<i>Council Représentatif des Institutions Juives de France (CRIF)</i>
Germany	40,000	<i>Zentralrat der Juden in Deutschland</i>
Greece	5,000	---
Ireland	1,500	---
Italy	35,000	<i>Unione Comunità Ebraiche Italiane</i>
Luxembourg	1,200	---
Netherlands	30,000	---
Portugal	700	---
Spain	12,000	---
United Kingdom	300,000	Conservative Friends of Israel, Labour Friends of Israel, United Synagogue / Board of Deputies

As can be seen from the above chart, only five countries of the twelve EU Member-States at the time of the negotiations possessed the population and organisation to represent a “Jewish” interest at the national political level: France, Britain, Belgium, Italy and Germany. Of these, Italy’s *Unione Comunità Ebraiche Italiane* and Britain’s United Synagogue and Board of Deputies are overwhelmingly concerned with domestic religious organisation (interviews with Morav, Davis), and Belgium’s CEJI represents Jewish interests at the supranational level. Thus, a four-way model of Jewish civil influence emerges in France, Germany, Britain, and the EU.

France

French Jewish political influence is constrained both by the increasingly divided character of the community, and by the hesitancy of established Jewish leaders to compromise their extreme “insider” status with controversial political demands. French Jewry has become increasingly bifurcated. As Jews from European countries (“Ashkenazim”) have become highly assimilated, North African Jews (“Sephardim”) have missed out on many of these social improvements and have instead exerted a more distinct, religiously-based identity.³⁵ *L'idéologie française*, placing secularism at the heart of a belief that all peoples could become French, along the humanist ideals championed by the French Revolution, has long dominated French Jewish life. However, this ideology began to be questioned in the late 1970s and 1980s, most notably by high-profile figures such as Bernard-Henri Lévy, who began to place his (non-traditionally defined) Jewish identity ahead of the increasingly questioned French ideal. As the number of Ashkenazim in France declined, due to assimilation, low birth rate and intermarriage, Sephardim were increasingly the face of French Jewry. The first North African-born Chief Rabbi of France, René-Samuel Sirat, was appointed in 1980. The traditional *idéologie française*, so fundamental to European-born Jews, declined.

Wasserstein (1996), in his comprehensive account of post-war European Jewish demographics, notes a rise in the appeal of Israel for increasingly secular and non-traditional Jewish communities. In France, fund-raising for Israeli causes increased dramatically throughout the 1980s and 1990s; by the early 1990s, the *Appel Juif Unifié* was raising FF 120 million each year, of which 60% was sent to Israel. While Rabbi Sirat was critical of Israel's policies, his successor, Joseph Sitruk, was vehement in his support for Israel. Wasserstein concludes that concern for the state of Israel was during the 1990s replaced with an increasing concern for the continuance of diaspora Jewish communities. However, the amount of money raised in France for Israel, combined with the high profile support for even right-wing Israeli policies, and the rise in Jewish pride amongst French Jews, particularly those from North Africa, suggests otherwise.

³⁵ The resulting polarisation, discussed below, of “Ashkenazim” to the political left and “Sephardim” to the right echoes ethnically-based political differences in Israel, where the Labour party is more closely identified with Ashkenazi Jews and Likud with Sephardi Jews. (See Chapter Five.)

The split between progressive “French” Jews and conservative Jews was part of a wider reaction against the rigid secularism of the French state, in which Jews must practically choose between being “good” citizens and practising Jews.³⁶ A series of petty irritations found concentrated opposition in March 1994, when local elections were held on a Jewish holiday, thus preventing religious Jews from taking part. Contradictions between public and private life such as this force the French Jewish community to take sides, accelerate the assimilation of secular Jews, while promoting a growing particularism among more traditional North-African Jews. The Communist Jew Guy Konopnicki criticised the refusal of traditional Jews to vote in 1994, saying “It may be hard for an observant Jew to sign his name on Passover, but what do these small concessions mean in view of the Jews’ freedom in the French republic?”. While Konopnicki was elected president of the *Consistoire Central* (see below), the following year, his civic reasoning was lost on the half a million more traditional Jews who three months later re-elected the much more socially and politically conservative Rabbi Sitruk as Chief Rabbi of France.

French Jews are represented by a myriad of organisations, the most senior political one being the umbrella organisation *Council Représentatif des Institutions Juives de France* (CRIF), of which the largest member organisation is the august, established *Consistoire Central*. In 1977, CRIF, reflecting the debate between progressive and conservative French Jews, published a new set of principles. This charter, amongst other goals in the French-Socialist tradition, undertakes both to support “full participation of Jews in French society”, defined along traditional goals (“*la justice et la liberté, la présence du judaïsme et sa contribution spécifique à la civilisation française*”, etc.) and also “unconditional attachment to Israel” (Bensimon 1989:68, Wasserstein 1996:235). The contradiction inherent in these two ideas found voice in a number of debates from the 1970s through the 1990s about the existence of a “Jewish vote” in France, especially in regard to policy towards Israel. Whilst the Jewish community was divided on the existence and desirability of what the French perceived as a “state within a state”, in the

³⁶ Even mundane citizenship requirements, such as mandatory school attendance on Saturdays (the Jewish Sabbath), and the inability of Jewish civil servants not to work on Jewish holiday, render it impossible to be both fully French and fully religious. Jewish law prohibits even the most basic tasks, such as driving, writing, earning money, or even carrying brief-cases in public places, on Sabbaths and holidays.

words of Serge Weill Goudchoux, (quoted in Wasserstein 1996:236), the main political parties began to recognise and court just such a vote (Azeroual and Derai 1990). Jews began to reject the Socialist movements and parties, to which many had traditionally belonged, over rifts in matters both of Israel and French secularism. In 1990, a decisive split emerged in the traditionally very Jewish Communist Party when, after an unsuccessful attempt to reform the party, Jean Ellinstein broke away to establish a secular, but specifically Jewish, movement.

Many Jews became attracted to other organisations, reflecting more conservative agendas, including the widely popular *Alliance France-Israël*, the militant *Comité de Co-ordination du Sentier*, the staid *Congrès Juif Européen* (part of the international World Zionist Organisation), the *Fédération des Organisations Sionistes de France*, and French wings of the Israeli political parties *Herout*, *Likoud* and *Mapam*. Of these organisations, only CRIF however maintains the gravitas and agenda necessary to pressure the French Government in its foreign policy at the national level, and co-ordinates French political representation on both domestic communal issues and on foreign policy toward Israel. While CRIF was active in pushing France to adopt more a more pro-Israel foreign policy - Mitterand was particularly close to CRIF presidents Théo Klein and Jean Rosenthal (Azeroual and Derai 1990) – it, like most European Jewish organisations, was inactive in lobbying for greater concessions to Israel in the Association Agreement. Instead, the organisation has become a vehicle for showing the “acceptable” face of French Jewry: loyal, in broad agreement with French foreign policy and political goals, and accepting of *l'idéologie française*.

Britain

Unlike the French community, the British Jewish community is relatively cohesive. Because support for Israel is not used by British Jews as a tool of rebellion against wider British society, as it is in France, the Jewish community tends more closely to reflect mainstream British opinion than in France. Approximately 80% of British Jews vote for the Conservative party, in part because the Anglo-Jewish community has prospered materially between the 1970s and the 1990s and thus become more like typical Tory voters, but also because the British Labour party between 1973 and the 1990s was

markedly critical of Israel. The established Jewish organisations in Britain, such as the United Synagogue or British branch of the World Zionist Organisation, express their support for Israel primarily in cultural and religious, not political, contexts.

Instead, the domestic pro-Israel interests in Britain are represented by Labour Friends of Israel (LFI) and Conservative Friends of Israel (CFI): two “insider” groups established in the 1940s, whose primary identities are as loyal party fringe groups.³⁷ LFI is the Labour party’s largest fringe group, and CFI, in the words of its director, is “more Tory than Tory” (interview with Pollack). While both groups define themselves as political, not religious, in character, the membership of each is almost exclusively ethnically based. They thus occupy a hybrid position within the British political system: of the two mainstream political parties, yet clearly identifiable as an ethnic bloc. Both repudiate any ethnically-based delineation, which might compromise their positions as insider groups within their parties.

“(W)e don’t want to give the impression that there is an Israel lobby as such. We are part of the Tory Party; I’m more Tory than Tory. We have the influence we have in the Party because we are an integral part of the Tory Party, not an external Israel lobby of the type there is in America” (interview with Pollack).

Additional support for CFI and LFI in the early 1990s came from “tangential” links with CEJI (discussed below), constant contact with the Israeli Embassy in London, and the independent British Israel Public Affairs Committee (interviews with Pollack, Webber). These links supplied the groups with information, thus increasing their ranges of expertise and usefulness to their parties.

Labour was out of power during the Association Agreement negotiations, limiting the relevance of LFI. As the Party evolved and looked increasingly likely to assume power, however, companies with some Jewish or Israel links already joined LFI as one avenue of many to greater influence within Labour. “We were small but influential, and we were seen to create links”, notes the then Director (interview with Webber). Marks and Spencer and GEC Marconi particularly used LFI, though other companies were involved with the organisation through personal contacts amongst corporate executives.

³⁷ A Liberal Friends of Israel fringe group also functions.

Thus, the LFI allowed industry to become closer to the Government by expressing a commitment at some level to promoting a conciliatory British foreign policy towards Israel. It took no other action, however, in the context of the Association Agreement negotiations.

CFI, which exerted real power through Prime Minister John Major's Government, limited its goals to domestic issues, which it perceived as easier to influence than multilateral problems, and only promoted pro-Israel legislation which coincided with wider British interests, as seen by the Conservative party. The CFI's biggest success during the 1992-1995 period, the issue on which the CFI director notes he "could have retired", was its lobbying for the 1993 repeal of Britain's arms embargo on Israel. That wider issues of EU-Israel trade were not addressed is significant. Just as much British industry discounts Britain's role in wider EU external economic policy as small to the point of irrelevance (interview with Ginty), civil lobbies such as CFI increasingly see the British government as a poor conduit to European policy. While the CFI notes that "other things would follow" from a purely domestic agenda, its actions were not directed in any way toward Britain's wider role in Europe.

CFI's lobbying against the arms embargo does provide a clear case study of the limits of Britain's civil pro-Israel lobby, however. Britain's parliamentary system encourages institutionalised groups to merge with the existing political structure, as advocates, rather than antagonists. Thus, in addressing the arms embargo, CFI first gauged the pro-Arab interest within the Party (through dialogue with pro-Saudi MP Cyril Townsend) to determine whether adopting this cause would provoke opposition. When no opposition was forthcoming, the CFI then exploited personal friendships between CFI officials and Government, securing Defence Minister Douglas Hogg as champion of the cause. Within this context, the CFI was successful in identifying its own goal with the British common good. It linked Britain's maintenance of the 1982 EU-imposed arms embargo as an unfair imposition from Brussels: a position which achieved particular resonance in a Party increasingly sceptical of further European integration. The CFI pointed out France's alleged violations of the embargo, and saw British compliance with a wider pattern of perceived self-defeating deference to European initiatives. The timing of

the eventual Parliamentary vote was chosen carefully, to precede the 1993 EP elections. John Major had recently alienated many Jewish voters with critical comments about Jerusalem, and the Party was eager to ensure Jewish support for the party's EP candidates. Although the CFI maintained close links with the Israeli embassy, and regular contact with LFI, in this, its greatest triumph of the early 1990s, both its strategy and its sympathies indicate closed identification with the Conservative Party: "more Tory than Tory".

Germany

Germany's small Jewish community is noteworthy primarily because of the exaggerated attention paid to it within the German domestic context, for historical reasons. Structurally, there is little to indicate that German Jewish views are influential. The community remains relatively small and is not widely integrated into wider German culture.³⁸ Furthermore, the Jewish community in the 1990s was significantly an immigrant one. 20,000 Jews, two thirds of Germany's 1995 Jewish population, arrived in Germany from the Soviet Union after 1990; a further 25,000 had by the mid-1990s applied for visas (Wasserstein (1996:256-7). Despite the resulting "outsider" nature of much of the community, Jewish interests are represented to the Government by a venerable former West German institution: the Jewish Central Council. (The East German Jewish community had been small and lacked official representation or organisation).

The Jewish Central Council receives a great deal of attention in the German press, and elicits responses by German politicians, but limits its statements and requests to social and domestic political matters; it was not active at all in lobbying for enhanced trade relations between either Germany or the EU and Israel. Like the French *Consistoire Central*, the Jewish Central Council is loath to compromise its respected, established face by promoting controversial foreign policy goals. It was led from 1945 until 1988 by Heinz Galinski, who was nationally-known and respected as the moderate, symbolic

³⁸ In the mid 1970s, for instance, 2/3 of Germans admitted to anti-Semitic attitudes (Feldman 1984:217), and 60% of German Jews said they felt no "sense of home" (*Heimatgefühl*) in Germany (Wasserstein 1990:169).

“face” of German Jewry. In 1988, Galinski retired to lead the cultural organisation the Central Council of Jews in Germany, until his death in 1992; the marginally more controversial Ignatz Bubis took over as head of the Central Council in 1988, and remained in that post throughout the 1990s, until his death in 1999.

Germany is also host to a number of smaller Jewish-related organisations, including many driven by business interests and the search for joint business initiatives between Germany and Israel. The Israel-German Chamber of Commerce and *Deutsche Gesellschaft zur Förderung der Wirtschaftsbeziehungen mit Israel* (German Society for Economic Relations with Israel), both established in 1967, lobby the German government for enhanced trade opportunities with Israel. The German Society for Economic Relations is particularly active, with offices in Bonn, Berlin and Düsseldorf, and sub-committees on metals, textiles and food. This organisation did not, however, take action on the EU-Israel Association Agreement negotiations. Additional business contact is generated by the close relationship forged since the 1950s between the trade union umbrella organisations *Deutscher Gewerkschaftsbund* and *Histadrut*. These and smaller organisations are supported primarily by non-Jews, reflecting the desirability of associating with Jewish causes in Germany. Even small, benevolent organisations (which in other European countries are patronised by Jews as a social or charitable cause) in Germany generate interest, and often raise significant funds, from local or national businesses and prominent individuals (interview with Fern). The result, from Israel’s economic point of view, is positive, though the patronage of “Jewish” civil organisations by non-Jewish Germans results in a distorted picture of “Jewish” influence within Germany.

Many German Christians with a religious commitment to Israel also pioneer commercial links between Israel and Germany at the civic level. These contacts are most effectively maximised, however, when local business leaders are able to liaise with informed, local Jewish communities. Much of this work is done on a local, unofficial level (primarily within the region of Baden-Württemberg), due to the religious commitment of various *Land* presidents, and the active office of the long-serving *Geschäftsführer der Israelitischen Religionsgemeinschaft Württembergs*, who has encouraged business links

with Israel. In Germany, overall, where the Jewish community is small, transitory, and politically alien, and where organisations of Jewish interest are patronised significantly by non-Jews, real influence by Jewish communities on trade and commercial matters is random and unofficial.

EU

Until the 1980s, organised European-level Jewish political concerns generally focused on domestic issues; political action on foreign issues was limited to lobbying governments to place the plight of Soviet Jews on their foreign agendas. The European office of the Jerusalem-based World Jewish Congress took the lead in what little organisation there was of Jewish communities at the pan-European level. Yet the increasing hostility between the EU and the Likud Government in Israel (discussed in Chapter Three) spurred European Jews to explore more direct EU-level political action.

This found organised expression with the 1990 formation of the Brussels-based European Jewish Centre of Information (CEJI), explicitly established in reaction to the perceived hostility of EPC to Shamir's administration. Years of consultation amongst European community leaders delayed activity, however, and CEJI did not become fully operational until 1992. Its involvement in EU trade policy toward Israel was limited to hosting one joint seminar with 28 prominent European Jewish businessmen in February 1992. This seminar, attended by senior EU officials including David Williamson, Secretary General of the Commission, lent credibility to the new CEJI, yet primarily served as a platform for participating businessmen to form their own connections with EU policy-makers. CEJI declined to engage in further or direct lobbying for the Association Agreement, ostensibly because it was still too new to undertake such an ambitious project (Laufer 1997). Yet CEJI had already undertaken other ambitious lobbying projects, inaugurating its activities by addressing the EU's failure to rule against the legality of the Arab League boycotts, and continuing by lobbying on human rights issues, for an end to boycotts of joint scientific projects with Israel, for less inflammatory statements on Israel in the EP, and for a more conciliatory position on Israel in EPC.

Undoubtedly, CEJI was new and inexperienced. Its early work on raising the issue of the boycotts in the European Parliament and the Commission brought about a

Commission statement on the issue only in 1993, after the World Jewish Congress and the European-Israel Chamber of Commerce joined CEJI in exert pressure on the Community to ban boycott compliance.³⁹ Yet CEJI's inaction in this field shows not only inexperience, but also a lack of recognition of the importance of a renegotiated free trade agreement with Israel, and a feeling that economic agreements were more difficult to lobby for than symbolic matters such as boycotts.⁴⁰ This willingness only to adopt "high" political, symbolic political goals as defining issues doomed the new group to an "antagonist" position as an outsider in the EU decision-making arena. "High" political positions, set forth in EPC statements, reflect too many interests and strategic hopes for Community foreign policy to be altered by supranational lobbying by an ethnically-based

³⁹ CEJI exerted its pressure through a joint CEJI-European Israel Chamber of Commerce seminar in Brussels in March 1991, attended by jurists, Commission officials, MEPs, Israeli government officials, and representatives from various individual member state-Israeli Chambers of Commerce. There, it was argued that the boycotts violated EEC 85, prohibiting "prevention, restriction or distortion of competition within the Common Market". At the next EU-Israel Cooperation Council Meeting, in May 1991, the EU representatives promised to pursue the matter through EU legislation and through EPC. This represented "some real change" in Community thinking Laufer (1997:35). In Summer 1993, CEJI published a detailed report on the "Arab Boycott and its Impact on the European Community", whose analysis was largely mirrored in the December 1992 report of the REX Committee. This EP report called on the Council of Ministers to "devise a common policy of economic sanctions", and to insert clear anti-boycott measures in the Community's future trade agreements with Gulf states. In 1993, Baron Crespo, chairman of the Committee on Foreign Affairs and Security, claiming that the boycotts were primarily political and not commercial in character, exerted his jurisdiction over the issue. Wilhelm Ernst Piecyk was *rapporteur* for the political aspects of the boycott, and his report, finished in June 1993, saw the boycotts in political terms (DOC-EN/DT/226/226607, EP Working Doc. 7.6.93). Though strongly condemning the political use of economic boycotts, the report tied any Community action against the boycott to the future resolution of the wider Arab-Israeli conflict, and did not recommend any specific EU legislative actions against the boycott, limiting any EU opposition to the boycotts to verbal criticism.

⁴⁰ Laufer (1997) regards the changing Community attitude to the Arab boycotts as an early victory for the recently established CEJI and European-Israel Chambers of Commerce, though on closer inspection, their equivocal success indicate not strength but inefficiency on the part of these and other interested lobbying organisations. Although an EP Resolution of 11.10.82 condemns all sanctions based on religion or race, and calls on the Council and Commission to outlaw such sanctions, by the early 1990s, its position had relaxed. The EP did not regard the issue as pressing; Jan Sonneveld, *rapporteur* for the then unfinished REX Committee noted that "the European decision makers do not perceive the issue as urgent at all" (*Jerusalem Post International Edition* 23.3.92, quoted in Laufer 1997:36). In 1993, he again concluded that "Community trade did not appear to have been substantially affected by the boycott" and the EP therefore declined to take action to curb the boycotts (Doc. EN/DT/226/226607, EP Working Document 7.6.93). The Commission differed slightly. Although Eberhart Rhein long maintained that the boycott did not significantly harm EU-Israel trade, in responding to a Parliamentary question about the boycotts, the Commission stated that "it is aware of the problem...(and) has on several occasions stressed in the House its disapproval of all discrimination in international trade...(and that it) is currently drawing up a working document on the question, which it intends to present to the Council after July 1991" (quoted in Laufer 1997:36). This document was not published, however, over the next several years, and the World Jewish Congress, CEJI and European-Israel Chamber of Commerce began to exert pressure on the Community to outlaw the boycotts.

“outsider” civil group. While “lower” political positions such as external trade policies might have been more effectively altered through lobbying by groups like CEJI, it instead chose high-profile, symbolic issues through which to establish its presence among other European Jewish organisations and failed. By 1995, CEJI had settled into a role of providing informational and organisational resources to other, more established and more active communal organisations.

Pro-Palestinian Groups

Just as domestic Jewish and pro-Israel groups refrained from extensive political action regarding EU-Israel trade relations during this period, dismissing it as too “low-political” to satisfy their constituents’ desires for decisive action on the more “high-political” issues that mattered to them profoundly, so too did domestic pro-Palestinian groups. One exception to this absence was coordinated not by a European group, but by an Israeli pro-Palestinian (though partially EU-funded⁴¹) organisation: *Gush Shalom* (“Peace Bloc”). *Gush Shalom*, which had long protested Jewish settlement in the West Bank and Gaza, exerted strong pressure on the Israeli Government to deny “made in Israel” status to goods produced by Jews or Jewish-owned factories and farms in the occupied territories. While *Gush Shalom* never lobbied on this issue directly in Europe, it did draw up lists of targeted products and provide other information to Europe-based groups, which would later emerge, after the conclusion of the Association Agreement, and raise the issue of “made in Israel” labelling as a high-political one in Europe. European groups that used *Gush Shalom* material in domestic and EU-level lobbying on Israeli labelling rights include the Dutch Christian groups Pax Christi and SIVMO, and the German Green Party. Commission negotiators deny being influenced by these or other pressure groups or parties in the Association Agreement negotiations, however.

⁴¹ Gush Shalom has received EU funding through its affiliated organization ICHAD (Israeli Committee Against House Demolitions), as discussed in Chapter Five and in Rosenblum (2001).

Conclusions

Jewish civil organisations, both at the national and supranational level in the EU, are for the most part small, disparate, and without an effective international organisation of the kind that unites state interests in the USA and renders an effective lobbying network there. While some political lobbying relevant to wider EU-Israel relations was conducted in the UK by CFI and at the EU level by CEJI, this was both limited in scope and equivocal in its success. Overall, the influence of Jewish civil society on the 1995 EU-Israel Association Agreement was surprisingly small. If we review the six factors identified at the beginning of this section in predicting the efficacy of civil organisations in influencing external policy, we see that European Jewish communities are lacking in almost each one.

Behavioural attributes of groups, including levels of activity, policy objectives, targets, timing and strategies are modest in most Member-States, and at the EU level. From the social concerns lobbied for by French and German groups to the behind-the-scenes activities in promoting business linkages in Baden-Württemberg, the agendas of most Jewish civil organisations are small. Even the relatively high-profile and aggressive CFI in Britain deliberately chose to fight only limited, bilateral battles, instead of seeking to influence wider EU policy through the UK Government. Organisational characteristics of groups, including the level and scope of their development, size, and level of their participation in the policy-making process are similarly modest. Furthermore, the only supranational organisation active during this period, CEJI, was riven with internal divisions, to the point that it could not function for its first two years because of differences between nationally-based Jewish groups.

External conditions, including the domestic political environment, international political environment, and given policy issues, vary. Most political systems respond well to “insider” groups, able to form networks among élites. Of the European groups, only LFI and CFI enjoyed insider status, and only then at the expense of limiting its lobbying agenda to domestic issues which complemented existing Party ideology. Perhaps the most “outsider” of all European groups, in that it was newly formed and therefore untested, was CEJI. Although CEJI chose its agenda carefully, limiting its initial political action to Community action on Arab boycotts at a time when the peace process weakened

the Arab League's devotion to the secondary and tertiary boycotts, it nevertheless failed to influence extremely insulated Commission. It was more successful in placing the issue on the agenda of the EP, confirming theories of that institution's openness to "soft" interests such as environmental and gender issues (Earnshaw 1995abc). Yet without the networks in place to influence Commission thinking, and without the concerted nationally-based lobbying strategy of the type pursued by the Israeli government, it was unable to influence the EU agenda sufficiently to move beyond the discussion stage.

With few exceptions, European Jewish civil groups have declined to develop the wide alliances necessary to command Government attention and to sustain Government interest in foreign policy issues. Internal fragmentation, outsider status, and uncoordinated political strategies ensured that domestic political pressure remained a faint addition to, rather than ally of, the wider corporate and foreign political lobbies that shaped negotiations for the 1995 Association Agreement.

Changes in Ratification in the EC 1984-1992

Ratification and Two-Level Analysis

Putnam's neat two-level model falls into immediate difficulties when applied to the EC, which is both a complex decision-making entity and an intergovernmental organisation. It is this duality that haunts, to some extent, all theoretical conceptions of the Community; here it presents two possible views of the ratification process. The EP, increasingly empowered by the SEA and TEU, might pose real level-two constraints on the Council and Commission in the future. Although the EP ratified the 1995 EU-Israel Association Agreement with little protest, it had already proven itself willing to prevent ratification on ideological issues, as in 1988. Throughout the 1990s, both industry and foreign political interests have increasingly targeted the EP as a destination of lobbying, much as they would a nationally-based level-two. The EP remains a low priority, however, and the "soft" interests such as social and environmental groups, which built up relations with the institution in the years prior to the SEA, remain in positions of unique influence. The Israeli government, for example, which lobbied intensively for the 1995 Agreement, began to pay the EP more attention in the early 1990s, assigning one lobbyist

to the institution throughout the negotiations, though the priority of influencing the institution remained low, overall.

At the member-state level-two, ratification of Community-negotiated positions is provided by means which vary in formality and autonomy. The most obvious ratification right held by Member-States is their vote in the Council of Ministers. While highly consensual in many matters, in the case of foreign trade treaties, qualified majority voting remains in the Council, thus affording states wider liberty to affect level-one negotiations than remains in many other matters. Also in the case of treaties, states maintain the responsibility of formally ratifying (by majority vote) all EC agreements in national legislatures, a right which was exercised vigorously in the case of the 1995 Association Agreement.

In the case of Association Agreements where previous commercial agreements exist, however, as with Israel, the possibility of interim agreements imposed by the Commission remove much of the power of Member-States to affect negotiations in the manner described by Putnam. Only non-trade items, such as political dialogue and social co-operation, can be held up by non-ratification by Member-States. In the case of Israel, non-ratification thus becomes self-defeating. As some Member-States refused to ratify the agreement on political grounds, in protest at Israel's slow pace in the peace process, they in effect handed Israel non-scrutiny in these very matters. Under the interim agreement, Israel can enjoy enhanced economic ties with the Community, while remaining free of monitoring instruments such as political dialogue and cultural co-operation.

Association Agreements routinely take years to ratify. Although the Israel agreement was not ratified until 2000 in some countries (notably France and Belgium) in protest of the end of the Oslo Peace Process, other agreements, such as the 1995 EU-Tunisia Association Agreement which took over two years to ratify, are delayed by bureaucratic, not political, factors. In practical terms, the several ways of ratification of Community-negotiated legislation and third-party agreements renders the process "heavy". As one Israeli diplomat active in the negotiations for the 1995 Agreement noted, concerning ratification: "It is difficult to finalise agreements with all the bureaux in Europe. It will be two years before agreements start working. Europe is difficult to work with, even in business; it is heavier than the US" (interview with Chokron)

Yet lobbying to affect ratification is generally difficult. Domestic interests might play a role in affecting national positions, but this affects state behaviour within the negotiating process, rather than in ratification. The simplicity of the ratification decision raises its political stature. Outside interests, which thrive in multi-level trade negotiations, where they can pursue a plethora of avenues of access, are less well-placed to affect a simple “high political” issue such as treaty ratification than they are to influence complex negotiations. One exception to this limit on corporate behaviour arises when national interests are linked so closely with industrial interests, or when industrial interests wielded such complete political power through a corporate system, that trade agreements can be vetted on these grounds. Given the climate of deregulation in much of the EU, however, and the complex nature of many trade agreements, this is unlikely. In agreements with underdeveloped states, agricultural interests in Europe might dominate and affect external trade relations to a high degree. While Israel encountered strong protectionism in telecommunications from some Member-States during its negotiations, no single national industry held up ratification of its Association Agreement.

Ratification at the Member-State Level

Within the EC, two means of ratification exist at the member state level: actual ratification of third party treaties drawn up by the Commission, and *de facto* ratification, which can take the form of delayed implementation of Community directives or regulations, or in engaging in intergovernmental bargaining in such a way that all Community proposals are blocked until a specific point is agreed. The reasons for these various types of ratification decisions are many; transparency and degree of politicisation, and correspondence of domestic and Community law, for instance, have been shown to affect *de facto* “ratification” in the form of implementation. More obviously necessary legislation is generally approved more effectively by Member-States, even those without the “legalistic” tradition long assumed to facilitate implementation (See Maher 1996). A number of studies have found that non-implementation and complex bargaining reflect more than simple state preferences. Degrees of transparency and of politicisation affect countries’ implementation records, even beyond commonly-assumed factors such as legalistic tradition and a contractual political style (Sevilla 1995). However, non-

implementation and bargaining do remain tactics by which Member-States can alter Community policy after it has been negotiated at a “high-political” level-one.

This was extended by the SEA, which affected a new method of standard-setting. More detailed directives were replaced with “new approach” measures, which stress state legislative responsibility and mutual recognition among the Member-States. This new emphasis helped to reduce the traditional lags in implementation, but often failed to take into account the necessity of co-operation between different levels of national government in Member-States, as a variety of government agencies, including local government, were forced to work together to implement often-times vague Community directives. (When implementation is considered in its fuller form, encompassing transposition, enforcement, and education of the populace, then the wide range of government agencies necessary for adopting Community directives to national law is apparent.) While individuals or companies have the option of appealing to Community institutions about national non-implementation, delay in legal transposition and implementation remains a way for Member-States, perhaps influenced by lobbyists in the level-two arena, to express disapproval of a stance already adopted by the Community. Where industrial lobbyists do act to delay implementation, the process can be seen as a continuation of inter-interest negotiation by other means, rather than a right of *de facto* ratification on the part of the Member-States. The process of implementation allows lobbyists who are strong in the national arena to significantly affect the ways in which EC legislation impacts them (Grant 1993).

In the case of foreign treaties negotiated by the Community, the most common motives for Member-States to delay national ratification are diplomatic goals which Member-States hold towards the outside bargaining partner, independent of Community diplomatic positions. This is seen clearly in the case study of the 1995 Association Agreement, when ratification in most Member-States was indeed delayed in independent political gestures, with France and Belgium holding out final ratification until 2000, at which point the Agreement went into effect. (An interim agreement, discussed later, had already instituted most of the Association Agreement’s provisions since 1996.) Domestic social and industrial interests might also play a role in affecting the national stance, but this seems to affect state behaviour within the negotiation process, rather than in ratification. The simplicity of the ratification decision raises its political stature. It seems

likely that industrial interests, with their emphasis on multi-level political negotiation, are less well placed to affect a simple “high-political” issue such as treaty ratification than they are to influence more complex negotiation.

Conclusions

The various conceptions of two-level analysis discussed above assign different degrees of responsibility to the final ratifiers in constraining level-one negotiators. In the presence of instruments to override member-state ratification, the Community’s win-set is widened; implementation agreements essentially remove the Member-States from the EU’s level-two in trade matters. As will be seen, however, in the case of the 1995 EU-Israel Association Agreement, the highly political view of many Member-States in examining all aspects of European relations with Israel would likely have rendered ratification of *any* agreement impossible. In negotiating with certain partners, it is likely that the Community’s win-set would be impossibly narrow were member-state ratification to function as the Treaty of Rome envisioned.

Instead, in the presence of advanced implementation agreements, member-states affect the formation and maintenance of the Community’s level-one win-set through the threat of non-ratification in the Council of Ministers, and more generally through the atmosphere of consensus which marks Commission-Council relations. In the case of EU-Israel Association Agreement negotiations, this is not as consensual as mandated by the Treaty of Rome. Instead of co-operating through technical committees, the Commission and Council evaluated EU-Israel relations within forums dedicated to high political matters. Nevertheless, when some political good-will exists, as was the case at the beginning and during much of the EU-Israel negotiations, this by-passing of forums for technical discussion works in favour of a foreign negotiating partner. Without individual member-state vetoes, an effective level-two win-set ceases to exist, unless the Council is willing to take the high-profile decision to fail to ratify an agreement on which it has consulted throughout. Thus, instead of the three-level model of analysis posited by Risse-Kappen, for instance (see Chapter One), the Community, in trade issues, more closely resembles a two-level model.

	Risse-Kappen	Association Agreement	
Level I	International Bargaining	Trade Component Negotiated	Political Component Negotiated
Level II	Inter-State Bargaining over the Negotiated Results of Level I	Passage is likely in the Council of Ministers, after extensive consultation during negotiations	
Level III	Domestic Political approval	Irrelevant	Likely to be Denied

Added to this view of a consensus-dominated negotiating system is the prominent role that private interests play in Commission policy-making. As this chapter discusses, industrial interests are much more likely to be influential in the Commission than social interests such as the Jewish communal groups outlined above. Yet the ways in which industrial interests are able to influence Commission are themselves evolving. Commercial pressures at the member-state level continue to constrain member-state opinion, and will influence those issues upon which member-states will insist during the consultative level-one negotiating period. Since the mid-1980s, commercial interests have also centralised their lobbying activities, as the Commission emerged as the prime policy-maker in many issues in the Community, and as the Commission actively sought allies within commercial interests and institutions to provide it with information and assurances of implementation. During the mid-1990s, some commercial organisations also began to emerge as overt influencers of EU foreign trade policy (as opposed to internal industrial regulation), though these developments were not yet developed enough to influence the course of the Community's relations with Israel.

The high degree of influence on EU trade policy negotiations of commercial interests fulfils Putnam's expectation of a "tendency centring on *process, leverage, access* and *networking*, which suggests a transformation of foreign economic policy into a form of multilevel negotiation and which takes us beyond established notions of the policy arena" (1993:149) discussed at the beginning of this chapter. While national channels are still

utilised by commercial interests, it is increasingly unlikely that industry can influence EU member-states to accord industrial goals national priority, and to threaten veto over them. Traditional sectors such as agriculture and textiles, particularly in poorer Member-States, are the last vestige of zero-sum industrial interests. Instead, as Community foreign policy-making increasingly represents a range of political and commercial concerns, informed through consensus, rather than the constraint of non-ratification.

Chapter Five
The Israeli Political Economy in
Negotiation and Ratification of Foreign Trade Agreements

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Chapter Five

The Israeli Political Economy in Negotiation and Ratification of Foreign Trade Agreements

Introduction

The 1990s were marked by a profound new internationalism in Israel. Israelis revelled in an economic upswing that raised their per capita income to that of Britain, and for the first time enjoyed wide-spread international diplomatic acceptance, as the number of countries recognising Israel doubled. Foreign direct investment poured into Israel, as Israel became the leading country (after the US) of new start-ups listed on the NASDAQ stock exchange. Much of this was enabled by changes in Israel's economy, which became more high-tech and allowed Israelis to take advantage of an international economic upswing in that decade. But it was the extensive multilateral peace talks with the Palestinians, and the negotiated peace with Israel's neighbour Jordan, that captured many politicians' imaginations, and created a sense that at long last Israel was fulfilling the original Zionist ethos of becoming "a nation among the nations".

The economic peace "dividend" as it was called was real, too: all but the primary Arab league boycotts against Israel lapsed (even primary boycotts against Israel lapsed in some cases, particularly in the small Gulf emirates), and suddenly many of the impediments to investment in Israel (particularly among European companies, which had always observed the boycotts more than American companies) vanished. For a time, during the period of negotiations 1993-1995, it also became "politically correct" in some quarters to invest in Israel, for to invest in Israel was to invest in the region: in a country that was making peace with the Palestinians, creating economic links with them and their other Arab neighbours, and creating a peace based on prosperity in the Middle East.¹

This chapter examines these preconditions for increased trade and investment by discussing changes in the Israeli political and economic scene, both real and imagined. In the mid-1980s, the monolithic corporatist institutions that had governed Israel's political economy since before the founding of the state began to be dismantled. A series of

¹ This was an argument made most forcefully by Shimon Peres throughout this negotiating period, as discussed below and in Chapter Seven.

economic crises and corporate restructurings forced the major economic institutions to reassess the interventionist way Israel's economy was run. As new methods of formulating economic policy were created, a wider cross-section of Israeli society was brought into the political-economic "establishment", rendering Israel's policy-making more complex and multi-layered. At the same time, a series of major election upheavals and legal challenges to existing election laws upset Israel's parliamentary system, rendering the party-politics more precarious, and forcing politicians to seek new support from private interests.

As these new linkages evolved, domestic Israeli commercial interests themselves became more sophisticated and ready to meet the challenges of greater political engagement. The immigration of one million Russians, many of them highly skilled, in the years following 1989 also strengthened Israel's commercial base. Israel's economy became considerably more diversified and high-tech in the late 1980s and early 1990s, and began seeking greater international linkages than had existed before. This was facilitated by Israel's Government dismantling traditional barriers to international trade, and by the lapsing of many of the Arab-led boycotts of Israeli goods. It also received a boost politically, as multilateral peace talks (discussed in Chapter Three) rendered Israel an attractive, even fashionable, destination for foreign investment.

This chapter argues that the Israel of 1993-1995 was thus very different in the eyes of European investors than the Israel of 1975; for the first time, European and other countries faced commercial incentives to upgrade relations with Israel. As they did so, the engagement of various commercial interests in Israeli policy-making rendered dialogue with Israel more complex, and set the stage for the cross-border industrial linkages that shaped the Israeli side of negotiations for the EU-Israel Association Agreement.

Israel's Economic Institutions

From the late 1980s through the 1990s, Israel's economy became a much more attractive place for non-traditional and foreign firms to do business. Cuts in public aid to Israeli industry sparked by a series of mid-1980s debt crises and the bankruptcy of the major holding company Koor spurred a wave of deregulation and privatisation that revitalised the economy. This was exacerbated by a series of Government projects

designed to nurture Soviet immigrants' initiatives. This boosting of Israel's high-technology sectors came as a series of military equipment companies, starved of Government funds, transferred production to civilian manufacturing, further encouraging the transformation of Israel into a high-technology driven economy. Finally, the "peace dividend" of lapsed boycotts after 1991 made it easier for foreign companies to do business with the Jewish state, providing Israel with the necessary foreign investment to finance new industrial projects.

Government Sector

Traditionally a corporatist economy (and despite liberalisations in the 1990s), the largest employer in Israel from statehood throughout the 1990s remained the Israeli Government, in the form of the Government Corporations Authority. In 1985/6, the Authority listed 189 government-owned companies employing 68,000 workers, or 5% of the labour force. The defence sector constituted the largest proportion of Government-owned industry, served by the country's largest employer, Israel Aircraft Industries, and by the major enterprises Military Industries and Elta Electronics.² The non-corporate Maintenance and Restoration Centres, run by the army itself, and the Government-supported defence R&D institution, Raphael, also contributed to the defence sector. Defence spending in 1998 amounted to 8.5% of Israel's GDP.³

In the non-military sector, the Government until the 1990s (when it initiated a series of privatisation plans) controlled a number of state monopolies, including the Israel Electric Company, water company *Mekoroth*, the PTT *Bezek*, El-Al, state television, railroads, radio, ports, airports, many hospitals, and other various endeavours. The Government also owned Israel Chemicals, the holding company which owned/had majority interests in the Dead Sea Works, Israel Phosphates, Fertilisers and Chemicals,

² These were the result of an initiative following the 1967 Six Day War, when the Government reversed its traditional exclusion of the private sector from defence production, and eventually used defence contracts as a deliberate means of cultivating certain firms. This allowed participating companies to raise private capital, and thus injected additional funds into Government defence.

³ A typical breakdown of defense spending (in 1996) was 90% local currency, and nearly 10% direct American financing (Greenwood 1996:119), affording the USA limited economic clout in domestic spending decisions.

and other companies, which together owned nearly all of Israel's mineral deposits. As minerals and related chemicals remained Israel's single largest export outside of diamonds,⁴ this control was particularly valuable. Government support in this sector was not consistent, however, and this might have the effect of weakening the chemical industry's bargaining position with foreign MNCs when negotiating joint ventures and projects. For in addition to the vast array of bureaucracy that public ownership necessitates, in the early 1990s, political differences temporarily paralysed this industry, as divisions between the Ministries of Industry and Trade and of Finance prevented the appointment of the board of Israel Chemicals.

Private Sector

The private sector in Israel has traditionally been heavily bureaucratic, and, as in many smaller economies, often inter-linked. Marked by large conglomerates owned by a few holding companies, the private sector's potential political power was channelled into a few specific, élite organisations, reflecting Israel's wider oligarchic power structure. Overall, there was a higher level of centralisation in Israel than in Europe, even in relatively small states: in 1984, the three largest firms in each industrial sector provided 49% of total sales, against 24% in France, 20% in Italy and 34% in Belgium. In 1989, over a third of Israel's output in goods and services was provided by monopolies (Rivlin 1992:69).

Amongst private firms, a few wealthy industrial families controlled most medium to medium-to-large sized businesses, forming a commercial elite with deep political influence.⁵ This concentration of power has been facilitated by the Israeli Government's inability to co-ordinate a comprehensive monopoly policy, the difficulties of liberalisation in small economies, and the temptation in small economies to protect local producers.

⁴ Israel in the 1990s was the world's largest exporter of diamonds, when measured by total value (not carat weight); in 1990, diamonds represented well over a quarter of Israeli exports. Israeli trade figures usually omit the diamond trade, however, as Israeli diamond exports are entirely re-exports, traveling through the Tel Aviv Diamond Exchange, and are thus distorting to measures of Israel's economic health.

⁵ In one industrialist's view: "Name a few - six - families, and you have already named 60% of the Israeli economy" (interview with Gaon).

Israel's unique history, in which a goal of wide-spread, quick and geographically varied industry was pursued, led to unofficial pacts between Industry and Government, in which monopolies were tolerated and protected in return for building the economy further and providing jobs, especially in development towns.

Rivlin provides a case study of the unique relationship between private companies and Government in Israel, in which every aspect of a company's development requires new and close relations between industrial and political leaders. Describing the early growth of the processed food company *Élite*, established in the pre-state period and most known for coffee and chocolate, he counts a total of three times that special links with government were necessary for *Élite's* survival.⁶ In each case, *Élite's* privileged access to government ministers ensured its success, and provides an example of the type of monopoly tolerated in Israel, in which even foreign subsidiaries and importers are linked to the dominant company. *Élite*, with its history of Government protection, in the early 1990s controlled half of the local market in filter coffee. As of 1992, the owners of its main competitor also had heavy share-holdings in *Élite*. Within the instant coffee sector, two European companies were dominant, one of which in 1992 had a 40% interest in a company associated with *Élite*. Further European imports in the 20% of the market not controlled by the two big importers was the provenance of a company whose owner owned 11% of *Élite's* shares (Rivlin 1992:70).

Clal, the largest private holding company in Israel, was similarly founded with Government support by a tightly-knit group of Jewish Latin American businessmen in the 1960s. Thus, the Government and the trade union *Histadrut*⁷ largely controlled this

⁶ These include: during early rationing, when *Élite* was allowed to produce its luxury product on condition it export as well; in using German reparation money to buy new machinery; and granting of special permission in 1973 to buy out a number of smaller chocolate producers.

⁷ The *Histadrut Haklalit shel Ha'Ovdim be'Eretz Yisrael*, the United Organisation of Workers in the Land of Israel, was founded by Socialist parties in 1920 as a federation of Jewish labour. (Arabs were accepted as members in 1969). Since 1924, the *Histadrut* has been owned by the holding company "Workers Federation" (*Hevrat Ha'Ovdim*), whose assests totalled a quarter of Israel's industrial sales in 1985. That year, *Hevrat Ha'Ovdim* had annual turnover of \$3.7b, \$895 of which was exported, and employed 56,000 workers. *Hevrat Ovdim's* assets are held by six conglomerates, the most significant of which is the industrial holding company Koor, which saw annual sales of \$2.3b in the late 1980s, and then employed about 33,000 workers. Before Koor was restructured in 1993, there was no consistent pattern of *Histadrut* control over Koor's subsidiary companies, with some companies, such as the telecommunications equipment firm Tadiran being run independently, and others held more accountable to *Histadrut* leadership. The *Histadrut*-owned sector was not rigid, however, and Koor also entered into

ostensibly private (later publicly-floated) company, which in 1985 had \$822m in sales and 13,000 employees.⁸ 34% of Clal's shares were owned by the Discount Investment Corporation, which is owned by Israel's largest banking group. Clal was further intertwined with the other major enterprises in Israel through joint holdings of subsidiaries; for instance, in 1984, Clal owned 25% of American-Israel Paper Mills, 14.9% of which was owned by Discount, which in turn owned nearly a third of Clal (Rivlin 1992: 61, Plessner 1994:12). The favourable terms under which this and other companies were set up were designed to further attract commercial investment from Jewish-owned companies abroad; there is little difference between Right and Left-wing parties in providing incentives to companies such as these. While localised, these examples are telling about the high degree of politicisation and heavy Government involvement in Israeli industry, even as Israel's economy began to liberalise in the 1990s. While Israel's economy was undergoing profound changes in the 1990s, such protection presented major NTBs.

In the mid-1980s, Government tightening of national spending following a series of currency crises (discussed below) and corporate restructurings weakened Israel's state-supported industries, and sparked a period of privatisation and liberalisation that led in part to Israel's insistence on a renegotiated trade agreement with the EU. Cheap government credit ended suddenly, and as inflation fell, real estate rates increased sharply, posing another threat to business. Though nominal interest rates rose throughout 1984, when inflation fell in the second half of 1985, real rate of interest rates rose sharply. Interest on non-direct, short-term local currency credits, the common source of funding for local industries, increased to 100% in the second half of 1985, forcing the small industrial sector to rethink its traditional reliance on the Government. After the financial shocks and resulting privatisations and liberalisations during this period, the Government's industrial holdings declined slightly. By 1995, Government ownership had fallen to approximately 160 companies, of which half were commercial enterprises (with

joint ventures with *kibbutzim* and private companies, both foreign and domestic. The other principal holding company owned by *Hevrat Ha'Ovdim* is the shipping and construction company *Solel Boneh*.

⁸ In 1985, 41% of Clal's shares were owned by *Histadrut*-owned Bank Hapoalim.

combined assets of approximately \$17b), and pressure for further liberalisation was strong.

During this period, the *Histadrut* trade union and its extensive holdings failed, further destabilising Israel's economy. Despite some restructuring of *Histadrut*-owned enterprises between 1989 and 1992, this major trade union with extensive commercial holdings reached bankruptcy in 1992, owing over NIS 2b. As the *Histadrut* demanded Government funds to rescue its services,⁹ the Labour Government demanded substantial reforms from the *Histadrut* as a precondition for help. Government funds were released only when the *Histadrut* established a board of directors to introduce reforms in its *Kupat Holim* sick fund,¹⁰ which set a precedent for reforms elsewhere in the organisation.

Koor, the *Histadrut*'s largest conglomerate, ran into similar difficulties. After losses of NIS 759m in 1987, Koor's American creditors launched legal action within Israel at the end of 1988 in order to recover their debts. At the instigation and with the participation of the Government, the *Histadrut* organized a massive restructuring, closing unprofitable enterprises, decentralised the conglomerate, and shed 6,000 of its 22,000 jobs. This represented a major shake-up of the Israeli economy, and paved the way for massive industrial restructuring in all sectors, that helped to significantly liberalise Israel's economy in the 1990s.

By the mid-1990s, plans were underway to privatise a number of state industries. Although continued liberalisation clauses in public procurement contained in foreign trade agreements forced further competition in hitherto protected sectors,¹¹ state control remained strong. In addition to control of state enterprises, the Israeli Government controls the economy through indirect means such as subsidies, licensing, regulation, the

⁹ The basis of such a claim was that the Government owed money to the *Histadrut*'s *Kupat Holim* sick fund for a variety of services, including those given to new immigrants during the Gulf War.

¹⁰ *Kupat Holims* served 83% of the population in 1987 (Rolef 1993:146). Reforms included: internal reforms, selling of unproductive assets, and to cease channeling 28% of *Kupat Holim* dues into the *Histadrut* elsewhere.

¹¹ Of all the industrial sectors in Israel, *Kibbutz* (collective farm) factories remained the most traditional, though here, too, changes were made. Though few *kibbutz* industries relocated to take advantage of cheap labour or domestic industry status as a means of avoiding overseas tariffs on Israeli goods, many *kibbutzim* took on external labour forces (usually disguised as "temporary" labour or consultants who, while they usually have welfare benefits, generally have no input into the running of the *kibbutz* firm) during the late 1980s and particularly the early 1990s. Concurrently, many *kibbutzim* also explored different sources of financing, including listing on the Tel Aviv and New York exchanges.

near-monopolistic control of natural resources, import licenses, and most importantly control of the capital market. Yet, as Government subsidies fell off, firms across the economic spectrum were forced to seek new sources of financing.

Israel's private sector, best placed to explore more flexible forms of production and financing, evolved in the late 1980s and 1990s, and has generally incorporated innovative management techniques.¹² As the character of Israeli companies become more high-tech, and Government support eroded, increasing numbers of Israeli firms turned to public listing, both on the Tel Aviv Stock Market, and in New York, particularly in the start-up listings on NASDAQ. By the late 1990s, Israel had more high-technology companies traded on NASDAQ, in absolute terms, than any other country, as well as more "start-ups" than any other country but the USA (interview with Miller). As Israel-oriented venture capitalists began to take advantage of Israeli growth,¹³ they in turn aided Israeli high-technology developments, generally investing 50%-60% more in early start-ups than the EU invests in similar start-ups domestically. Widespread privatisation of government-owned firms began in the 1980s, and the restructuring of the *Histadrut* trade union in the early 1990s, further transformed the traditional, teleological Israeli economy to one more reliant on international trade. By the early 1990s, Dun and Bradstreet had labelled Israel a good credit risk, on a par with most West European countries. One foreign investor characterised the reasons for this as a combination of political and economic:

Now there is not political risk, Israel is rated A-. It has a stable tax system, a conservative, respected Bank of Israel, which controls inflation.

Israel is no longer a developing country (interview with Krueger).

This identification of Israel's perceived political stability and its credit-worthiness would later lead firms and investors to identify continued prosperity with the Labour Government under whose leadership the Israeli economy expanded.

¹² Lichtenstein (1996) identifies these as, for example, total quality management, quality circles, and just in time inventory procedures.

¹³ Typical of European venture capitalists' enthusiasm is the British financier's assertion that Israel is the "only substantial Silicon Valley outside of the USA" (interview with Miller).

Private sector MNCs, especially, sought to distance themselves from Government shelter, repudiating any involvement of politics with international trade, either in financing or in political action. A level playing field was increasingly all that was expected of the Government by industry; anything more was actively discouraged. Thus, the President of the Israeli branch of the (Japanese) electronics company ICL noted in the context of EU-Israel negotiations that "We believe, regardless of the outcome of negotiations between the EC and the State of Israel, that our contact with the European Community is primarily professional, and that a large corporation such as ICL can only rely on its own productive and marketing efforts" (Medina 1991:95). A similar view was expressed at the Israeli telecommunications equipment manufacturer Telrad. Here, Telrad's history of having to hide its Israeli status behind opaque joint ventures with foreign firms, in order to escape the boycotts, contributed to its lack of expectations from the Israeli government. When questioned about the inconvenience of having to hide all its European activity for years behind its alliance with Canadian company Nortel, the assistant to the President made no mention of Government aid was made, such was the low importance placed on this political reality within the company, so long as Telrad was able to side-step this extreme political inconvenience (interview with Friedberg).

Companies' separation of boycott issues from their political expectations ended somewhat after *Likud* returned to power in 1996. Rabin's attitude had been that the business community was a partner in building regional peace; "(h)e would say 'We are supporting you; we provide the bricks of the peace process and you (business) provide the cement'" (private comments by Gaon). When regional commercial co-operation seemed to be threatened by Netanyahu's slower pace in the peace talks, those Israeli businesses with Middle Eastern links became partisan in a way not previously seen, and began to actively support Labour.¹⁴ Foreign companies eschewed direct partisan support, but the proliferation of think-tanks, especially the prestigious Peres Institute for Peace (founded in 1997), which boasts scores of prominent European business, political and cultural leaders as members, provide foreign interests an entrée into domestic Israeli politics.

¹⁴ The mobilisation of domestic industry thus came too late to influence the 1993-1995 EU-Israeli negotiations, and primarily concerned Israeli-Arab, not wider foreign relations. Yet it represents the continuation of the trend, evident during the EU-Israel negotiating period, for industry to gain a higher and more independent profile within the Israeli decision-making process, and for Government decision-making to thus become increasingly multi-layered and complex.

Dedicated to building grass-roots links, including commercial links between Israel and its fellow-participants in the multilateral peace talks, the Peres Institute for Peace is perceived in the West as “doing parallel work to the government” (interview with Göthel). In reality, this type of initiatives’ greatest value is the political influence they give to participating companies. For example, in the Peres Institution, Shimon Peres acts as a conduit for the ideas and goals of businesses participating in his Institute into the Government and public debate. One Israeli business-person noted, after the halt of most of the multilateral peace talks, ‘the economy and the peace process made Israel very attractive two to three years ago. We look less good now. Our attractiveness to outside investors depends on the economy and the peace process” (interview with Milo), much more than intrinsic factors such as low inflation levels or an educated work-force.

Manufacturers’ Association of Israel

The Manufacturers' Association of Israel (MAI) represents Israel’s private sector. Founded in the wake of *Histadrut*-inspired strikes in 1921 Palestine, the MAI represents the broadest coalition of private industrial interests in Israel. Its status as a political insider is assured both through its structural links with the Government and *Histadrut*, and by its election of prominent industrial élites to its presidency. A close and informal relationship with the Government was formalised in the 1950s as a deliberate attempt to institutionalise its influence, and create a more permanent institution, which did not have to rely on personal favour and connections to affect policy.

Under *Likud* in the 1980s, the MAI began to put forward more specific suggestions at a micro-level. Before the National Unity Government of 1984, the MAI hoped to make two changes, neither of which were achieved. Whereas the association had hoped to bring about a more industry-oriented national policy, it instead settled for a series of more specific, limited goals. It had also tried to change the procedure of policy-making, institutionalising its role in the system, though it eventually resigned itself to a limited role in negotiations.

Under Labour Governments, the MAI had been identified as a sectoral interest; this changed under national unity governments (discussed below), when both the ideology and the immediate political necessity altered, and the association was increasingly seen as a wider group representing an integral part of the political economy. Then, its structural links with the Government served the MAI well, and MAI officials played a major role in the National Unity Government's emergency economic negotiations (discussed below). After the Unity Government of 1984, with its status enhanced as a result of its long-term economic consultation with the Government, the MAI continued to make itself available for consultation on individual matters, but also pushed for more widespread structural reform. Its methods were meeting with ministers, bargaining with *Histadrut* independently and with the Government, appealing to the public through the press, and through direct public action. The established "insider" status of the MAI, however, has led some critics to consider it as an extension of Government policy, and not as an interest group the way the term is understood in much of Europe. Drezon-Tepler (1990), for instance, points out the crucial importance of the group to the Labour government in acting as labour negotiator.

The MAI's greatest power, however, is its position, along with the *Histadrut*, as the Government's negotiating partner over wages for all unionised workers. This is a three-level process, in which successive wedges are driven between workers and their wage expectations. The *Histadrut*'s Trade Union's Department negotiates the first stage of wages annually with the *Lishkat Hateum* ("quiet harmonisation"), an organisation representing the Chambers of Commerce Association, the Farmers Federation, and headed by the MAI. National unions can afterwards press for separate benefits for their own members, and finally, firm-level unions can make their own demands. This system stems from the days of the pre-State *Yishuv*, when both workers and manufacturers placed Zionist goals of building the country and increasing employment before profit. During this period, however, a more likely explanation of the continuance of joint wage-setting is the bureaucratic desire of organisations to accrue more power.

Part of the MAI's strength during this period stemmed from its activist presidents, who met independently with ministers on a range of issues. In addition to links with ministers, the association, under the leadership of Dov Lautman (1989-1995) also

pioneered new channels of influence.¹⁵ These included lobbying the *Knesset*, and placing key MAI supporters and employees in Government bureaucracies. Aiding electoral campaigns was never done, and increasingly, too, the MAI resisted interference in issues that were raised to an “ideological level”, preferring instead to focus on more prosaic matters. The MAI’s priority, however, remained ministerial influence, and methods of this influence ranged from withdrawing from committees, taking a hard-line stance against labour, and threatening to resist co-operating with the Government. Policy papers also remain a prime vehicle of MAI influence. The mobilisation of public support became another hallmark of MAI lobbying in the 1980s-90s; an early example of this came in June 1985, when the association called a manufacturing strike when the *Histadrut* blocked the MAI’s calls for price increases.¹⁶ Throughout the late 1980s and 1990s, the MAI pursued twin goals of influencing both the content and process of economic policy.

Israel’s Changing Economy

Debt Crises, Emergency Stabilisation Plans

Government-led GDP growth between 1948 and 1973 was a steady near-10%, a high level given that the 1948 population of 750,000 doubled by 1951, and trebled by 1961. Rapid industrialisation was backed by cheap labour and foreign capital. Although there were some limited economic reforms in the 1950s, it was not until the early 1970s when liberalisation and export-oriented reforms were seen on a significant scale. Import capital has consistently funded Israel’s economic growth. Much of this has been in the form of donations, loans (through Israel bonds) and investments from Jews outside of Israel. In the 30 years after 1948, this accounted for \$5.7b in 1985 prices. Capital has also come from West Germany, in the form of reparations (\$1.3b), and American loans, grants and loan guarantees, which increased sharply after 1973 and totalled \$2.2b annually

¹⁵ He was succeeded in 1995 by Dan Propper, who is known as somewhat less of a reformer. Propper instead turned his attention to Israeli interest rates as a defining cause of his chairmanship.

¹⁶ The Ministers Yitzhak Modai and Sharon sided with the MAI on the issues of price increases in 1985, and voiced their willingness to abandon the MAI-Government-*Histadrut* decision making structure; a situation was eventually found within that framework, however.

in the early 1980s (just over half in grants). As it developed, Israel's economy became over-dependent on foreign donations and aid, failing to generate enough exports to cover imports needed.

By the 1980s, Israel's Government debt to foreign governments, principally the USA, exceeded its debt to bondholders, and was greater than the grants it received from the USA. By 1982, Israel was scheduled to repay \$3.2b, and 14% of GNP went to service debt. In that year, approximately \$1b was spent paying back principal and serving interest on the first of the large loans extended by the USA, in 1973 (Arian 1985:35). Israel's tax burden became among the world's highest as the Government struggled to meet both foreign payments and the obligations of a corporatist economy. In addition, both military and social spending (particularly by the newly-elected *Likud* Government) increased dramatically in the 1970s. By 1980, Israel's consistently high inflation rose further, to 140% (Peretz and Doron 1997:149).

In 1984, the Israeli Government, *Histadrut* labour union, and a hand-picked group of chiefs of major Israeli companies negotiated the Emergency Economic Stabilisation Package (EESP): an austerity plan which devalued the shekel (itself recently introduced to devalue to 10% an inflated Israeli pound), reduced the public sector workforce, and froze wages, prices, exchange and interest rates, raised import tariffs, and imposed restrictions on personal financial transactions. A second EESP was adopted in 1985 with the dual goals of reducing inflation and improving the balance of payments. The Government introduced the second new currency that decade, the New Israeli Shekel (NIS), at 1/1000th the value of the 1980 shekel.

EESP ended significant government subsidy of industry, and led to the bankruptcy of several enterprises. Capital market and tax reforms, privatisation and deregulation also liberalised the capital and credit markets. Both personal and business tax levels decreased, and businesses became eligible for more tax relief and other help such as investment grants, loan guarantees, and foreign investor benefits. Other areas of deregulation included the energy sector, agriculture, land use planning and construction, health, and transportation.

By the early 1990s, monopolies had been dismantled, taxes were reduced and rationalised, many firms had been privatised, and international trade was growing. In many ways, 1993 represented the zenith of these reforms. By the end of Israel's

negotiations with the EU, two years later, Israel's balance-of-payments deficit had grown, as had foreign borrowing, the public-sector deficit, and inflation. Much of this was attributed to the peace process, which during those years achieved a higher priority in Israeli policy-making, resulting in a relative indifference to continued reforms and privatisation. Despite the relative inflation and stagnation of the 1993-1995 period, Israel by the mid-1990s was much more prosperous, more attractive, and more welcoming to foreign investment than it had been before EESP.

EESP also facilitated a shift in employment from large, often state-supported companies towards small and medium-sized firms, in line with patterns in other industrialised countries. Between 1985 and 1994, exports from small companies (up to 100 employees) increased from \$616m to \$1.5b (14% of industrial exports). Employment in small companies rose from 109,000 to 216,000 (54% of the workforce), while the numbers of people working for large companies fell from 191,000 to 171,000 (Greenwood 1996:133).

The liberalisation and privatisation of Israel's economy, which formed the backdrop to the EU-Israeli trade negotiations, has its roots in the economic and currency crisis of 1984-1985. This transformed Israel's political economy, and greatly increased the influence of certain entrenched commercial interests. The upheaval of the mid-1980s helped bring together Labour and *Likud* for the first time in a Unity Government and set the precedent for a self-consciously technocratic political ideal in which experts, including academics, are given power over economic policy. Israel's responses to these crises also altered the institutional insider makeup: banks ceased to be independent players as they were nationalised, and the MAI was elevated, transforming the traditional Government-*Histadrut* axis into a tripartite arrangement with enhanced powers over economic policy-making. Other lasting ramifications of the crisis included a new currency, commitment to deregulation, and an increased dependence on American grants, which enhanced American influence over Israeli political commitments.

Immigration

With the end of restrictions on Jewish emigration from the former USSR, Israel received one million Russian Jews, many of them scientists. That these immigrants

directly contributed to Israel's rapid growth in the 1990s can be seen from employment figures: instead of experiencing higher levels of unemployment than the general population, as might be expected from recent immigrants, by 1995, the unemployment rate of Soviet immigrants who arrived in the 1990s was actually lower than that of the general population. 10,700 scientists were among the Russian Jews who immigrated between 1989 and 1992, of whom 8,000 were working as scientists by 1995. This increased Israel's relative R&D capabilities overall; by 1995, 130 out of 100,000 workers in Israel were an engineer or scientist (compared with 77 in the USA or 72 in Japan) (Greenwood 1996:204). A number of European and American high-technology companies took advantage of this pool of resources by establishing research centres and factories in Israel in the early 1990s. For these companies, trade agreements and political concerns were tangential to the decisions of such firms to operate within Israel.

R&D

Though Israel's expenditure on R&D, as a ratio to GNP, is among the highest in the world, in absolute terms it is small, and much of it is devoted to military use. In 1983, Israel spent 3.04% of GNP on R&D, against 2.7% in the US and 2.6% in Japan, though the actual amount was only \$707m. Nearly a third of Israel's R&D is Government-supported. R&D budgets exist in the Chief Scientist's office in the various ministries, with the largest being the fund in the Chief Scientist's office in the Ministry of Industry and Trade. The National Council for Research and Development also gives a budget for basic research to the Ministry of Science and Development. Government spending on R&D in 1986/7 totalled \$220m. Other public initiatives include the Israel Standards Institute, industrial research institutes like the Productivity Institute, and help in gaining patents and investing in training schemes. Support for universities, too, has transformed the economy into one highly competitive in R&D. In 1980, 22.6% of Israel's workforce was scientific, academic, professional or technical; this figure increased to 24.6% in 1989. In 1985/86 a total of \$835m was spent on civilian R&D, of which 35% of this was government funded.

Foreign R&D initiatives include BIRD-F, the Bilateral Industrial Research and Development Foundation set up between Israel and the USA in 1977, which supports

joint projects with grants up to 50%. By 1988, this fund had an endowment of \$110m contributed by both governments, and had funded 182 joint products, which had resulted in sales of \$150m. A similar Canadian-Israeli fund, which supports projects up to 30%, was established in the mid-1990s. R&D co-operation with Europe as a whole during this period took place under Eureka, which had 22 pan-European participants, and where Israel had third country status, limiting its participation to joint projects with already had participation from two full-member countries. Several agreements modelled on BIRD-F were, however, later signed between Israel and individual European countries.

Government R&D aid during this period was governed by the 1984 “Law for the Encouragement of Industrial Research and Development”, which provides between 30% and 66% of funding for approved projects. Target areas include start-up companies, those in Israel’s geographic periphery, those improving technological infrastructure and new products. The Law, recognising the need to encourage immigrants to reach their potential, also funds absorption of new immigrants into research institutions. The Centre for Technological Initiative is an incubator programme under the Chief Scientist’s office, which funds up to 100% in some areas, for projects in which at least half the participants are new immigrants. The Office of the Chief Scientist is also charged with identifying joint R&D projects for Israeli firms overseas. One of the express motives in passing this law was to improve Israel’s balance of payment by increasing both exports and self-sufficiency in high-technology sectors (*Government Encouragement for Industrial Research and Development*, Ministry of Industry and Trade). In addition to these centres, Israel’s seven universities exert pressure for specific funds and projects, on an ad-hoc basis

High-Technology Sectors

Exports in high-technology sectors increased three times as fast as total industrial output between 1985 and 1990s, as the character of Israeli manufacturing began to alter, with high-technology producers fuelling Israel’s economic growth.

Sectoral Composition of Industrial Output and Exports: 1970, 1990

	Output		Exports	
	1970	1990	1970	1990
Food, tobacco, drinks	21.4%	20.2%	9.0%	6.2%
Textiles, clothing, leather	15.1%	7.4%	11.3%	7.4%
Wood, paper, printing	10.3%	11.2%	5.5%	8.0%
Quarrying, mining	6.8%	5.7%	5.2%	2.8%
Chemicals, rubber, plastics	10.9%	16.1%	17.5%	17.0%
Metals and machinery	16.8%	13.9%	6.2%	10.7%
Electronic equipment	6.4%	12.6%	1.7%	15.1%
Transport equipment	5.7%	4.0%	1.4%	5.6%
Diamonds	6.6%	8.9%	42.3%	27.2%
Total	100%	100%	100%	100%

Sources: 1970: *Industry in Israel 1988*, Ministry of Industry and Trade, Centre for Planning and Economics, Jerusalem: 1989. 1990: Ministry of Industry Budget, 1991, and Ministry of Finance, December 1990, in Rivlin (1992:61).

Before the 1990s, Israel's high-technology manufacturing sector was notable for its specialist character. The niche products in which many Israeli firms specialised can be partly explained by the willingness of many Israeli firms to produce small orders. Also, in niche sectors, advertising was not needed, and companies could buy from small suppliers quietly, without drawing attention to trade with Israel in a boycott climate. Israel's mid-1980s recession was linked to a global downturn, but exacerbated as Israel's small size failed to provide the economies of scale needed for further growth. Economists also note that the production-oriented management style, to which many Israeli firms subscribed, limited their ability to respond to changes in the market. By the early 1990s, however, this was changing as many of Israel's major high-technology firms underwent restructuring. This sector was traditionally subject to a high level of government control, as much of Israel's high-technology industry was originally linked to the military sector. A number of restructurings in the early 1990s allowed the sector to become more independent, and take advantage of the influx of Russian engineers. Finally, differences in technical standards form an enduring NTB against entry of many Israeli products into the USA and EU.

Israeli Civilian Trade 1980-1990
(\$b, 1993 prices)

	Imports		Exports	
	Total	% of GDP	Total	% of GDP
1980	12.6	62	10.4	51
1985	13.4	59	11.2	49
1990	22.6	44	19.0	37

(Source: Razin and Sadka 1993:176).

More than other industries, the high-technology sector in Israel is export-led, with a higher than average value added benefit to the economy of 50%-60%. In the private sector overall, Israel saw during this period and beyond a transformation from a low-level industrial to higher-level industrial economy, and a slight increase in its exports. In 1968, exports based on Israeli R&D totalled under \$200m; by 1985, this figure had reached \$2b

at 1992 prices. Most of this growth was fuelled by electronics, which became a major domestic force in terms of the numbers of its employees, accounting that year for 90,000 workers.

**Contribution of Specific Industrial Branches to the Growth of Industrial Exports:
1980 Compared with 1994**

Export	Growth 1980-1994
Electronics	+ 29.3%
Diamonds	+ 21.1%
Rubber, Plastics and Chemicals	+ 17.8%
Metal and Machinery	+ 14.7%
Textiles	+ 5.3%
Food	+ 2.7%
Mining	+ 1.6%
Light Industries	+ 0.6%
Miscellaneous	+ 6.9%
Total	+ 31.5%

Source: *The Israeli Economy at a Glance*, Ministry of Industry and Trade 6.95.

Despite this growth in high-technology exports, Israeli exports to the EC during this period were considerably more low-tech than its exports to the USA. Technical barriers, obstacles to public procurement, and the extensive business and personal links extant between Israelis and Americans (particularly useful to avoid boycott ramifications, as such personal connections require no advertisement), can account for this difference.

Israel's Export Distribution to the EC and the USA, 1988

Product	Exports to EC \$m (% of total exports in product sector)	Exports to USA \$m (% of total exports in product sector)
Food, Agriculture	702 (75%)	53 (6%)
Rubber, Plastics	206 (52%)	98 (25%)
Wood Products	12 (90%)	1 (9%)
Textiles	475 (69%)	112 (16%)
Metal	118 (35%)	670 (37%)
Machinery	334 (16%)	147 (33%)
Optics, Scientific	23 (7%)	147 (44%)
Equipment	23 (8%)	62 (21%)
Automobile, Aircraft Parts	544 (49%)	182 (16%)
Chemicals		

(Source: Mandelbaum 1991:38)

Other Sectors

Other sectors with significant political clout on trade policy include textiles, chemicals, pharmaceuticals, processed food, and medical equipment. Some, especially chemicals and pharmaceuticals, are dominated by single or small groups of companies with close relations with the Government and with each-other. In pharmaceuticals, for instance, the private company Teva dominates the industry. In 1988, Teva's sales were \$211m, of which \$82m was exported. Chemicals and minerals, Israel's largest export, is largely controlled by the Government-owned Israel Chemicals and its subsidiaries, and the private company Dead Sea Works.

Both textiles and processed foods are more diversified, and maintain strong links with some European companies. The textile industry in Israel started as a series of Government initiatives in the 1950s and 1960s for the dual purposes of enhancing self-

sufficiency at a time of austerity and an extreme foreign trade deficit, and to establish industry for new immigrants in development towns. Israel's two largest clothing companies, Polgat and Delta, emerged as such thanks largely to early Government backing and support. Later, when Israel's economy began to rely increasingly on foreign exports, these firms' leads were entrenched by their low costs, sophisticated technology and design, and aggressive marketing overseas. Many of these comparative advantages were achieved by forming partnerships with foreign firms, especially British Marks and Spencer, whose trade and quality standards, initially much higher than Israel's, cemented Delta's and Polgat's enhanced positions, as these companies were forced to meet M&S guidelines.¹⁷ After enduring an industry depression as foreign and domestic demand stalled, by 1990 Israel's textile and clothing sector employed 44,000 workers (up 19% from 1987), and accounted for \$1.8b in sales. Processed food, which that same year employed 50,000, with output of \$5.4b (Rivlin 1992:64), is dominated by the private companies Osem (which in the mid-1990s became 49% owned by the Swiss company Nestlé) and Élite, which also has strong ties to European markets.

Trade Factors and Patterns

EU-Israel Trading Patterns

The late 1980s and early 1990s were marked by an intensification of Israel's balance of trade deficit with the EC. Some structural causes, such as the continued existence of non-duty quotas into the EC, existed in this area under the 1975 FTA. Other distortions of trade included trade prevention and diversion resulting from the Arab League boycotts, NTBs, and currency fluctuations. It was natural that Israel should seek

¹⁷ Founded by Jewish immigrants in the 1890s, the British retailer Marks and Spencer maintained an attachment to Israel and Jewish causes, propelled chiefly by the personal sentiment of its upper management (interview with Cohen; Seiff 1986). These personal links have brought about very close commercial ties. During the period examined in this thesis, Marks and Spencer was the largest British customer in Israel, purchasing 20% of Israel's exports to the UK" (interview with Paldi). Within Israel, the Company has enjoyed close relations with politicians, creating, in the words of one company lobbyist, their "own back doors" of political influence (interview with Levene).

to remedy this situation through the negotiation of a new trade agreement. The high cost of the Arab boycott - both in direct costs as markets in Arab countries and Europe were closed, and in indirect costs as goods had to be transported from further away, joint resources which were not exploited, and missed capital investments - has meant that Israel has always preferred to establish preferential trade arrangements with its major trading partners. These and GSP arrangements "fulfil both trade and psychological needs, and compensate for the obstacles Israel continues to face" (Aminoff 1991:10) in being shut off from regional trade and many forms of international trade by the Arab League boycotts.

In the EESP, Israel cut many import and purchase taxes in an attempt to lower inflation; in order to prevent imported inflation, the exchange rate was held still. The resulting increase in imported goods radically reduced the competitiveness of Israeli products abroad. This, as well as the 1982 Lebanon War, increased Israel's foreign debt significantly: a cycle which was intensified by Israel's increasing costs of debt servicing, which averaged \$4.4b from 1980 to 1985, and \$4.6b between 1986 and 1989. Also, the shekel was then linked (until 1984) to the US\$, which appreciated during the first half of the 1980s, especially against EC currencies, thus further increasing the price of Israeli goods abroad.

While the EC and EFTA are Israel's largest market, receiving 40% of Israeli exports, Israel's trade deficit with this region remained its largest, even when Israel maintained a surplus with many other trading partners. During this period the balance between Israel's exports to Europe and the US actually became more weighted towards Europe, especially in traditional exports, while Israel's exports to the USA became increasingly high-tech. Part of the reason for Europe's increase of its share in Israeli imports between 1985 and 1990 of 5%, against the US's fall of 3% during the same period, was due to the strong dollar. Another reason for the trade deficit (of which 85% is with EC countries) is inter-trade: Israel bought much of its oil and diamonds in the Community. Also, Israeli markets were protected from East Asian exports to a high degree, forcing importers to rely more heavily on Europe. There is a large question here about whether simple calculations of bilateral trade balances should be made this mercantilist way, whether current accounting standards overestimate the amount of actual surplus that exists. The fact that diamond imports from the EC are a major factor in the

EC's surplus with Israel makes this point more strongly; much of the EC's surplus with Israel is transit trade for the EC, and thus possibly not a "real" imbalance.

Israel's Exports, 1980-1990

(in 1992 dollars, percent)

	1980	1985	1990
Europe / EC	52.2 / 41.2	37.2 / 31.2	40.0 / 34.0
N. America / USA	18.2 / 17.2	35.4 / 34.2	29.6 / 28.7
Other America	2.9	2.3	2.4
Asia	11.0	8.6	15.2
Africa	3.4	1.7	1.2
Other	12.2	14.8	11.6

Israel's Imports, 1980-1990

(in 1992 dollars, percent)

	1980	1985	1990
Europe / EC	46.0 / 34.3	54.4 / 44.9	62.0 / 49.3
N. America / USA	22.0 / 20.5	21.5 / 20.2	18.8 / 17.8
Other America	1.5	1.3	1.1
Asia	2.5	3.4	6.8
Africa	1.7	2.2	0.2
Other	27.8	17.2	9.5

(Source: Rivlin 1992:93)

Although trade diversion has always distorted Israel's trade with Europe, a number of factors encouraged higher than expected volumes of Israeli exports to EC countries in the late 1980s and early 1990s. Lower shipping costs, and the de facto

position of Europe as Israel's primary market, because of the closure of its neighbours, widened Israel's industrial trade deficit with the EC. Also, the erosion of agricultural exports swung the trade balance further against Israel. Until the Mediterranean accessions, Israel's agricultural growers enjoyed a natural advantage of complementary climates. By 1994, Israel's trade deficit with Europe had widened further, while its deficit with non-traditional destinations like Asia continued to remain small.

This exaggerated deficit with Europe in turn partly motivated the 1985 FTA between Israel and the United States, as Israeli trade with the US declined.¹⁸ The 1985 US-Israel FTA eliminated bureaucracy as well as tariffs from trade, and encouraged an average growth rate in trade of 16% from the US to Israel and 20% from Israel to the US in the ten years following the FTA.¹⁹

¹⁸ Other motivations in the US's 1985 FTA include American frustration with GATT and a policy of replacing aid policies with bilateral trade agreements. See Aminoff (1991).

¹⁹

Year	US exports to Israel	Israeli exports to US
1985	\$1.68 billion	\$2.14 billion
1994	\$4.8 billion (estimated)	\$5.0 billion (estimated)

See Kantor (1995).

Israel's Exports and Imports of Goods, 1994
(\$million)

Destination	Exports	% of total	Imports	% of total
EU	4,756	28.1%	12,139	51.0%
EFTA	544	3.2%	2,167	9.1%
North America	5,355	31.7%	4,427	18.6%
Central and Eastern	670	3.9%	595	2.5%
Europe	3,152	18.6%	2,293	9.6%
Asia	516	3.0%	270	1.1%
Latin America	282	1.6%	325	1.2%
Africa	214	1.2%	63	0.2%
Oceania	16,884		23,775	
Total				

Source: *The Israeli Economy at a Glance*, Ministry of Industry and Trade 6.95.

After 1991, however, the bulk of the increase in Israel's exports went not to its traditional markets in Western Europe, but instead to North America and Asia.

**Contribution of Specific Region to Export Growth:
1994 Compared to 1991**

Region	1994 Exports over 1991
Western Europe	+ 11.8%
North America	+ 34.2%
Asia	+ 28.0%
Central and Eastern Europe	+ 7.9%
Latin America	+ 3.5%
Oceania	+ 1.9%
Africa	+ 1.9%
Unclassified	+ 10.8%
Total	+ 29.5%

Source: *The Israeli Economy at a Glance*, Ministry of Industry and Trade 6.95.

In addition to structural and other external explanations of Israel's growing European deficit, non-compliance with existing trade agreements through NTBs in both European member states and Israel continued to suppress trade. In the 1990s, the EC complained often about Israel's refusal to open its markets to foreign competition. Although the post-1992 Labour government promised to liberalise the economy, and specifically pledged to do so in return for new foreign trade agreements, protectionism remained. Two points which triggered particular European criticism were the absence of free trade in financial services due to Israel's currency restrictions, and the Israeli government purchasing law, which favours Israeli suppliers for public projects, when Israeli bids are not more than 15% higher than foreign bids.

After Israel reduced its import taxes on EC industrial goods not having direct competition from Israeli producers, tariff barriers for infant industry protection was still allowed under the 1975 FTA until 1989. In areas in which direct competition from Israeli industrial manufacturers' existed, tariffs were reduced in 1978, and were meant to be abolished by 1984, but, as provided for in the FTA, were extended to 1989. The

Government reduced import tariffs on EC industrial goods by 60% as of January 1987, and abolished them at the end of 1989.

NTBs remained in Europe, as well.²⁰ As recently as 1993, Rabin attacked the EU for trade discrimination, threatening to take its \$9b a year of purchases from Europe elsewhere. The threat was unrealistic, but Rabin's public attack indicated the desire in Israel to embark upon a wide-ranging overhaul of the 1975 FTA. Public perception in Israel was that the EU routinely practised unfair trade discrimination, especially in the realm of government contracts (Hollis 1994). Although Israel also discriminated, the Israeli public felt that it "deserved" greater concessions from Europe. Many Israelis felt the peace process deserved economic support from those countries that had long called for it. Others felt that Europe, as a rich area, ought to support poorer Israel. Israel's large trade deficits frightened the public overall, eliciting strong emotions and outrage at perceived economic slights.

Israeli MNCs Abroad

Believing that the Government will continue to support them with protectionist measures, industries in corporatist societies are generally unwilling to change to adapt to liberalisation and increased international competition. Yet in Israel this changed with the debt crisis of the mid-1980s, which placed additional pressures on Israeli companies of all types to expand internationally in order to find alternative sources of funding. All types of Israeli industry - private, government-owned, *Histadrut* and collective - explored overseas sources of capital, often in defiance of their original socialist mandates.

²⁰ By 1990, the EC had adopted half of the measures recommended in the June 1985 White Paper (adopted by the Member States on 25 February 1986). By 1991, however, only 14 of 88 Council-approved directives had been implemented as national law. Tax issues were particularly problematic. Public procurement was also tackled in the 1992 Programme, though it was an entrenched interest: the Commission estimated that government procurement accounted for 9% of GDP in the Community; when nationalised industries were considered, this figure rose to 15%. Of these contracts, the Commission estimated that only a quarter were properly advertised, according to EC directives. Figures were particularly skewed in transport, water, energy and telecommunications sectors, areas in which the 1992 Programme extended EC directives. Half of EC public procurement was in these areas, and 98% of all contracts in these sectors went to national suppliers (Mandelbaum 1991). Finally, the 1992 Programme threatened foreign suppliers, especially from small countries, by facilitating economies of scale within the Community. For a discussion of competition between Israeli industry and potential economies of scale in the post-1992 Community, see Zilberfarb (1991).

Yet the ways in which Israeli firms seek this overseas capital is often illogical from a strictly commercial view. At one extreme is the threat of boycott, which forced many Israeli firms into convoluted international linkages in order to disguise their presence in potential markets. Some years on, during the negotiations for the 1995 EU-Israel Agreement, the threat of boycott was still a force in much of the world. Hidden corporate alliances prevented some companies from fully pressing for their interests abroad. This stymied those level-two linkages within the business community, which one might expect an industrialising external country to create with European business, and which indeed has been seen in some exceptional, high-profile business linkages between Israeli firms and firms in Britain.

More often, however, Israeli firms' international operations precluded such attention-drawing behaviour. Telrad's (an Israeli equipment manufacturer's) actions during the negotiations are illustrative of this. Although Telrad in the mid-1990s maintained a presence in Belgium and Spain, was actively trying to enter at least two further EU member states, and operates a subsidiary in Britain, its relationship with its Canadian partner (and, since 1995, 20% owner) Nortel, was traditionally structured so that it was "hidden because of the boycott" (interview with Friedberg). As such, it trusts Nortel to carry out the bulk of Telrad's political action within Europe.²¹ Although Nortel did lobby on some aspects of the 1996 Association Agreement negotiations, such "hidden" relationships necessarily limit the amount of influence Israeli companies with international alliances are able to exert.

At the other extreme of international business relationships are those springing from (commercially) "non-rational" relations with foreigners. A number of business people in Israel cite foreign connections in Jewish communities abroad as a facilitator, if not an incentive, of joint ventures in particular countries, and a decisive factor in forming such ventures in some countries and not in others. While this is particularly true with Israeli-Russian and Israeli-American trade, the sizeable and pro-Israeli politically active Jewish communities in Britain and the Netherlands also encourage business links. Israeli

²¹ This was not the only reason that Nortel performed the bulk of lobbying on behalf of Telrad. Nortel's entrenched position in Europe, it was felt, would best be able to counter pressure from big European firms such as Alcatel and Siemens. Yet the "hidden" nature of Telrad's involvement with Nortel set up a long-standing tradition of minimal involvement with Nortel's advertising, public relations and political campaigns (interviews with Ben-Assa, Koritshoner, Friedberg).

firms do conform to expected corporate behaviour by expanding externally in order to expand their markets and production capabilities, but in some cases do so through channels created by ethnic links, instead of more objective business interests. In a wide-ranging study in the first half of the 1990s, Allan Lichtenstein observed that “(a)ll of the private firms examined...have established links with either foreign firms or wealthy Jewish families living abroad” (Lichtenstein 1996:233). This fulfils some expectations of corporate behaviour in which companies initiate foreign exporting by trading with those countries to which they are psychologically closest, and then extending progressively from there.²² Thus, ethnic, historic or other non-geographic factors can render specific trading partners attractive (at a private level, not, as was seen in Chapter Four, at a national policy level).

In very few instances have Israeli MNCs begun to act as true MNCs: to expand production to new countries to avoid high labour costs or to become “insiders” in regions with high tariff walls. In the heady days of the early 1990s, when industrial zones sprang up between Israel and Jordan and Israel and Egypt, some Israeli (primarily textile) firms relocated production in order to take advantage of lower wages. The Israeli textile firm Delta established a subsidiary in Scotland to avoid tariffs (interview with Gilboa). The Israeli chemical company Makhteshim Chemical Works established off-shore manufacturing in order to avoid Israel’s strict patent laws (interview with Porat). Yet, as of the period examined in this thesis, to speak of Israeli MNCs is to speak of a small pool of companies with relatively limited links abroad.

European NTBs

Foreign ownership and registration expose companies to discrimination in Europe, particularly in public procurement. Although discrimination against foreign companies in Europe is blocked under EEC 58, according to which business incorporated in member states are considered EC corporations, regardless of how much stock is owned by non-Europeans, biases against foreign suppliers are, in fact, widely tolerated. This most often

²² Jatusripitak 1986, and Wiedersheim-Paul and Welch and Olson in *Journal of International Business Studies*, Spring 1975.

takes the form of unofficial preference, though sometimes there is legal backing. France, for instance, retains the right not to approve investments in firms controlled by non-EC interests, either through shareholders' or other types of agreements, even when more than 50% of the corporation was owned by Europeans. Israeli perceptions of European market barriers, even when not enshrined in statute, reflect expectations of government support of domestic industries and discrimination in public procurement. In many cases, Israeli firms decline to expand into European member states, particularly France and Germany, due solely to the *expectation* of unfair treatment there (interviews with Ben-Assa, Koritshoner, Friedberg, Sharf, Fishler).

Technical standards also remain a major obstacle to trade, both within Europe and with Israel. Despite a 1986 Commission attempt to harmonise technical standards within the Community, national governments resisted yielding sovereignty in this issue. The 1986 Commission White Paper proposed harmonisation only in areas where it is vital to safety and health, augmented by a "mutual recognition" principle guaranteeing that states do not discriminate in areas where variability did not affect safety, as established by the 1979 *Cassis de Dijon* case. Although the GATT Standards Codes prohibits "technical regulations and standards which would create obstacles to international trade", this aids competition of European companies, which must only comply with one safety standard, while discriminating against foreign companies, especially in food and agriculture sectors, where foreign standards are often not considered rigorous enough, even in industrialised countries like the US. Even after standards have been established, tests and certification procedures, too, can be used as NTBs. Even when outside industries want to adopt European technical standards, as outsiders they are usually unable to affect standard-setting; although non-European companies can sit on the boards of the two EC standards-setting organisations, the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC), they cannot vote. Other companies might find even their anticipation of those standards blocked, as CEN and CENELEC do not usually give prior notice of their intention to review or develop standards.

The Single Market Programme, though once feared as a potential barrier by American and other markets, attracted relatively little attention among Israeli companies. A case study of rare preparedness is provided by Israel Chemicals, one of the largest companies in Israel, which during the negotiations controlled 25 companies in Israel and abroad, with sales of \$1.3b. Its exports accounted for nearly 10% of all of Israeli industrial exports (excluding diamonds); 2/3 of its exports went to Western Europe. Its Chairman noted in 1991 that “(p)reparation for the unification of the Common Market at the level of the individual firm is of prime importance”, and identified three principal domestic political concerns of Israeli industry to ensure that Israel could compete with European firms after 1992: liberalisation, reducing Israeli taxes to the lowest common European levels, and ensuring price stability through means other than artificially fixing the exchange rate, which keeps Israeli prices high (Medina 1991:90-1). Specifically, the company viewed “1992” as an ongoing process, examined at both the operative level, where activities were brought in line with EC directives, tax structures, standards, marketing, etc., and at the strategic level. Operationally, once issues such as harmonisation of standards were discussed, Israel Chemicals anticipated a benefit from the removal of internal barriers, much as European firms would benefit from easier transport and marketing consolidation.

Boycotts

Israel’s primary economic benefit from the peace process is the lapsing of aspects of the Arab League boycotts against foreign companies doing business with Israel. This allowed European companies to openly do business with Israel for the first time, and the 1990s saw an influx of direct sales of Western products and the establishment of Israeli factories for European high-technology companies. Typical of these is Siemens, which entered Israel in 1990, before the start of the peace talks, motivated by a lapse in the boycott (interviews with Ettenberger, Göthel). Initial contact was through an alias, and in 1992, Siemens publicly revealed itself as the distributor of its product and owner of its new Israeli factory in some circles (Israel is still not mentioned in some official Siemens documents). This illustrates two experiences: that Israel became attractive to companies even before multilateral peace talks, and that Western companies can do business in Israel

even while quasi-boycotts remain. The Siemens model of admitting but not advertising links with Israel could be employed by other companies invested in the country should the peace talks continue to disappoint those in the West. Other peace dividends include a reduction in Government spending on arms and resultant diversification into civilian production of the Israeli defence industry, and the possibility for out-sourcing production to neighbouring countries with low labour costs.

The loosening of the Arab boycotts lessened many of the barriers to entry into European markets. The psychological boost that Israel gained from the resulting easing of Israel's diplomatic recognition internationally also soothed many Israeli concerns about their image abroad. The 1991 Madrid Peace Conference marked the beginning of wider international recognition of Israel, starting with the overturning of UN Resolution 3379, defining Zionism as racism, on 16 December 1991. In December, 1992, Japan, long a zealous adherent to the Arab League boycotts, called for the first time for their end; although numerous trade disputes soon arose between the two countries, bilateral trade initially surged.²³ By the time of the Washington Accord in September 1993, 34 countries had recently established diplomatic relations with Israel. Another 13 did so by the end of 1993, and four more recognised Israel in the first three months of 1994. From a low of 65 countries in 1973, and 79 countries in 1986, by 1992 116 countries recognised Israel in 1993. By 1994, that number was 142. On 30 October 1994, the six members of the Gulf Co-operation Council voted to stop enforcing the secondary and tertiary boycotts of Israel. These led to euphoria in many levels of Israeli society, including business; in the words of one senior executive:

By the mid 1990s, the economy had risen 30% since 1990. Diplomatic recognition doubled. All of a sudden, Israel was a nation among the nations. There is a beautiful feeling now that to be in Israel is an asset, not a liability. There are no more third parties and foreign investment in secret deals (private remarks by Gaon).

Although this momentum continued even after *Likud's* return to power in 1996, these experiences, gained under Labour's leadership, led many Israeli and foreign businesses to

²³ That year, Israel lost its trade surplus with Japan, due to a combination of a Japanese slump in demand for diamonds, and increased Japanese exports to Israel, particularly in automobiles. Disputes arose over public procurement and Israeli demands that Japan engage in counter-purchasing.

identify Labour with these gains, and, for the first time, for business to become actively partisan explicitly because of issues related to the peace process.

Commercially unimportant but politically crucial, particularly for Europe, Israel in 1994 formalised its economic relations with the Palestinian Authority (PA) in the Paris Protocol to the multilateral peace talks. This Protocol on Economic Relations (later to constitute Annexe V of the 1995 Israel-Palestinian Authority Interim Agreement) allows the PA to import consumer items directly and under individually-negotiated trade agreements (with some restrictions in areas where PA tariffs must conform to Israeli levels). The Protocol allows the PA to freely export agricultural and industrial goods, including through Israeli ports. This arrangement met with approval in Europe, and the Community later used it as a basis of distinguishing between Israeli and Palestinian territory in divisive issues such as Jerusalem and the Golan in the EU-PLO Association Agreement. Crucially, the Paris Agreement allowed the PLO to negotiate and sign economic agreements on behalf of the PA, thus rising the profile of the organisation, and increasing the likelihood of PLO participation in future political settlements.

Foreign MNCs in Israel

Just 2% of investment in Israel in 1988 was foreign, or \$289m; most of this was in the form of shares bought in Israeli companies. FDI was often brought about through Jewish social connections, leading to variable successes. One Israeli observer notes that traditionally, “(p)artnerships between Israeli and foreign companies have not been prominent or usually successful, nor has the day-to-day management of Israeli companies by foreigners. In a number of cases the foreign investor has come to live permanently in Israel and manage the investment himself; the most important example of this was Polgat. Foreign involvement in such companies as Tadiran, the Ashdod bus plant, Bet Shemesh Aircraft Engines, and Elbit provided technology, marketing, and other management skills, even though the foreign connections were eventually reduced or ended” (Rivlin 1992:68-9).

Yet as the Israeli economy grew and became more high-tech, however, and as the Arab boycott ceased being a strong deterrent of trade investment, foreign investors became increasingly attracted to Israel's highly-skilled labour market, and used local R&D. The typical pattern of foreign investment was to begin with R&D or sales offices in Israel, and then open up production facilities. FDI began to replace trade as the prime motor of international involvement in the Israeli economy:

Merchandise Imports, 1985-1990 (excluding direct defence)
\$m (1992 levels)

	1985	%	1989	%	1990	%
Private consumption	621	7.6	1326	10.4	1599	10.4
Investment	1414	17.2	1614	12.6	2229	14.6
Production	6162	75.2	9840	77.0	11486	75.0
Total	8197	100	12780	100	15314	100

Source: Rivlin (1992:91)

In the late 1980s, two companies, National Semi-Conductors and Intel, paved the way for international investment in R&D centres in Israel. This initial investment was typical of FDI at the time: most foreign ventures in Israel in the late 1980s and early 1990s were in the electronics sector, and most of this was American.

Foreign investment during this period was encouraged by a number of Government incentives, which augmented the 1959 Basic Law for the Encouragement of Capital Investments. This was traditionally the province of the Ministry of Industry and Trade; the Ministry of Finance assists the Ministry of Industry and Trade in the form of disseminating information through the Investment Authority. The 1959 law provides an "approved enterprise" status to domestic or foreign projects, which will materially benefit the Israeli economy, in the form of development of production capacity, improving Israel's balance of payments, creating jobs, or absorbing immigrants. The Ministry's ability to approve these enterprises expired at the end of 1993, and was renewed, with wide-ranging changes. The Ministry could now provide additional incentives for FDI

including incorporate tax waivers, R&D and start-up grants, and cash grants to enterprises in peripheral locations. In 1990, the Government widened the incentives offered in the 1959 Law, and after 1993 this was tied to the original Capital Investment Law, in a move that allowed Government funding of loan guarantees to fund intangible assets, which were not covered by the original cash grant funding.

Policy-Making in Israel

Party Politics

The history of party development in Israel is distinctive. Right and Left in Israel are both rooted in a Left-wing political heritage, and tend not to differ on domestic economic or welfare policy, as is the case in most Western European countries. Instead, the two truly divisive issues in Israeli politics are religious content in civil institutions, and establishment of a Palestinian state. With the establishment of the State of Israel in 1948, three broad groupings of rightists, leftists, and religious parties emerged, whose support remained fairly constant. Between 1949 and 1969 the left-wing bloc varied only between 66 and 71 seats, the right-wing bloc between 21 and 34, and the religious bloc between 16 and 18. These groupings operated in a system dominated by the left-wing *Mapai* party (now the current Labour party), founded by the first Israeli Prime Minister, David Ben-Gurion. *Mapai* formed coalitions with all other parties except Communist parties, which it excluded on ideological grounds, and, later, the right-wing *Herut*.

Herut, formed in 1948 by Menachem Begin, then head of the *Irgun*,²⁴ was initially very nationalistic and had a low stature in Israel's *Knesset*. *Herut* gained legitimacy in 1965, when it entered into an agreement with the only other major non-Socialist party, the Liberal Party (formed in 1961 from a merger between the Progressive Party and the General Zionists,²⁵ and initially championing a liberal economic agenda, but after 1971

²⁴ *Irgun*, an offshoot of the Jewish underground *Haganah* defense force, conducted terrorist resistance to the British occupying forces in Mandatory Palestine.

²⁵ The secular, non-Socialist General Zionist Party was formed during the 1929 Zurich Zionist Congress. This party split in 1935 when a more left-wing faction, led by Chaim Weitzman, split and in 1949 formed the Progressive Party, along with the left-wing *Aliyah Hadasha* ("New Immigration") Party, established

also calling for annexation of lands captured from Jordan, Syria and Egypt in 1967). The resulting *Gahal* bloc achieved further legitimisation and evolution of Israel's right-wing opposition in 1973, when it formed the *Likud* bloc, led by former Liberal supporter Ariel Sharon, and adopted a platform of calling for greater social spending for Israel's disadvantaged (primarily *Sephardi*) population, and for Israel to claim sovereignty over lands occupied from Jordan and Syria (not Egypt) in 1967.

Until 1977, it was possible to conceive only of a right-wing coalition with *Mapai*, and not of a right-wing Government. That year, the brief existence of the Democratic Movement for Change party, formed mainly by Labour supporters, split liberal votes, and led to a decline of the left-wing bloc.²⁶ The new party took 15 seats from *Mapai* in the 1977 elections, enabling *Likud* to garner 46 seats against Labour's 41. Religious parties won 17 seats, and the Democratic Movement for Change (DMC) was able to join the first right-wing/religious coalition in Israel's history, headed by Menachem Begin. The pattern of Israeli politics for the next twenty years was set. When the DMC disbanded in 1981, its members dispersed both to the right and the left. The two right-wing and left-wing blocs became roughly equal, with the right-wing parties winning 54 seats in that year, and left-wing parties 53. The 13 seats held by religious parties held the key to the coalition, and sided with the right, enabling *Likud*, led by until 1983 by Begin, then by Yitzhak Shamir, to form a second right-wing/religious coalition. Benjamin Netanyahu took over the party's leadership in 1992.

Over the next twenty years, *Likud* and Labour remained roughly evenly balanced: *Likud* controlled three Governments, Labour controlled one, and the two parties cooperated with each other to form two National Unity Governments, in which they sat together in coalition. When not cooperating in national unity, each party sought allies in smaller party allies, thus handing a great deal of influence to what would otherwise be

in 1942 by German-speaking immigrants, the Socialist "Zionist Worker" Party established as part of the General Zionist Federation in 1936, and the General Zionist Federation.

²⁶ Differences between the Democratic Movement for Change, which grew out of protests following the 1973 "Yom Kippur" War and *Mapai* were many and various, including calling for a new constitution and increased social spending, and supporting the Allon Plan, which called for Israel to return most but not all territories occupied in the 1967 "Six Day" War to Jordan and Egypt. For a greater discussion of this, see Sachar (1999).

marginal political movements within Israel, particularly the left-wing Meretz Party and conservative religious parties.

Israeli Governments, 1977-1996

	Date of Election	Prime Minister	Major Parties' Seats at Election / Seats at end of Term (out of 120)
9 th Knesset	17 May, 1977	Menachem Begin (Likud)	Likud (43/40) Labour (32/33) DMC (15/0)
10 th Knesset	30 June, 1981	Menachem Begin 1981-1983 (Likud), Yitzchak Shamir 1983-1984 (Likud)	Likud (48/46) Labour (47/49)
11 th Knesset (National Unity Government)	23 July, 1984	Shimon Peres 1984-1986 (Labour), Yitzchak Shamir 1986-1988 (Likud)	Labour (44/40) Likud (41/41)
12 th Knesset (National Unity Government 1988-1990)	1 November, 1988	Yitzchak Shamir 1988-1992 (Likud),	Likud (40/37) Labour (39/38)
13 th Knesset	23 June, 1992	Yitzchak Rabin 1992-1995 (Labour), Shimon Peres 1995-1996 (Labour)	Labour (44) Likud (32)
14 th Knesset	29 May, 1996	Benjamin Netanyahu 1996-2001 (Likud)	Likud (32) Labour (34) ²⁷

While Labour and Likud were brought much closer together through the National Unity Governments, differences over domestic spending and encouragement of the peace process re-emerged, leading to Labour to ending the second National Unity Government with a vote of no-confidence in 1990. Likud had changed a great deal: too much form many of its traditional political allies, two of which withdrew from Shamir's cabinet in 1992 over his willingness to discuss territorial compromise, severely hampering Likud's

²⁷ The 1996 election was held under new rules, called for by the Public Committee for a Constitution for Israel, made up of prominent law professors and MKs, who blamed Israel's list system for the political stalemate of the 1980s; in 1996, voters voted for prime minister separately from their MKs. The

prospects for re-election that year. Likud's commitment to spending in the West Bank alienated many of its traditionally poor, *Sephardi*, base, who saw a decline in their social services and education spending. At the same time, it was weakened as Soviet immigrants changed the electoral landscape, identifying more with the *Ashkenazi* politicians of Labour than the largely *Sephardi* constituents of Likud (and forming a major Russian immigrant party that allied with Labour). In 1992, Labour also became more revitalised, replacing long-time leader Shimon Peres (who was associated with Labour's failure to form a new Government in 1990) with the military hero Ehud Barak, and streamlining many party procedures.

Finally, in 1992, Likud was out of step with the optimistic international momentum that was gathering as Israel prepared for multilateral peace talks stemming from the 1991 Madrid Conference and the nascent Oslo Peace Talks (in which Labour, not Likud, negotiators featured prominently). Although it was Menachem Begin who had successfully negotiated Israel's only peace treaty, and who returned the Sinai Peninsula to Egypt, *Likud's* own platform prevented it from seeking peace based on territorial compromise with Jordan or the PLO. The momentum of the peace process during Israel's 13th Knesset affected Likud, as it did all of Israel, placing territorial compromise and recognition of a Palestinian state in the mainstream for the first time. When it resumed power in 1996, Likud no longer objected in principle to a Palestinian State in the West Bank (indeed, continuing the peace process was a major component of Netanyahu's campaign), though in practice, Netanyahu was cool to the idea and did not pursue it avidly as Rabin and the Labour Party did.

The mid-1990s also formed a turning point in Israeli democracy, as leadership of both main political parties passed from the "first generation" of Israeli politicians born in Israel (both Peres and Shamir were born in Poland) to younger, "second generation", politicians born in Israel. This represented a maturing of the Israeli political consciousness, as well as a growing independence as Israel moved culturally away from Europe.

disjunction between party votes and prime ministerial votes frustrated many voters, however, and Israel reverted to its previous electoral procedures in the 2001 election.

Lobbying

The multi-level corporatist structure of Israeli society accommodates a formal, permanent form of lobbying. This altered somewhat in the 1970s, when social lobbies became active, and again in the 1980s, when industrial lobbying emerged outside the structures of the *Histadrut*. Social interests also continued to gain into the 1980s and beyond. Lobbying parties became increasingly viable, both because the propagation of new parties afforded opportunities to influence their interaction, and because the main parties themselves began to see interest representation as a means of securing popular support for economic policies. Israel had always been characterised by the “split level corporatism” (Grinberg 1991) discussed above; during this period, other representative interests, as well, were brought into permanent consultation with the Government. Although Government relations with interest groups remained very similar under *Likud* as under Labour on the surface, Government engagement with groups, dividing them into clear insiders and clear outsiders, began with the first *Likud* Government, which adopted an approach by which all interests were met with, and which pitted various interest groups against each-other. The MAI, particularly, grew in prestige, gaining increased influence with political parties and governmental institutions since the mid-1980s.

By the 1990s, the diversification of Israel’s political economy began to erode these traditional links between industry and Government. Israel’s corporatist legacy, ministerial structure, and interconnected system of élites ensure a broad political responsiveness to commercial concerns. While the diversification of Israel’s largest holding companies, and particularly the difficulties experienced by the Koor, weakened the natural identification of some industrial sectors with the Government, major firms continued to enjoy easy access to Government decision-makers throughout the negotiating period. For the most major firms, this high-level access was deemed sufficient political representation. “Israeli companies are not public-affairs oriented, even in Israel,” notes one observer: “In Israel, the Director-General of companies just go to the Government themselves” (interview with Shaton). This was rewarded, until the late 1980s and early 1990s, with a broadly protectionist stance within the Ministry of Industry and Trade. One infamous example of the close relations between Israeli companies and the Ministry is found in processed food, particularly between the Government and Osem, which successfully agitated until the

early 1990s for a total ban on imports of Italian pasta into Israel. By the time of the EU-Israel negotiations, such unswerving protectionism was limited to a few industries and sectors, particularly the textile industry. Internal liberalisation, as well as GATT membership and the negotiation of numerous FTA, forced the Ministry to modify its traditional protectionist position.

Yet while what one industry representative terms this “very open door to the Government”, continues to give sufficient access to large companies’ ideas (interview with Snir), smaller companies generally do not enjoy these open doors to the same degree. Instead, political “outsiders”, including start-ups and foreign subsidiaries, as well as small Israeli firms, more closely resemble European companies in their patterns of political influence. Most companies give political donations to the maximum amount in Israel, to both political parties, and some firms began in the 1990s to employ one of the newly-established lobbying companies to pressure the *Knesset* for them. Lawsuits were increasingly relied upon to counter unpopular Government policies, particularly in the processed food industry. Companies also instigated public debate on industrial issues such as interest rates through articles and advertisements in national newspapers; Koor CEO Benny Gaon (though an undisputed “insider”) was particularly skilled in using this as an instrument of political pressure. During the negotiations with the EU, the CEO of Delta Galil made up for his company’s isolation within the MAI by instigating a high-profile debate on the national interest rate in the nation’s press. Another pronounced new development in Israel in the 1990s has been the increasing use of professional lobbyists (interviews with Malkis, Golomb, Krasny, Blatt, Sugarman).

Local politics also give companies in Israel a “back door” into national politics as local leaders are groomed for national office, and the traditional investment of most companies into communities where production is located can sometimes pay off in political terms at the national level. Finally, smaller companies in Israel continue to pursue political goals through the myriad channels of influence available. In addition to the MAI, industry-specific organisations such as the Israel Export Institute and Israel Electronics Association afford political influence. Also, trade promotion agencies within the Ministry of Industry and Trade itself, such as the Foreign Trade Administration, offer companies a means of creating connections with Ministry officials, and informing the Ministry of specific concerns related to Israel’s foreign trade arrangements.

Yet there seem to be conflicting views of the importance of personal relations in industrial lobbying during this period. Though warm personal relations were still important, there is also a perception that this importance declined. In some cases, this depends on the individual politician. The Director of the Federation of Israeli Chambers of Commerce's Export Department recalls, for instance, that Ariel Sharon, Minister of Industry 1975-85, had a "very personal" political style, but that this type of attitude has since declined among his successors (interview with Snir). Other representatives of industry associations asserted that personal relations with all targeted élites were still very important, throughout the entire period of the EU-Israel negotiations (interviews with Blatt, Sugarman). Some individual firms place an even higher importance on cultivating intense personal contacts with elite bureaucrats. A representative of a major Israeli MNC was typical when he admitted that the *Herut* veteran, many-time Minister Yigael Hurwitz was "their" politician. This augmented other channels of influence, rendering the company in question a political "insider" interest:

Hurwitz is our link to the Labour party....He was president of the MAI before (David) Lautman. He is also on the advisory committee of the Bank of Israel....(Also) our President is an ex president (of the MAI), and is one of the top industrial managers in Israel. We are in the framework (interview with Aharonov).

Exporters

Exporters enjoy a particularly high degree of Government support, through manipulation of the exchange rate. From 1975 until the late 1980s, the Government devalued the shekel by several percent monthly, and in 1985, reduced the COLA by 30%, as well, encouraging exports but pitting exporters against labour. In order to maintain the profitability of exports, the Government also paid a subsidy, whose official level can be reduced only through further devaluations. "The government's inflationary policy was one of the factors behind the crystallisation of private sector corporatism, in which the common insistence of *Hevrat Ovdim* and *Lishkat Hateum* that the government guarantee the profitability of exports led to a policy of devaluation and inflation" (Grinberg 1991:138). As devaluation forced up inflation, economists started calling for a freezing of

the exchange rate, which only happened in 1986. The justification for this was that it was too expensive for the Government to go on protecting employers from wage claims, thus forcing companies to limit their own workers' demands, and make the workforce more "efficient".

Since 1985, the dominant attitude of the MAI has also been to encourage the Government to devalue domestic currency in order to encourage export. The Director of the Foreign Trade Department estimates that 95% of the Association's views are the "same" as the Government on export-related matters (interview with Shaton), though interest rates are never low enough for the MAI. Dan Propper, MAI president throughout the 1993-1996 negotiations, was an especially strong proponent of lower interest rates. Although ostensibly representing all of Israeli industry, its currency position thus aligns the MAI most closely with exporters. Although effective in providing general information, especially for political "outsiders" (interview with Buchalter), the Association's focus on general issues such as fiscal policy render it a blunt instrument for more nuanced campaigns on behalf of Israeli exporters. High-technology firms increasingly find the Association's general industrial outlook limiting, despite the division of the Association into industry-specific groupings (interviews with Friedberg, Koritshoner, Ben-Assa). The processed food unit is perceived by the sector to be effective (interview with Ben Moshe), but not central to the political strategies of the wine industry in Israel. In the chemicals sector, the MAI is perceived to be the correct forum for Government-industry dialogue, but fatally limited in its inability to lobby for industry-specific goals, such as changing Israel's laws on patent research.²⁸

Exporters are also represented by a number of lesser organisations. The Israel Export Institute is a semi-governmental, non-profit organisation designed to promote industry, with 2,500 corporate and institutional members, including most Israeli MNCs. They encourage both trade and strategic alliances, and, led by political "insider" Amir Hayek, is the most prestigious of the smaller exporters' pressure groups, though their efficacy is hampered by a small budget, and their professionalism doubted by some high-

²⁸ One executive of Agan Chemical Manufacturers and Makhteshim Chemical Works Ltd., directly attributes his company's decision to establish a production unit outside of Israel on the Association's ineffective lobbying on patent issues (interview with Porat). The pharmaceuticals industry, also concerned with patent limits, is similarly disillusioned with the Association (interview with Aharonov).

technology firms. Contact with the Israeli government is self-confessedly “low-scale”, though the Institute was directly involved in lobbying in Brussels during the negotiations (interview with Admon). In addition, individual industry associations lobby for specific issues promoting export, both regularly and on an ad-hoc basis. The Israel Electronic Association, and its constituent parts such as its Software Group, is a particularly effective organisation, capitalising on its sector’s increasing stature in the economy as well as effective leadership within the Association itself, and gaining governmental influence and prestige throughout the 1990s.

Importers

Both importers and exporters are represented by the same Ministry of Trade and Industry, and the rivalry between the two interests for control over ministerial policy is intense. Tensions are inherent between protectionist impulses and manufacturers’ calls for low currency levels, and the needs of importers. Traditionally, given Israel’s structural trade deficit, exporters have been considered vital to the Israeli economy, and have benefited from support for policies of export promotion at the expense of importers. This has changed somewhat in recent years, as importers’ association have transformed themselves into stronger political presences, and as economic liberalisation has gained currency among Israeli legislators. One senior politician notes that

For many years, the manufacturers were viewed as a constructive and legitimate element in the Israeli economy, while merchants were viewed by the establishment as shopkeepers seeking to protect their own interests and contributing nothing to Israel’s society or economy (Beilin 1992:245)

However, as organisations representing traders have become more sophisticated:

They have adopted manners similar to those of the manufacturers...studying the history of Israeli commerce and holding festive gatherings marking commercial efforts in Israel...and transformed their special interest...exposing the economy to competitive imports...into

a free market ideology, discussed at study sessions by economists from Israel and abroad (Beilin 1992:245).

Importers' needs are represented by the Federation of Israeli Chambers of Commerce (FICC), which primarily aids small to medium-sized businesses,²⁹ and by various bilateral chambers of commerce with all of the EU's member states, which are very limited in scope, efficacy, and prestige. The press remains a potent weapon of import groups, as organisations like the FICC promote a popular view of Israeli liberalisation, and encourage public approval of Israel's dismantling NTBs ahead of its GATT schedule. During the late 1980s and 1990s, as the Israeli economy became more internationally-owned, the FICC established separate categories of membership for foreign firms,³⁰ allowing greater access for these interests to the Government and public media. Individual joint European-Israeli chambers of commerce based in Israel have been virtually useless, except at providing businesses in Israel with basic information. The Israel-British Chamber of Commerce is notable for having during this period a non-Israeli president (from the British firm Readymix), though the more effective London-based Israel-British Business Council, formed in 1995, eclipses this in promoting bilateral joint ventures. Within the Israeli political establishment, importers also increasingly have an ally in the Bank of Israel, which in the 1990s adopted a position of encouraging the liberalisation of Israel's import policies, as a means of increasing efficiency within Israel and pressuring domestic monopolies, as a part of Israel's wider push towards economic liberalisation overall.

Conclusions

In the late 1980s and early 1990s, Israel's economic policy-making structures evolved into a more complex, multi-layered process characterised by a great deals of consensus. As electoral success became increasingly difficult to predict, Israel's political parties have become more dependent upon domestic groups' support. These groups,

²⁹ This is dismissed by many as unprofessional, though some acknowledge the Federation is effective in providing initial, bilateral, contacts in new markets (interview with Buchalter).

³⁰ Foreign firms are thus exempt from the FICC's agreement with domestic members on working conditions, labour arrangements and obligations.

such as the MAI, other industry associations, and even individual companies, have in turn gained more structural power, for instance over setting wages or participating in debates on monetary policy. At the same time that more domestic groups were brought into the policy-making process, however, many commercial interests began to eschew non-partisanship, and identify Labour as Israel's best hope for the continued diplomatic recognition which fuelled Israel's economic growth in the early 1990s. For the first time, the peace process became identified with economic prosperity. As economic restructuring forced Israeli companies to find alternate sources of capital abroad, the Israeli economy moved from a traditional mercantilist model where trade constituted most foreign activity, to a more complex system, where foreign investment subjected Israel to increased scrutiny. Israeli business leaders joined foreign governments in calling for "high" political actions, which would maintain the approval that other countries felt for Israel as it engaged in multilateral peace talks.

The different agendas of companies interested in regional trade and those with no concern for Middle Eastern markets has led to the emergence two Israeli economies: one driven by export out of the region, and a second, largely domestic economy which is now trying to expand into North Africa and the Middle East. The first, largely high-tech and increasingly off-shore, is primarily concerned with the peace process to the extent that it encourages foreign investment and prevents a tightening of the Arab-led boycotts. The second "economy", however, is primarily manufacturing- and agriculture-based, is much more concerned with the details of Israeli-Arab peace, and is much more likely to intervene directly to safeguard Israeli-Arab relations. The fact that many large Israeli companies serve both economies leads to a higher profile for those commercial interests seeking to ensure regional Middle-Eastern business and political links.

Trading in information and promises of aiding compliance, the inclusion of new categories of Israeli domestic structures in Israeli commercial decision-making has coincided with a weakening of traditional party unity and strength, and rendered the Israeli system more porous and accessible by outside interests. Private foreign interests became more influential during this time, as increasing numbers of foreign companies and investors moved into Israel and began to join Israeli industry associations and to exert

influence through individual partner companies in Israel. Foreign political approval also began to be valued and sought by Israeli interests, as countries began dropping anti-Israel boycotts, and as greater diplomatic recognition of Israel led to increases in foreign investment.

This chapter has shown, however, that Israel's economy became more appealing internationally even outside of these political developments. Liberalisation, responsible fiscal policy, development of high-technology fields, and the influx of Russian immigrants all rendered Israel's economy more attractive on purely economic grounds. Nevertheless, political developments did underpin this process, both in practical ways (from the point of view of companies directly interested in joint Israeli-Arab trade or production), and also more subtly, as the momentum of pro-Israel feeling around the world led companies to consider investment in Israel for the first time, or to reveal previously hidden involvement there. This was aided by a number of bilateral export promotion programmes, particularly between Israel and Germany and the UK. The fact that EU-Israeli trade continued to take place in largely traditional sectors during this period indicates that Israel's high-technology transformation had only small effect on the reality of European-Israeli trade. However, the political changes of the 1990s held out the promise of greater trade in new sectors overall, as trade with Israel came to be seen as more possible and acceptable than during earlier days of intense diplomatic condemnation and economic boycott.

Chapter Six

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Chapter Six

Negotiating Dynamics 1993-1996

Introduction

Economic Trade Theory

Standard economic theory has long held that the benefits of trade liberalisation between large and small countries accrue towards the small market. This is because reciprocal reductions in tariffs rarely benefit both partners equally: post-liberalisation prices will usually be determined by the larger nation's domestic price structures. This forces the smaller partner into structural changes: a restructuring of production and consumption; new gains from hitherto-unavailable economies of scale; and new access to large markets. Several developments in modern trading structures alter this expected logic, however. Global liberalisation frameworks confuse benefit flows; in multilateral liberalisation, small countries might lose out to other small markets or to specialist trading blocs. In new WTO discussion areas such as investment, services, financial products, and intellectual property rights, small, developing markets tend to lose out to larger, developed markets, as well. In these service sectors, developing countries products are swamped by more highly developed products from larger markets. As traditional expectations of trade flows are thus altered, capital mobility emerges as a larger anticipated benefit from international negotiations than trade; access to FDI, not trade, is seen by small countries as a means of domestic development (See El-Agraa, ed. 1997).

This fact has most dramatically altered liberal theories of trade. Whereas traditional liberalism assumed that labour and capital were immobile and only finished goods were traded, capital is now highly mobile, and products are traded at all stages of production. Previous theories of advantage are thus eroded. The "law" of Absolute Advantage, long a tenet of economic liberalism, assumes that successful exporters are those that can produce specific goods at the least cost. The more nuanced "law" of Comparative Advantage assumed instead that the flow of goods is determined by a relative (not absolute) advantage in cost. The Heckscher-Ohlin-Samuelson (H-O) model of international trade, since the 1980s the standard liberal position, expects that a nation's

comparative advantage is determined by two factors: relative abundance of natural resources, and an economic system which combines production factors in the most profitable way.¹ State intervention is crucial in ordering an optimal arrangement to ensure relative advantage (a point developed forcefully by Stopford and Strange 1992. See also Porter 1998). The means of doing this, as well as domestically encouraging a responsible commercial framework, is through strategic trade policy. In a highly interdependent world where MNCs and competitive states vie for optimal production environments, states can manipulate trade to shift profits from foreign to national corporations. Even comparative advantage is thus eroded. As trade becomes more dynamic, markets' comparative advantage itself becomes more dynamic, arbitrary, and dependent on corporate and state policies.

Liberal economic theory calls this an "industrial organisation" approach to international trade. Instead of all trade flowing from the poorest countries (with cheapest production costs) to richer countries, international trade is more complicated. Most trade in fact takes place intra-industry (increasingly intra-firm as large companies expand into vertical production structures), and takes place among advanced countries with similar structures. In traditional sectors, poor countries *do* displace rich ones, but overall, the MNCs that account for an increasingly large section of international product, choose national locations for a variety of complex, and partly state-determined reasons. In modern trade, the nature of comparative advantage has thus changed. Relative efficiency, prices, and demand are no longer enough to determine international trade flows outside of traditional sectors. Relative market shares and terms of trade are increasingly determined through bargaining and negotiations.

This fluidity has brought about a rapprochement between nationalist and liberal economic theorists, and, ironically, a greater tolerance of protection. Nationalist theories of trade focus on the zero-sum aspect of international trade in a highly complicated system, where high-technology industries tend to become dominated by large markets. Import substitution, long supported by nationalist economists, assumes that, instead of providing the best host environments for foreign MNCs, developing countries' governments ought to protect domestic industries, and encourage flows of capital and

¹ Factors of production include capital, labour, natural resources, management, technology, etc.

technology into their countries. Since the 1980s, most liberal economists have begun to agree that import substitution guarantees domestic growth: not all sectors, but infant industries (particularly high-technology sectors) ought to be protected to some extent.

One political economist notes the change in liberal economic theory this way:

(Liberal theorists) have had to come to terms with a world in which comparative advantage, international competitiveness, and the international division of labour result in large measure from corporate strategies and national policies. The contention of economists that as long as comparative advantage exists, its origin is not significant is no longer satisfactory. In a world where who produces what is a crucial concern of states and powerful groups, few are willing to leave the determination of trading patterns solely up to the market (Gilpin 1987:223).

The result of this is a growing belief in “*strategic*” trade policy as a middle ground between economic protectionism and unchecked liberalism.

This assumes a limited degree of protection (sometimes called “industrial pre-emption”), allowing infant industries time to develop, particularly those industries which can enhance other sectors within a state as well. Trade and domestic industrial policies are increasingly used together to foster certain types of industry. Whereas, traditionally, trade barriers have been erected to preserve declining industries, the new protectionism erects NTBs such as domestic content rules or voluntary export restraint. Both uses can be detected in these negotiations: in the EU, in textiles and public procurement; and in Israel, in some high-technology sectors and in buses.

Negotiating Partners

In an asymmetrical negotiating situation, where large and small countries negotiate bilaterally, negotiators will therefore co-operated through the strategic use of what trade theorists call “side-payments”: similar to Putnam’s “kinky” linkages. Side payments allow small countries to move beyond trade areas of negotiation to alter the payoff for the dominant country, thus creating a wider game with more win-sets. An example of this use of side payments might involve a small country offering political benefits to a large country, for instance a seat on multilateral peace talks in which the small country

participates. This links trade concessions for the small country to wider, non-trade, benefits for the large country: in this case, diplomatic prestige and the chance to influence the multilateral peace talks themselves.

A wide literature exists on side-payments in the context of Mexican-USA NAFTA negotiations. In that context, the USA gained little immediate commercial benefit from creating an FTA with Mexico. Instead, in negotiating NAFTA, the USA encouraged growth and stability in Mexico, attempted to encourage and solidify domestic Mexican reforms, and to set a precedent for future trade agreements (Cameron 2000). Similarly, in EU-Israeli talks, low average tariffs and extensive economic integration meant that the benefits to the EU of trade liberalisation were limited. The use of side-payments thus emerges as central to the EU-Israeli negotiating experience.

This dynamic can be refined still further, in distinguishing between “leaders” and agents who participate in ordinary bargaining. Leaders are “(g)overnments, organisations and individuals who do something out of the ordinary to influence the course and outcome of international negotiations” (Malnes 1995:87). In the negotiations described in this chapter, Israel’s Foreign Minister, Shimon Peres, (and Prime Minister at the time of the signing) emerges as the most successful “leader” in this sense. In this conception, “leaders” can influence either directly, through their position in the negotiations (through what Malnes calls “positional leadership”), or through “directional leadership”: an ability to influence a wide range of others’ behaviour, through moulding their values and beliefs (Moravcsik 1993, Putnam 1993, Malnes 1995). In either case, what distinguishes a leader’s view from an agent’s is the belief that the parameters of negotiations are flexible. It takes creativity to invent linkages. Leaders are distinguished by re-evaluating both the interests, beliefs and values of an organisation, as well as the structure of its interactions, and linking them to the use of strategic side payments. The actual use of side payments is achieved through a variety of means. Threats and offers, attempts to alter the institutions in which negotiations take place, and attempts to influence national objectives and beliefs can all be used to widen the perimeters of trade negotiations to include other issues.

Motivations to Negotiate the 1995 EU-Israel Association Agreement

Israeli Motivations

Although the details and conclusions of the negotiations were hard-fought on technical matters, the impetuses to renegotiate the existing FTA were many. The preliminary request came from Israel, and indeed, throughout the negotiations, especially at higher political levels, Israel was perceived and behaved as a supplicant, asking for concessions from Europe. The fact that Israel, too, liberalised as a result of the renegotiations does not change the burden of trade barriers, which for some years had harmed Israeli exporters disproportionately (discussed below). Israel's small size, and the traditional nature (agriculture and textiles) of much of its trade with the EU, minimise Israel's clout within the Community; it cannot resort to the trade wars with which the USA or another large trading partner can threaten retaliation in cases of commercial discrimination. Also, Israel remains more protectionist than the EU in the industrial areas negotiated in the 1990s under asymmetrical liberalisation timelines, thus dampening enthusiasm among European manufacturers for enhanced reciprocal trade links with Israel.

Nevertheless, Israel's motivation for requesting a renewed agreement was commercial, as well as political. Throughout the 1980s, European imports gained easier access to Israeli markets. From 60%-70% in the early 1980s, the rate of coverage import from the EEC declined in the late 1980s to 35%-45% instead. By the time of final implementation of the 1975 FTA, in 1989, customs rates on both sides were reduced to zero on most goods. Israeli exporters, however, felt cheated by the EU's new agreements with third parties in agriculture, and particularly with Eftan countries, which higher-tech Israeli manufacturers (who were slowly making inroads in European markets) regard as direct competitors. There was also a perception in Israel that the SEA made market access more difficult, through trade displacement. Finally, by the late 1980s, the 1975 rules of origin standards had become outdated, particularly as Israel developed new capabilities in electronics and more capital-intensive textiles.

In response to the SEA, Israel's Ministry of Industry and Trade in 1989 established a committee to monitor European market access. In 1992, Israel's Foreign

Ministry established an independent Mission to the EU, which previously had been subsumed in Israel's embassy in Belgium, in anticipation of new negotiations with the Community. However, the actual impetus to negotiate a new agreement arose previously, amongst various private industrial and Government sources independently; the Ministerial committee itself can be seen as the result of industrial pressure to pay greater attention to European markets in the 1980s. (interviews with Hirshler, Tenneh, Chokron, Shaton). Its head notes that its role was more co-ordination of Israeli responses than formulating new approaches to Europe, and one of monitoring the dangers of a "fortress Europe" emerging (interview with Hirshler). The actual Israeli requests for a renegotiation were made by the Foreign Ministry, and were throughout the 1980s denied by the Community, at times on political grounds.²

At the same time that Israeli commercial interests were concerned with actual trade barriers in Europe, Israel's Prime and Foreign Ministries were also very concerned with symbols, a characteristic which shaped Israeli negotiating behaviour throughout. Before official trade negotiations began in 1993, this was noticeable in other aspects of Israel's behaviour in commercial transactions with the Community, for instance, EIB loans (Discussed in Chapter Three). This interest in symbols gained two additional impeti: first when Israel embarked on regional, multilateral peace talks in 1991, and then when Labour came to power in 1992. The appointment of Shimon Peres as Foreign Minister in 1992 brought about the apotheosis of Israeli's concern with symbols, as Peres equated closer economic relations with Europe with Israel's pursuit of peace in the Middle East. To this way of thinking, European encouragement of Israel commercially, providing a "peace dividend" as it made sacrifices on the road to peace, would further European political goals in the region. Moreover, Peres was able to shape this linkage in language which had resonance within the Community:

I met Jean Monnet, I think in 1957, in Paris, and he told me something I have always remembered. He said someone asked him why he did not plan

² This is discussed by Einhorn, who notes that a "major problem (for Israel) is the linkage created by the EEC of necessary amendments in the (1975) FTA to progress in the Middle-East peace process... Any improvements in the FTA...are pending significant progress in the peace negotiations between Israel and the Arab states" (1994:28). She provides the example of rules of origin, which the Community agreed with Israel, along the EFTA model, in 1976. Although technological developments had led to changes in all the EFTA countries' rules of origin, Israel's requests for similar changes had been refused, Einhorn argues, because such issues were linked to progress in regional peace talks.

straight ahead a political structure. His answer was that he would create opportunities. He said that politicians don't read statistics; the aim of politics is done through economic channels. I found a great deal of wisdom in this. War is about politics; peace is about economics. War is about politics; peace is about policies. The transforming of policies to economy is the first step of pacification (interview with Peres).

Invoking historical ties not only between Israel and the Community, but between the Jewish people and Europe, Peres was able to identify the renegotiation of the 1975 FTA with broader political ideas of peace-making and reconciliation, and articulate this linkage in means which created resonance with European politicians.

Community's Motivations

These links found fertile ground in Europe, particularly as the Community was then trying to achieve a greater role in the peace talks. As discussed in Chapter Three, other impetuses within the EU to renegotiate the 1975 FTA included a renewed interest in the Community's southern neighbours, and after 1995, the construction of a Euro-Mediterranean Partnership Programme. Damlier Benz had been active in trade promotion with Israel in the context of Baden-Württemberg, and Marks and Spencer had lent its support to anti-boycott pressure at the national level in Britain, but no European manufacturer actively lobbied to *begin* a renegotiation in the early 1990s. Instead, the decision to do so was taken primarily at the political level, by ministers in the Council of Ministers, and consequently reflected the twin non-commercial concerns of promoting Middle Eastern peace and a more comprehensive Community Mediterranean policy. The lapsing of the Arab boycotts, one result of the peace process, was a major factor easing the way for the Community to increase its trade links with Israel. At the Council of Ministers level, however, in the early 1990s, larger political goals of participating in the peace talks overshadowed their practical commercial benefit.

Although Israel's Association Agreement is exceptional within the context of the Euro-Mediterranean Partnership Programme (discussed in Chapter Three), negotiators - particularly Israeli negotiators - note that the existence of a framework helped facilitate negotiations. There was a feeling amongst Israelis that the Community is more

comfortable negotiating according to regional plans and precedents than creatively, with a single country (interviews with Hirshler, Halevy, Bar). Others saw the EEA as a precedent to the negotiations with Israel (interview with Chokron). Within these constraints, enhanced trade with Israel was seen to have some commercial benefit, and this became in turn an additional, if minor, motivation for the EU to negotiate. Particularly in the R&D component of the agreement, the mass Russian immigration to Israel (discussed in Chapter Five) augmented Israel's appeal as a partner with which to co-operate.

End-Goals

Once the decision to renegotiate the agreement had been taken, end goals of the European and Israeli sides differed a great deal. The EU initially envisioned an enhanced trading arrangement, with innovation primarily within public procurement. The Israelis, however, entered the negotiations expecting to conclude EEA or EFTA-like agreements, encompassing free movements of goods, services, and capital, and also to achieve co-operation in R&D. Many in the Israeli Government brushed off the very real objections against closer Israeli involvement on the grounds that it is not a European country, almost by seeming to argue that Israel ought to be considered European in some sense or attached to Europe in some way (discussed in Chapter Three). Explains one Foreign Ministry official, Israel not being European "sounds like a theological argument to me" (interview with Tenneh). Instead, the Israeli negotiating team went into the negotiations tenaciously, demanding highly symbolic concessions from Europe such as full membership in the Fourth Framework Programme, as well as enhanced market access.

Level-Two Unity and Win-Set Formulation

Israeli Win-Set

Israeli negotiators were held back primarily by splits within their ranks. Although the Foreign Ministry officially led in the negotiations, other ministries acted independently, planning win-sets and negotiation strategies, and direct lobbying of the

EU, with no inter-ministerial co-ordination inside Israel. Differences in philosophy and goals soon emerged, most obviously in a dispute between the Foreign Minister and Ministers of Industry and Trade and of Agriculture over when to end the negotiations. As the negotiations continued, the different conceptions of these men of the purpose of Israel's renewed agreement became obvious to Community negotiators. While some within the relevant Israeli ministries themselves attributed the tensions to personal differences between the Ministers, rather than institutionalised differences lower down (interviews with Hemar, Peres), European negotiators perceived the splits in Israel's position as a major widening of its win-set, all the same. While officials inside Israel tended not to think that inter-ministerial divisions harmed Israel's negotiating capabilities, Israeli diplomats in European capitals did (interviews with Roie, Bar, Wohl, Morav, Ullman). One Israeli economics minister noted that in his experiences in London, his win-set was compromised directly by the splits in Jerusalem. "There are no secrets, and you can tell by the intonation when you speak with people, and it was in the Israeli media. When you negotiate, you get all sorts of background on who you are dealing with" (interview with Wohl). Differences soon become obvious.

Within the Commission, divisions inside Israel over when to conclude the negotiations was perceived in DG-IB as one between the Israeli Government and domestic private industry (interview with Di Cara). To an extent this was the case, as Israel's Ministry of Industry and Trade was subject to industrial pressures absent in the Foreign Ministry. Peres, also, notes that the cabinet as a whole was less concerned with economic considerations than private industry and "some" ministries captured by these interests. This is belied by senior figures within his own ministry, who note that the Foreign Ministry itself was split, and that Peres was isolated in demanding an early conclusion to a largely symbolic agreement with the EU (interviews with Chokron, Tenneh). However, Peres' forceful control of his Ministry rendered dissent ineffective, and the ministerial split widened throughout the negotiations, beginning in early 1993. Peres, too, observes that, during the negotiations, he "felt even officials in the Ministry (of Industry and Trade) were more supportive of me than him (Harish)" (interview with Peres). This is disputed within the Ministry; although some feel that Harish was willing to leave conclusion *too* long, few are willing to support Peres' calls for a resolution as early

as he wished.³ In the Commission, DG-III had a clearer insight into inter-ministerial splits in Israel when, during the negotiations, they were sent “a funny letter”: Israel’s Ministry of Financial Affairs had written that they were willing to conclude the agreement, with some exceptions. The letter then specified a long list of issues, including industrial and agricultural products, few of which had even been negotiated by DG-III, and many of which had already been settled between Commission and Israeli Brussels-based negotiators. Says the recipient of this letter: “It (the inter-ministerial split) was very evident” (interview with Spitz).

The leader of Israel’s negotiating position on industrial issues, situated in the Ministry of Industry and Trade, explains that the main Cabinet split (between the Foreign Ministry and Ministry of Industry and Trade) stems in part from differing conceptions of Israel’s diplomatic relations with Europe. While the Ministry of Foreign Affairs considered *any* agreement with Europe to be a political matter, the Ministries of Industry and Trade and of Agriculture disagreed. They pointed out that Israel already had a trade agreement already with the Community, and this did nothing to create warm political feelings. Yet the team leader also held the contradictory view that the mere *experience* of negotiating with Israelis in the 1990s might alter the political attitude of Europeans towards Israel, and therefore these negotiations ought to be conducted in the best possible manner (interview with Peri).

This belief that Israeli conduct in the negotiations could affect European’s political attitude towards Israel was shared by Peres, although the perceptions in his Ministry of what constituted an appropriate negotiating position was quite different from other ministries. Dismissing Harish as too focused on the details of the negotiations to create a good impression in Europe, Peres notes that during the talks,:

³ Typical of this view is an economic minister in Israel’s London embassy. While minimising divisions between his ministry (Industry and Trade) and the Foreign Ministry, calling them varying philosophies united in the same goal, he notes:

Peres had a big vision.... This is not a political agreement, though. This is a business agreement; people will have to do business according to its terms for years. With a political agreement it’s all-right if something is vague, but not if you have to do business by it (interview with Wohl).

These views were repeated throughout the Ministry of Industry and Trade, and occasionally, by officials within the Foreign Ministry, as well (interview with Chokron).

I thought he took too extreme an approach. When you negotiate you don't bargain. You find ways to arrive at an understanding. Good will is important. I think that I created an atmosphere of good will (with the EU), and that is why we were successful. I think that if I had gone in like a car salesman, I wouldn't have created this feeling. There is much more trust where there is good will. The Common Market was made great because of this. I would not have been as successful if I had shown more naked negotiation (interview with Peres).

This attitude found resonance with European foreign ministers and the Council, but it did create problems for Israeli negotiators, in a number of ways. Instructions given to negotiators on the ground were confused or contradictory because of splits within the Israeli cabinet. The pace of the negotiations was also confused by Peres' and Harish's insistence on ending or prolonging the talks. Some Foreign Ministry officials attribute Peres' perceived arrogance towards other ministers not only to his abrasive personality, but also to his high-profile role in the Oslo Accords, which elevated him above mundane political concerns. Yet Peres' larger-than-life persona was an asset as well as a liability. The Nobel Peace prize which Peres won with Yassir Arafat in 1994 enhanced his prestige in the eyes of Europeans, at the same time that it complicated the formulation of a practical negotiation strategy among Israeli negotiators.

One practical problem with Peres' leadership in the negotiations was his prevention of a unitary win-set for Israeli negotiators. Because the talks were conducted at a number of levels, in many locations, by different people, creating a clear message was crucial to avoid confusion. The Harish-Peres split, however, made cohesion difficult, particularly within Israel's Missions to member states' capitals. One Spanish-based Israeli diplomat notes:

There were tensions between ministries; we weren't always given clear instructions. The most important difference (between the ministries) was in the amount of pressure (we were meant to apply). The Foreign Ministry always wanted a rapid negotiation. It was rapid versus slow (interview with Bar).

Confusion also arose because of inefficient co-ordination of Israel's negotiating position. Communication between Israel's Mission in Brussels and its Missions in member states

was often poor, and there was a feeling among nationally-based diplomats that the views of the Brussels-based negotiators overrode them. Even when differences remained between Israel and member states, if negotiators in Brussels had reached agreement with the Commission, then those issues were presented to Jerusalem as resolved. Israeli negotiators in the member states recall being sidelined, not consulted, and sometimes not receiving information and instructions from the Ministry of Industry and Trade, which would have enabled them to present Israel's position effectively. Even the Brussels-based Mission, which took a central role in the negotiations, reports confusion in its instructions from Israel. However, this Mission was better-placed than others to engage in dialogue with the co-ordinators of the negotiations back in Israel. While it is ostensibly the role of all economic and other ministers overseas to send information back to the Government in Israel, only the Brussels-based diplomats report satisfaction that their views were consistently taken on board, and improved Israel's negotiating abilities.

Another aspect of Israel's difficulty in maintaining a narrow win-set was differences between negotiators representing different ministries *within* some of Israel's embassies themselves, particularly within its Mission to the EU. Confusion in the co-ordination of the negotiations in Israel allowed infighting to erupt within the Mission to Brussels between representatives of the Ministry of Foreign Affairs and those of Agriculture and other Ministries. Generally, Israeli negotiators succeeded in preventing conflicting messages emanating from the same embassy. They could not mask, however, wider divisions between those who wanted to conclude the Agreement quickly, before matters such as R&D and OPT were resolved, and others, who wished to extend the negotiations longer.

Divisions over when to conclude the negotiations thus emerged as the greatest compromise in Israel's win-set. While at the end, some officials within Harish's own Ministry began to doubt his wisdom in continuing to hold out for additional concessions (interview with Morav), Peres' insistence on an early conclusion created confusion in a number of ways. Most obviously, there were many negotiators who felt that more could be achieved with extra weeks of talks. However, strategically, Peres' interference was also considered to be blundering. Like the letter sent to DG-III by the Finance Ministry, Peres' repeated, public calls for an end to negotiations created an impression of Israeli disarray within Europe. This can be seen in the Commission's reopening of a number of

previously-settled issues (foie-gras and apples), at the insistence of France and Austria, in June 1995, immediately after Agriculture Minister Yaakov Tsur publicly clashed with Peres, and prevented a signing of the Agreement until additional negotiations on citrus fruit took place. The co-ordinator of Israel's industrial negotiating position views this and similar clashes as mistakes in strategy in the negotiating campaign:

Mr. Peres just went to the government, and said: 'stop in the place where you are in negotiations'And this was very, very stupid.... Borrowing a metaphor from Lebanon... There are troops everywhere. Things are not finalised. It is not clear what the situation is. So naturally there are lots of misunderstandings there. It is not a real way to finalise. You can take a decision in the government, and we can consolidate everything within two weeks. That is reasonable. But to announce a government decision finally today, what we have today we shall take, and the rest no, it is very stupid, because a lot of things that we saw half in the pocket were then disappeared, naturally (interview with Peri).

As negotiations concluded, the splits in Israel's win-set thus emerged most strongly, greatly reducing both Israeli prestige and the ease with which Israeli negotiators could manoeuvre in all aspects yet resolved in the trade talks.

EU's Win-Set

Similar splits were avoided in the Community because of the unitary and essentially technocratic nature of the European Commission in matters of trade policy⁴, in which DG-IB co-ordinated the Community's position, with specialist input from other directorates. The Community's competence in trade negotiations is often described as a trade-off between efficiency and accountability, with nationally-dictated goals distracting the Commission from its technocratic, a-political efficiency (Woodcock and Hodges 1996, Friis 1999). In the case of the EU-Israel Association Agreement negotiations, this division was manifest, as some member states pushed the Commission to protect certain

⁴ In matters of trade policy, DG-I has established primacy, though DG-VI (agriculture) has often contested it. Discussions of the role of DG-I include Woolcock (2000), Cini (1996) and Young (2000).

industries or industrial practices, at the same time that certain members (often the same ones) pushed for a generous treatment of Israel for “high” diplomatic reasons. These contrasting pressures betray fissures both within the member states, and in the greater European win-set, and narrowed the Commission’s negotiating possibilities, over all.

The Community’s desire to extend the Association Agreement to Israel as a “high” political gesture was the product of various member state perspectives. Most obviously, the Council of Ministers, led by members with historic links to the Middle East, wished to reward Israel for participation in the multilateral peace talks, and to secure for the Community a place leading these talks in return. Spain, the greatest proponent of a new political context in which to relate to Israel during the negotiations, created its view of a new Mediterranean focus within the Community for other reasons, including enhancing its own standing within the Community by emerging as the champion of a major new external policy initiative. Strategically, Spain and other Southern members also have much to gain from a redirection of Community resources to programmes designed to ensure stability and prosperity, and to combat crime, smuggling and immigration in the Mediterranean basin. Yet Spain particularly championed this cause, using its presidencies throughout the late 1980s and 1990s to further this agenda. The motivations for Spain’s preferences and process of bargaining within the EU which led to the Euro-Mediterranean Partnership Programme have been much discussed (Grilli 1993, Tovias 1995 and 1997, also Chapter Three); the concern of this chapter is how Spain’s championing of the new Mediterranean policy affected its behaviour in the Community’s trade negotiations with Israel.

Most obviously, its desire to conclude new agreements with Mediterranean non-member states mitigated Spain’s natural protectionist instincts in negotiations with countries with similar economies and agricultural growing seasons. While Spain exerted protectionist influences on the Commission’s bargaining position in agriculture, textiles, rules of origin, and buses, in the Foreign Relations Council it called for a speedy and generous resolution to the negotiations. The evolutionary style of regional association that Spain proposed, in contrast to what was perceived as France’s more imperious attitude towards the Mediterranean, corresponded to Israel’s desire for a new Mediterranean identity. Israeli negotiators hoped that, by being considered in this new context, Israel would gain valuable new points of contact and co-operation with the EU.

Although it diluted the ideal of a special relationship between Europe and Israel, the Euro-Mediterranean Partnership gave Israel more assurance of European attention, political dialogue, and easier terms of trade. One Spanish-based Israeli diplomat has gone as far to say that, in this context, ‘Political consideration is more important than economic’; Israeli negotiators were willing to sacrifice potential special relations with Europe for membership in the Mediterranean programme (interview with Bar).

Israel was eager, too, to recategorise itself in Europe as part of the Mediterranean, which in the 1990s emerged as a region of potential European partnership and growth, instead of the more troubled Middle East. Also, the links established by the EU at the Barcelona Conference were seen by many in Israel as facilitators of future political dialogue between Israel and North African countries. Israeli negotiators found it easier to engage in dialogue with Arab representatives in a European forum, and there were hopes in the early 1990s that the Partnership Programme might materially aid the establishment of Israeli-Arab links. Finally, the Community’s desire to finalise a number of Association Agreements with Euro-Mediterranean Partnership target countries can be seen to have given Israel more time to negotiate. Although the German presidency had placed pressure on both parties to finalise in late 1994, the Spanish presidency was in no hurry to sign with Israel until the EU-Morocco Association Agreement was finalised, thus allowing the Israelis additional weeks of commercial bargaining.

Part of Spain’s plan to emerge as the prime proponent of greater Mediterranean co-operation within the Community involved signing the first Euro-Mediterranean Partnership Association Agreements during its 1995 presidency. In the context of the EU-Israeli negotiations, this subsumed economic dialogue to symbolic political goals, as the negotiations were held up until the second half of 1995. Spain was perceived in Israel as critical of Israel, both in industrial matters, and in the context of the Arab-Israeli conflict. For these reasons, throughout 1993 and 1994, Israeli negotiators had assumed that they would finalise the agreement before the Spanish presidency. However, commercial conflicts with Spain and other countries, as well as the internal differences in Israel, delayed negotiation until late 1995, when it was found that the Spanish presidency was accommodating. Spain’s position as advocate of the Partnership Programme ensured Spanish support for Agreement, and eliminated many of Spain’s previous commercial objections. Spain’s 1995 presidency was marked by moderation and a move towards

consensus in areas in which Spain had a clear view of the EU position. One observer notes "Remember, they were now the President, they were not Spain.... As President, if Spain is the problem, you fix Spain. So they fixed Spain" by eliminating Spanish calls for protectionism or other conditions that might have held up finalisation (interview with Bar). Only two factors delayed agreement at this stage. For the sake of wider Euro-Arab relations, the first Partnership Agreement could not be with Israel, so the Community first had to finalise an Association Agreement with Morocco. Spanish elections also delayed its pressing for completion, slightly.

Before these atypical six months, however, Spain had been a strong influence on the Commission, narrowing the Community's win-set in traditional industries such as agriculture and textiles. One unusual sector in which Spain insisted on retaining European exemptions was buses, an issue which Spain raised at every meeting with Israeli diplomats throughout the negotiations. Spain's objections stemmed from Israel's violation of the 1975 FTA in continuing to protect this industry, and for Spain, retaliating in kind became an issue of principle. Buses were eventually exempted from the public procurement agreement, at Spanish insistence, despite some internal pressure from Spanish bus-assembly companies which suffered from Israel's reciprocating refusal to grant bus manufacturers open access to public contracts. Although Spain does possess a domestic industry of bus assembly, its use of this issue in negotiations indicates a wider negotiating strategy, in which Spanish insistence on this concession could be traded for a narrower Community win-set on more fundamental issues such as agriculture. Conversely, some negotiators felt the Commission at times invented supposed Spanish objections in order to strengthen the Community's overall win-set, particularly in agriculture.

Spain's overall negotiation with other member states and its dialogue with Israel in the context of the Agreement negotiations was similarly involved and complex, driven both by commercial and political concerns. There was a feeling among negotiators that some previous Spanish objections, on commercial grounds, had been ruses designed to delay finalisation until its presidency. Given this, the Spanish foreign ministry and its negotiators responded best to appeals to the political nature of the negotiations, and Israeli diplomats made this connection, both directly, and through Northern members, whom Israel pressured to influence Spain. Spain, in turn, was exploited by Israeli negotiators to influence France (Israel accepted the Spanish quota on oranges in return

for Spanish pressure on France over cheeses) and Italy. In fact, so great was the potential for joint Spanish-Italian actions that Israeli diplomats based in the Southern member states instituted their own co-ordination, outside of the negotiation planners in Jerusalem or even in Brussels. Israeli diplomats wrote and circulated reports of dialogue and member states' views on issues such as agriculture and OPT, and also copied relevant documents and passed them to their counterparts elsewhere in the Southern member-states as a matter of course. In Spain, particularly, Israeli negotiators pressed on trade issues at the national level, approaching Spanish policy-makers and diplomats not only in the Council of Ministers, but also in export meetings, and at other functional levels. In approaching the Mediterranean member states in this way, the Israeli negotiators recognised that their economic clout, though growing, was still minimal; the only way they could overcome genuine commercial objections to further liberalisation and industrial concessions was by appealing to the wider political effect of such an agreement.

Also in some northern member-states (Germany and, to a lesser extent, Britain), Israeli appeals to high political goals were able to mitigate some commercial objections to further concessions. Germany's primary commercial objections to liberalised trade access with Israel centred on public procurement, of which Germany was the greatest obstacle to closer EU-Israeli ties. Yet, due primarily to a lack of effective co-ordination amongst the Israeli negotiators, Israel was unable to broach this issue effectively at a bilateral level, and instead approached the issue primarily through trade representatives, from the point of view of trade promotion. Israel's commercial minister in the Bonn embassy noted

Public procurement is a big issue. I would be told from Jerusalem to mention public procurement, but I didn't hear too much. I always asked for concrete examples, and as far as I remember, there were never any concrete cases that I had to mention. When I did mention public procurement to the Germans, they replied that there were 400 different tenders every day in all the federal and regional projects. It wasn't just us complaining; also the other European countries complained (about Germany's intransigence on this issue) (interview with Ullman).

However, Israel was not able to co-ordinate its objections with other states, and could not place any additional pressure on Germany on this issue via third parties.⁵ Israel's large trade deficit with Germany and the relatively high-technology character of German-Israeli trade might have led to greater co-operation on industrial issues, but this was not pursued. Israel was simply too small a market to influence either the German Government or German industry to liberalise. Also, the concurrent Israeli-Länder negotiations on trade promotion displaced much Israeli action on industrial issues in Germany. While the same figures led Israel's negotiations with the Länder and the EU, there was little spill-over from these regional talks to influence at the national level (interviews with Halevy, Ullman, Miller-Koelbel).

Instead, Germany was approached during the negotiations most successfully on issues with a political resonance. While both Germany's *rapprochement* with Iran and the Middle East peace talks remained diplomatic obstacles, Germany's support for Israel was significant in the context of the EU-Israeli trade negotiations, particularly in agriculture and R&D. This dropped off during Germany's presidency when, although Kohl and Kinkel pushed hard for a resolution, domestic elections and what Israeli negotiators perceived as a fear of over-using their influence within the Community prevented Germany from pushing through many of the concessions they had earlier promised. At this stage, Israeli negotiators, both at the ministerial and functional level, approached the German Government extensively, trying to procure German support for finalisation on terms amenable to Israel. Eventually, however, Israel's Ministry of Industry negotiators declined to conclude the agreement in Germany's late-1994 Presidency.

In doing so, Israeli negotiators took a gamble, as the Presidency then passed to France, where obstacles existed in political and most commercial levels, including in R&D, public procurement, agriculture, processed foods and textiles. Israeli negotiators, however, perceived that functional-level negotiations were more important and capable than politically-motivated European stances adopted by various member-states during their Presidencies. The Israeli Government was willing to risk hostile Presidencies to

⁵ This was proposed within Israel's German Embassy, where personal ties led one official to propose joint lobbying for OPT with other non-member states. Although Israel's commercial institutes did co-ordinate such joint action (Discussed in Chapter Eight), Israel's Foreign Ministry declined to organise joint-action at the diplomatic level.

pursue additional negotiations.⁶ In reality, it was during France's Presidency that Israel gained some of its most important concessions. One reason for this is that, like Spain, France became split during its Presidency; its behaviour in that context was different from the ordinary behaviour and preferences of the *Quai d'Orsay*. While the Government remained interested in their own client states in North Africa, particularly Morocco and "showed a distinct reluctance" to negotiate with Israel, the "professional" behaviour of the French Presidency led to a "breakthrough" in EU-Israeli negotiations (interview with Peres). Materially, this meant a softening of protectionist attitudes in some areas. The most significant concessions made by France in early-1995 was its dropping of objections to Israeli participation in the Fourth Framework R&D Programme; this led the way for the French-headed Troika to promise Israeli inclusion.

Similar splits were evident in the domestic formulation of Italy's constraints on the European win-set. While Italy's Government opposed enhanced trade arrangements in agriculture and, to a lesser extent, textiles, as a Southern member-state, it nevertheless favoured closer relations with Israel, as part of its overall Mediterranean policy preferences. Its long-term, traditional support for the Arab side in the Arab-Israeli conflict also caused some isolated diplomatic problems in the early 1990s, particularly under Bettino Craxi, but was subsumed by Italy's general desire to promote Israel as part of the Mediterranean region, especially under Giulio Andreotti's premiership. This was used by Israeli negotiators in bilateral dialogue with Italy: "Italy was a natural ally, at the political level. We pushed this in concluding the agreement: Italy is leading the push in rapprochement with the South" (interview with Morav). This was especially effective, as Italian-Israeli ties were strong, having been forged in long-term bi-annual meetings of the Italian-Israeli Bilateral Economic Agreement committee. This institution, established in 1954, discussed arrangements on issues such as taxation, air transport and tourism, at a ministerial level. Although it disbanded after 1992, having been subsumed by EU-Israeli dialogues and competencies, the Agreement committee brought together senior Italian and Israeli politicians on a regular basis at the ministerial, deputy-ministerial, and lower

⁶ "So then people thought if we passed to the French, they are Mediterranean, and politically they are more difficult to us, so we thought they would be horrible. We need some results, otherwise there is no need for the agreement, so we decided we would wait for the French, and even afterwards for the Spanish. Simply we needed the results, and without it there is no agreement" (interview with Peri).

levels, as meeting agendas were prepared. These personal links provided valuable continuity throughout Italy's changing governments in the early 1990s. Israel pressured Italy heavily throughout the negotiations, experiencing problems only during the Berlusconi government, when neo-Fascists controlled Italy's Agriculture Ministry. This strained relations with Israel (which refused to speak with neo-Fascists). Italy was able, however, to continue its dialogue with Israel, after it shifted its agriculture remit vis a vis Israel to the Foreign Ministry, where it remained for the duration of Berlusconi's coalition.

Britain was one of the most unified and predictable member states in its expectations within the EU-Israel negotiations. Like the Southern member-states, Britain maintained protectionist attitudes on more traditional sectors, including agriculture, government purchasing, opening telecommunications markets to Israeli companies, rules of origin, and R&D. On high-technology issues, however, Britain was conciliatory towards Israel, and, because the negotiations were linked in many British officials' minds to the peace process, the Government supported close links with Israel, overall. Bilateral links with Israeli negotiators were therefore extended from the Foreign Office, at all different levels, rather than the DTI, where there was less contact. DTI influence on British-Israeli business ties was subsumed in the high-profile commercial mission led by John Major to Israel in 1995, and the resulting establishment, with Government support, of the export-promoting Israel-Britain Business Council. Bilateral contact between diplomats was characterised as "not an every-day dialogue" (interviews with Wohl, Rosenberg), and British-Israeli bargaining generally started at technical levels, and then moved up, as opposed to some other member-states such as Germany, where bilateral contact tended to be unsubstantive and symbolic.

The most problematic issue discussed bilaterally at a high diplomatic level during the negotiations was Israeli participation in the Fourth Framework, which became linked on one particular diplomatic visit to the arms embargo. In this, an unusual feature of Britain's political structure facilitated enhanced Israeli-British relations. When Peres travelled to France and the UK at the end of negotiations to discuss finalisation and participation in R&D, he also succeeded in pressing Britain to lift its 1992 arms embargo on Israel. These concessions in turn influenced Juppé to drop French objections to Israeli R&D participation.

Despite the use by Israeli negotiators of splits within the Community at member-state level, the Commission remained the primary forum for EU negotiation, and most bargaining was done there. Yet, even within the Commission, splits due to member states were evident. State preferences were well known, and Israeli diplomats regarded the lobbying of specific members on difficult issues as a natural compliment to talks with the Commission. Although Israelis recognised the importance of member states' political stances during their Presidencies, they also engaged in constant lobbying on commercial issues. Thus, Israel's dialogue with France on telecommunications was an integral part of its talks with DG-III, its dialogue with Southern member-states on agriculture complemented talks with DG-VI, and dialogue with France on processed foods complemented discussions with DG-IB. Explains a then Israeli Foreign Affairs Counsellor in Brussels: "Negotiators between two parties in any level is the balance of the interests. The most important thing is to know strengths and weaknesses" (interview with Chokron). Thus, a strategy to manage member-state objections is part of any well-planned pan-European negotiating effort.

This took place a number of ways: *ad hoc* dialogue in member states;⁷ with Coreper;⁸ through informal co-ordination of Israeli embassies in Southern member states; co-ordinated from the Israeli mission in Brussels; and co-ordinated from the Ministry of Industry and Trade in Jerusalem. Generally, Israeli instructions to diplomats on the ground in member states left a great deal of discretion, allowing for differences in national style and issue area. Consequently, countries with established relations with Israeli commercial interests - German, Italy, and Britain - were most open to influence. This was generally welcomed by the Commission, who itself struggled to achieve a viable win-set among the competing demands of the member-states. Not only the Council of Ministers, but, more damagingly, the Maghreb-Mashrek Committee, with which the Commission had to co-ordinate, was perceived by the Commission as internally divided (interview with

⁷ This was variable. It could be extremely effective, as in cases where extensive contact already existed between Israeli and member-state officials. In some cases, however, *ad hoc* contact betrayed divisions within Israeli embassies (interview with Wohl).

⁸ Israeli dialogue with Coreper was particularly successful during the ambassadorship of Ephraim Halevy, who enjoyed socialising with Coreper members at Brussels events, and took it upon himself to *laissez-faire* personally with all Coreper members, as well as guaranteeing extensive contact among lower-level officials.

Di Cara). Even in narrow issue-areas, where there are few commercial interests at stake, and Commission negotiators are familiar with all of them, it can be difficult to achieve a win-set. This was the case even in the negotiations on public procurement in telecommunications, where Community preferences were generally uncontentious and the Commission usually felt confident of their ability to achieve consensus (interview with Spitz). Any actions to help achieve an EU-wide position thus helped Commission negotiators. In absence of such consensus, the Commission adopts the policy of gradually phasing in concessions, over a number of years. This satisfies what the Commission perceives as the short-term political interest of member states' industrial interests, and allows both technical co-operation and the foreign ministry-dominated end-goal to come through eventually.

The Commission, however, did not always seek consensus above all. In order to narrow its win-set, differences between member-state were exaggerated, at times even invented. Israeli negotiators complain not to know "who was feeding the problem" (interview with Morav) when differences arose with the Commission. Another Israeli diplomat notes:

This sort of structure was played with during the negotiations. The Commission wanted to change something in the negotiations. It had a mandate with the Council of Ministers to negotiate a particular line, but one country wanted to change it (that particular point), so it sent the representatives in the Council of Ministers back to their countries to renegotiate it and give the Commission a new mandate (interview with Bar).

Israeli negotiators responded with a three-pronged approach. Israel's first "prong" was high-political linkage at the member-state level. Israel pressured the Commission to make the talks as a-political as possible, specifically in order "to affect their flexibility" in negotiation (interview with Morav). The second level of Israel action was thus negotiation at the technical level. At the same time, Israel actively used member-states to influence other member-states at the ministerial level; this was a constant background dialogue

Third-party influence ranged from high-level dialogue (higher than "staff" level, and possibly ministerial) on specific issues, most notably as R&D. This sometimes took

the form of official dialogue, and at times seemed more like Israeli lobbying of European member states. “There was the usual give and take, in all possible frameworks, both formal and informal”, seeking to influence third parties (interview with Hirshler). Israel did not always target its ally countries for this type of strategic diplomacy; at times, especially with agriculture and public procurement, even modest break-throughs in hostile countries could have a great effect on altering the position of other wary member-states (interview with Ullman).

Character of Negotiations

Israeli Negotiators

These constraints on the European win-set, along with domestic Israeli cleavages, shaped the character of the Israeli Government’s negotiating behaviour. There is no doubt that the divisions within the Israeli cabinet weakened Israel’s ability to present a coherent win-set to their European negotiating partners. However, compared to many of the countries with which Israel competes in the Mediterranean region, Israeli negotiators are far more effective. “The Israelis are very insisting”, notes a member of the Commission’s negotiating team. “They are very different from the Arabs. With the Arabs, first we get silence, then confusion, then we get something different when we talk to industry (as opposed to the Government). The Israelis were organised. From the very beginning they have a strategy, from the very beginning” (interview with Spitz). The Palestinian Authority, for instance, whose trade relations with Europe are closely aligned and affected by EU-Israeli trade, is noticeably less effective in presenting their case and securing favourable arrangements from the Community: “They don’t have the political infrastructure to present policies. Their projects are blocked by infighting....” (interview with Ottolenghi). Compared to its close neighbours and competitors, Israeli infighting and instances of poor co-ordination do not significantly weaken its ability to negotiate.

One Commission negotiator attributes Israel’s strength to the competence of negotiators in Israel’s Brussels Mission. “Israel is one of the rare cases when the(ir) Mission is competent. Shaton (the chief negotiator for industry sectors) used to work in the Ministry of Industry and Trade in Israel, and he knows his own industry”, as well as

enjoying close relations with other Commission negotiating partners in Israel (interview with Di Cara). Although splits in Israel's Cabinet did spill over into internal fighting within the Mission in Brussels, the Mission hid its own internal divisions, and generally did not allow them to compromise its external positions. One of the strengths of the Israeli negotiators was that once a position was stated, it was not usually changed. Another member of the Commission's negotiating team characterises the Israeli negotiators' consistency in the face of domestic splits as pragmatic, recognising the need to form consensus at each stage before negotiations could continue. "The (Brussels) Mission would check with the (relevant) Ministry, and sometimes would have to wait until it did put forward its position. But they never had to come back and change their positions totally, or anything like that" (interview with Stenma). Many of Israel's nationally-based missions were also especially effective because of a thorough knowledge of Jerusalem. This was most notable in Spain, where Israel sent an economics professor as ambassador: Dr. Yaacov Cohen, who had previously been the director of Israel's foreign trade administration, which was co-ordinating the Israeli negotiating position.

Yet, even though Israel's negotiators were highly skilled, Israel's structural position was weak. Both Israeli and Community negotiators realised that the EU's desire to encourage the peace process was a prime motivation in its decision to renegotiate the 1975 FTA. Israel, however, wanted much more than a token agreement, both for political symbolic reasons, and also to satisfy industry.⁹ Israeli negotiators were forced to be creative in finding justifications for the EU to award them enhanced trade status beyond a basic Association Agreement of the kind extended to other Mediterranean countries such as Morocco and Tunisia. The Foreign Ministry official who dismissed the claim that Israel is not part of Europe as a "theological argument" is typical within the Israeli negotiating effort of pointing to Switzerland and Austria (before it was a member-state) as precedents for Israeli association with the EU (interview with Tenneh). In R&D

⁹ Although the Foreign Minister was of the opinion that almost *any* Association Agreement was acceptable, because the political victory of obtaining it outweighed commercial considerations of content, many within the Ministry disagreed. One Ministry Official summed up Foreign Ministry opinion by noting that, although the political benefits of concluding an agreement at all were great, "(w)e have tried to do as much as we can in the agreement. We know what it is to be stuck for twenty years with the same agreement" (interview with Chokron).

particularly, Israel used Switzerland and Iceland as precedents to show that non-EU members could indeed participate fully in some EU initiatives.

Israel's desire to become almost European gave rise to an unexpected counter-pressure during the negotiations, as some American congressmen placed pressure on Israel to limit its involvement with the EU. Notes the co-ordinator of Israel's industrial negotiations:

This is really very, very difficult and embarrassing. The pressure is constant. American money is going to buy European goods. Naturally, as a free market, we can't tell the consumer to buy American. Even in government tenders, we can't do anything. We do small things and pump them up to make it seem big. One example is we are metric, and America wants us to change. This is more symbolic, though (interview with Peri).

There is no evidence, however, that American demands for Israel to limit its other external trade arrangements led to any substantive alteration of its negotiating positions (interviews with Hirshler, Peri).

Throughout the negotiations, Israel tried to convince Europe that it was not similar to its Mediterranean neighbours: not culturally, politically, nor economically. Therefore, to complement their strategy of identifying precedents of Eftan countries' co-operation with the EU, Israeli negotiators drew attention to Israel's intellectual resources, and potential for growth. During the early 1990s, Israel's GDP and average per-capita income placed in a par with the poorer EU-member states, and its average yearly growth level indicated that it might soon match the economic positions of mid-level EU member states.¹⁰ Israel was particularly competitive in some high-technology areas, such as telecommunications, software, and surgical equipment. Israeli negotiators attempted to push an image of Israel as a Middle Eastern "dragon", enhanced trade with which would

¹⁰ Estimated 1995 Macroeconomics Performance (percent)

	Inflation	Unemployment	GDP Growth	Per-Capita GDP
Israel	8.1	6.3	7.1	\$15,729
Spain	4.3	22.7	3.2	\$13,950
Italy	5.8	11.3	3.1	\$20,100
Britain	3.6	8.2	3.0	\$19,400
Germany	1.7	9.4	9.4	\$26,900
USA	2.6	5.6	5.6	\$27,100

(Source: *The Economist* 30.10.95, *Bank Hapoalim* 8.95, in Greenwood 1996:125)

commercially benefit the EU. As one Israeli negotiator puts it: “We are not like Morocco, where you know you are going to lose” (Bar) in free trade. While Commission negotiators were able to grant concessions to Israel precisely *because* Israel is so small and economically inconsequential, Israeli negotiators attempted to paint these concessions as benefits to Europe. Whereas the Community began renegotiations *because* of Israeli participation in the multilateral peace talks, Israeli negotiators tried to paint Israel’s future peaceful existence as an enabler of additional economic growth.

In practical terms, this involved intensive negotiations with the Commission at the technical level, augmented by pressure, or lobbying of Community figures: constant approaches to European politicians at the diplomatic level; additional, targeted high-level diplomatic intervention on specific issue; and lobbying of politicians and Commission officials by industry (discussed in Chapter Eight). In the technical negotiations, the Commission set a high level of competence. A Jerusalem-based organiser of the “staff level” negotiations (charged with technical negotiations) notes the higher level of knowledge among Commission negotiators.

We were technical, professional people. Sometimes (negotiating) was very specific, especially with the Commission. They would even have experts in flowers during the negotiations on flowers, for instance, or on citrus or milk, or whatever. We did not have experts to such a detailed level, but then again we are a much smaller country (than the EU) (interview with Hirshler).

In contrast, instead of fielding experts from specific issues in each different phase of the negotiations, the same Israeli team, drawn primarily from the Ministry of Industry and Trade, but also from the Ministries of Agriculture, Finance and the Foreign Affairs, handled all negotiations. Characterising his negotiations with the Commission as “lobbying”, the leader of Israel’s Brussels-based negotiating team on industrial issues characterises his work during the negotiations as varied and at times thinly-spread:

We lobby DG-IB and DG-IAA. Regarding anti-dumping provisions, etc., it’s DG-IAA. We don’t do much regarding the Competition DG. DG-III is lobbied about issues of standardisation. For the Fourth Framework Programme, DG-III; a member of Committees is a negotiator. We also lobby DG-VI, DG-XXI for issues of customs and rules of origin, DG-X

for issues of media and energy, etc. Our work is to know someone everywhere (interview with Shaton).

Nevertheless, in technical areas, Israel achieved most of its targets: R&D, government procurement on telecommunications, some concessions on major items like corn, and improvements in the rules of origin. Israel's technical negotiators succeeded in gaining concessions beyond those which the EU was obliged to give in a Euro-Mediterranean Association Agreement, and most of the leaders of Israel's negotiating team in the end felt that they had achieved all that it was possible for them to gain (interviews with Chokron, Peri). Enhanced rules of origin and OPT were Israel's only major disappointments.

Complementing these technical negotiations was constant lobbying by Israeli diplomats of various EU levels and institutions. Both ministers and permanent staff were targeted within the Council of Ministers:

There was lobbying by the Israelis, by the Ministry here in Brussels...at all levels. If it was at the ministerial level, then Efram Halevi (Israeli ambassador to the EU) would do it. If it was at my level, it would be someone lower (economic counsellor level or similar) (interview with Halskov).

European ministers were also approached repeatedly, even in non-Community contexts by Shimon Peres, and asked to support various Israeli requests. Characterising himself as "not a stranger in Europe", Peres' close friendship with senior European figures such as Mitterand and Delors "helped a great deal" in influencing both member states and the Commission to grant Israel trade concessions (interview with Peres). Noting that Mitterand's personal intervention helped encourage the EU to legislate against the secondary boycott, concurrent to negotiations for the Association Agreement, Peres credits this closeness with Mitterand's continued support for Israel *within* the negotiations, as well:

Usually the whole atmosphere (in which negotiations take place) is always affected by all decisions. Things are discussed both informally and formally, and everything has an ongoing effect on some members and the negotiations in general (interview with Peres).

While such ministerial-level dialogue was *ad hoc* in character, it was thought by Israel's negotiators to be "constant and extensive" (interview with Chokron): throughout the early

1990s, trade “was on the agendas when ministers met; it was mentioned all the time” (interview with Wohl). The most constant diplomatic-level contact was conducted by Ephriam Halevy, Israel’s ambassador to the EU, whose appointment had been championed by Peres, and who participated fully and effectively in the cocktail-party circuit of senior diplomats in Brussels. At other times, Rabin, Peres, and other Israeli ministers included discussion of the trade talks whenever they engaged in ministerial dialogue with European member states.

This constant attention by all levels of Israel’s Government to the course of the trade negotiations was in sharp contrast to intermittent attention by European governments, for whom Israel’s economic concerns were so minor as to be inconsequential. Given this asymmetry, Israel’s single-minded pursuit of additional trade concessions helped to overcome both its outsider-status in Europe, and genuine industrial concerns within the Community. The co-ordinator of Israel’s overall negotiating position on industrial issues characterises the negotiations as a “war of attrition”, which went beyond ordinary influence and negotiation to permeate every aspect of relations between the two regions (interview with Peri). This was particularly important in Europe where, although Israel does have “allies” to help support its trade negotiations and other relations, it faces a more critical reception overall than it does in the USA. Also, Israel lacks a multilateral, Amcham-like structure in Europe; all the Israeli chambers of commerce in Europe are bilateral, and were unable to significantly aid negotiations, due to the small and disparate nature of the various chambers.

In the actual negotiations (as opposed to ministerial political pressure on EU member states to support concessions for Israel), Israel’s style was similarly aggressive. Both the Community and Israel attempted to keep their win-sets as narrow as possible. Both sides experienced genuine domestic constraints, and both sides also manufactured supposed pressures from industry and other special interests which they claimed restricted what they were able to offer. Yet one difference between the Community’s and Israel’s negotiating styles is that Israel took more steps to call the EU’s bluff in such cases. A Community negotiator notes that the Commission realised Israel exaggerated its domestic constraints:

We filter out what is strategy or what is really pressure from industry.

With Israel, sometimes we can’t tell why they are pushing on a particular

item; is industry really on their back, or is it just strategy? I don't have to know that, but it would make it interesting (to know) (interview with Spitz).

Similarly, Israeli negotiators recognised that the Commission's position was limited by real and imagined pressures. Israeli negotiators, with more to lose from a poor agreement, felt that

(i)f they (the EU) oppose something so strongly, there must be a reason. We have to find it and convince them that the EU won't collapse. We find that the objections often come from one producer, who wants to keep his monopoly (interview with Chokron).

The fact that the EU is far larger and more complex than Israel, with more opportunities for industry, member states, and other factors to limit the Commission's win-set, resulted in a different negotiating style from Israel's. The Commission characterises its approach to negotiating as "keep(ing) the offer limited" (interview with Spitz). This was sometimes misunderstood by a more tactically-preoccupied Israel. One member of the Commission's negotiating team sums up the difference between Community and Israeli approaches by recalling that Israel's chief Brussels-based negotiator on industrial issues asked "what is your fallback line?", expecting - incorrectly, according to that Commission negotiator - that most of what the Commission placed on the negotiating table was initially a bluff (interview with Spitz).

European Negotiators

The atmosphere in which the Commission negotiated was characterised by two contradictory motivations. On one hand, non-trade issues predisposed the Community towards granting Israel generous trade concessions. The Council of Minister's desire to extend a new trade agreement to Israel as a "reward" for Israel's participation in the multilateral peace talks filtered down to the Commission, particularly DG-I. Some Israeli diplomats also believe that European (especially German) historically guilty feelings incline the Community to treat Israel favourably in any negotiation.¹¹ Finally, both the

¹¹ Israel's Foreign Minister notes: "The whole negotiations with Europe were conducted in a general atmosphere. I'm not sure what exactly influenced them in every situation. We are a good customer of

Council and the Commission, especially DG-I, also felt constrained by Israel's trade deficit with the Community (interviews with Sarat, Di Cara). Israeli politicians emphasised the widening trade gap throughout the negotiations, demanding that the Community take some action to redress the balance of trade. That these political influences were felt most in the Directorate-General for External Relations indicates a closer relationship between DG-I and the Council, illustrated by DG-I's eschewing of consultation with the 113 committees in favour of the Maghreb-Mashrek Working Group (discussed in Chapter Four). The head of DG-I's Israel Desk, who co-ordinated this portion of the Commission's negotiations, recognises clear political motivations in his behaviour during the negotiations:

We felt somehow in a position not to be able to say no to anything - because of (Israel's) huge trade deficit (with the EU) and because of the peace process. Yes, we wanted to acknowledge, and support it (the peace process). Let me tell you, they were pretty lucky to conclude it in the best political context. (interview with Di Cara).

Israel's main Brussels-based negotiator had a similar perception: "It was easy for the past three or four years to negotiate, with the peace process. It was seen as good, and expensive for Israel" (interview with Shaton) in the sense that Israel was giving up something, whether security or territory or diplomatic time and effort (although at the same time Israel was promising the "peace dividend" of increased investment and prosperity discussed in Chapter Three).

However, this was conditional on a liberal government in Israel. When Prime Minister Yitzhak Rabin was assassinated on 4 November, 1995 by a fanatically right-wing Israeli law student, Israel's prestige – and "honeymoon" period of international engagement through the Oslo Peace Process – was fatally wounded, as well. Shimon Peres led a Labour Government until elections in May 1996, when Likud leader Benjamin Netanyahu was elected Prime Minister: weakly, with a margin of less than one percent, and following an upsurge in both terrorist and Hezbollah rocket attacks from Lebanon. Although many European governments did give Netanyahu a "grace" period to prove

Europe. Also, there was a moral background. There is the feeling (in Europe) that Europe owes something to the Jewish people. The German attitude in particular is affected by it. When they think of relations between Europe and Jews, this has a deep connotation" (interview with Peres).

himself enthusiastic about the multilateral peace talks (which he failed to do), Netanyahu lacked the good-will that Rabin had enjoyed in Europe (as discussed in Chapter Five).

Commercial arguments about the merits of a new trade agreement were unimportant to DG-I, and Netanyahu's attempts to paint himself as a free-market reformer were not a factor in the EU's position on the trade talks.¹² A member of Israel's negotiating team attributes the Community's concern with high politics in this context to its difficulty in gaining economic consensus. Moreover, this concern is symbolic. Netanyahu was perceived in Europe as "bad" for the peace process, without a particularly deep understanding of commercial or side-political concerns. During Rabin's Labour Government, the Commission was conciliatory; after Netanyahu's election, this feeling disappeared again. Speaking during the Netanyahu Government, one Israeli noted:

Regarding Netanyahu's proposed economic reforms, privatisation has no appeal for Europeans. For Europeans regarding Israel, the peace process is what's important. The rules of the game now will be changed. It will be more difficult to lobby now in Europe. Before, the Commission people were excusing themselves from not giving more. I can compare; I negotiated, too, from 1985 to 1993. It was easier for the Commission then to say no. But after the peace process, they were excusing themselves from not giving more. And it's easier to say that 'politically, I can't give' than 'economically, I can't give', because economically, the margin of manoeuvre is very small, especially now with enlargement (interview with Shaton).

This implies that instead of gaining agreement on difficult trade issues, it is easier for the EU to focus on clear political issues around which all member states can rally.

¹² Netanyahu's election pledge for privatisation exceeded even Labour's commitment:

The benefits from privatisation are so substantial that it is a mistake to delay it only in the hopes of perhaps getting better prices for these companies at some future time. The Labour government privatised only a small portion of the government companies which it planned to sell off. A *Likud* government would accelerate this process considerably (with the exception of key defence companies) (speech by Netanyahu to Engineer's Club, Tel Aviv, 6.5.96, translated by Dr. Aaron Lerner, IMRA, and disseminated by *Likud-Herut GB* 6.96).

While Euro-Mediterranean partnership agreements mandate that participating countries create their own bilateral links with each-other. Yet the EU refrained from encouraging further multilateral commercial links between Israel and its neighbours through multilateral elimination of NTBs, for example extending OPT along diagonal lines in the region. Instead, the Community in its bargaining with Israel sent a simple message: so long as Israel promised and fulfilled territorial concessions to the PLO, the Community would keep open its bilateral trade talks with Israel. After *Likud's* 1996 elected victory, the political element of the Community's bargaining began to be critical of further trade concessions, illustrating that political differences with Israel overrode the EU's desire to promote regional linkages or even bilateral technical cooperation.¹³

After refusing to begin trade talks until Israel embarked on multilateral peace talks, however, there is no evidence that the EU used the terms of those trade talks as a conscious bargaining tool in the trade negotiations. Community participation in the multilateral peace talks was "not so much a condition as a request" of Israel (interview with Peres), and negotiators on both sides felt that they refrained from using the peace process as leverage in economic bargaining. Suggestions that Israel slowed or quickened its pace in the peace talks in order to influence trade negotiations with Europe or other countries are vehemently denied by Israel's negotiators, though Israel's invitation to the EU to co-chair the peace talks is seen by some Israelis as a tactical bargaining chip. "I believe we did (link) it all the time. Europe is biased, and also it is not so important, like the Americans" (interview with Wohl), so why else would they be offered a seat chairing the talks, were it not to procure a new trade agreement?

Yet Community behaviour during the negotiations also betrays a contrasting agenda. For while the Council and, to an extent, DG-I were profoundly motivated by the peace process, this was not the case in other Directorates-General. In functional talks, especially those conducted outside of DG-I, trade considerations dominated, and the EU negotiated forcefully, without "irrational" political motivations for granting commercial concessions. To Israeli negotiators, this duality betrays a lack of effectiveness in the

¹³ This view was expressed overtly by the Director General of DG-XXI, in a letter sent 21 October 1996 to Israel's ambassador to the EU, in which cumulation of origin was stressed as a political, not an economic issue (interview with Halevy).

Community's complex organisation, with high political goals failing to filter down to the functional level.

There is no coherent political organisation (in the EU). It's structure is highly complicated. There is a rotating presidency; they do not follow up much on political matters. The troika is effective, but it can't compare with the United States, for instance, for the follow-up. Second, the machinery of the common market...is complicated. It takes time for an expression of good will to become a political expression. By the time it is negotiated by experts, they fight for every kilo of tomatoes, every kilo of flowers, every kilo of olives. Everybody is quite tough" (interview with Peres).

Other Israeli negotiators found that "(t)here was much more resistance at a functional level than at a political level" (interview with Bar). This is echoed by Commission negotiators themselves. The DG-III member of the Community's negotiating team notes that his behaviour, unlike that of his co-negotiators in DG-I, was not politically-inspired: "That was not up to us; we had a remit to negotiate in certain areas, not to decide anything about human rights, or Palestinians. Our mandate was for trade only" (interview with Spitz). DG-III was disposed to be generous towards Israel, as well, but for very different reasons. This was one of the few DGs to regard Israel on *commercial* grounds as a potentially useful trading partner to the EU. "In the case of Israel, we wanted to be a little more generous, so in turn they can benefit us later on" in preferential terms of market access (interview with Spitz).

The main DG-I negotiator, however, makes a clear connection between his behaviour and the Community's wider political concerns. DG-IB's main concern after Netanyahu's election, for instance, was his behaviour not in economic areas, but in continuing territorial concessions within the peace talks. In DG-I, "Netanyahu was given a long period to show good will. And then came the Hebron redeployment, which was positive" (interview with Di Cara). Soon, however, Netanyahu's reluctance to engage in further territorial bargaining caused the Commission to lose interest in pursuing closer economic links. Implementation talks for the Association Agreement were postponed soon after Israel's election, and in the rest of the Community, "(i)n Parliament and the Council, the feeling that Israel was courageous to take these steps (in the peace process)

evaporated” (interview with Di Cara). Israeli negotiators, too, felt an intangible, negative attitude within the Community and member states, which had been absent during the Labour Government, even before the Community took actions directly attributable to it (interviews with Bar, Shaton).

Nevertheless, the bulk of the negotiations took place before Netanyahu’s election, and the only real negotiation that continued after it - in public procurement for telecommunications - was handled by the largely a-political DG-III. An implementation agreement was eventually passed, thereby bypassing member state disquiet at *Likud*’s return in Israel. What, then, does the Community’s negotiating strategy illustrate about EU bargaining capabilities? One trait is the bifurcation of political and technical motivations in trade, with DG-I betraying much more political awareness and motivation than other directorates-general. In both behaviour within negotiations, and decisions on when to end them (the Community waited until agreeing a treaty with Morocco before concluding with Israel), DG-I shows itself to be close to the political considerations of the Council of Foreign Ministers. This is reinforced by its selection of Council committees with which to co-ordinate. In negotiations with Israel, DG-I met with the Council’s Maghreb-Mashrek Committee either once or twice a week. The committee’s stance was moderating, and quite different from industry-informed views that DG-I might have heard from 113 committees, if it had consulted with them. Instead, DG-I meetings with the Maghreb-Mashrek Committee

were not confrontational. They are from foreign affairs, not from agriculture, or trade, or telecoms. Foreign affairs ministries are the ones which want to conclude agreements. They take the global view (interview with Di Cara).

These political motivations sat uneasily along-side commercial considerations within DG-I. “This was a long process,” according to the DG-I negotiator. “The first period was monopolised by foreign affairs, but industry in eight months was more efficient at negotiating” what it had taken politically-motivated negotiators longer to accomplish (interview with Di Cara). Throughout these negotiations, purely “functional” negotiations were different in character, then, than politically-inspired action.

They also illustrate that the Community is open to intense pressure from negotiating partners, and that countries can use both high diplomatic leverage and

intensive, low-level pressure to widen the Community's win-set and bring about concessions. Specific case studies are discussed below. Overall, however, the Commission extended concessions outside of a comprehensive framework such as the EEA or EFTA. The Israeli team characterises Community behaviour as "a la carte": "This maybe is not politically so good (as a comprehensive framework), but this way we get many concessions that otherwise would be given only through EEA, for example R&D" (interview with Peri). While the Israeli negotiating team failed to gain all of the broad concessions it requested, such as OPT, public procurement, and better terms on a range of exports, Israel was able to gain the exceptional concession of R&D through sheer intensive lobbying at all levels in the Community.

These negotiations also illustrate the Commission's ability to hide its agendas from other Community institutions and from its bargaining partners. The Commission was generous to Israel on issues that were liberalising anyway through GATT and the MFA, or were liberalising globally anyway, such as telecommunications (interviews with Peri, Hirshler). The Commission also was able to pacify Israeli demands by including a general clause at the end of the Agreement giving Associates and the Commission power to recommend new agreements. This promised an evolutionary relationship, which some Israeli negotiators saw as a means of escaping temporary political restrictions on the degree to which the EU and Israel could co-operate.¹⁴ Finally, the Commission had to both balance, and at times disregard, member state political views. DG-IB, particularly, felt pressure from the Netherlands and, late in the negotiations, from Britain, to extend significant concessions for political reasons, while countries like France became more

¹⁴ Not all Israeli negotiators were pleased with the vagueness of this evolutionary position. Typical of such dissenting opinions is that of a Foreign Ministry official, who formed part of Israel's negotiating team:

Evolution may be very effective; it depends on the general political climate. Everything depends on the political climate. Not only the peace process. It's also (dependent) on Europe's definition of itself. Does it plan for the short or long term? Does it continue selling to Arab countries and not trading with Israel (interview with Chokron)?

To some, including future, not-yet-defined provisions for co-operation gave Israel a means of drawing closer to the Community; for others, it tempted Israeli negotiators into forgoing real commercial concessions for empty promises of future co-operation. Given Israel's structurally poor position, it is feared that future EU-Israel relations might remain distant.

We are 5 million people to 200 million. Our economic power is very weak in relation to Europe's. Obviously, we have to take into consideration European interests in Arab countries. It is obvious we have to go against hard opposition at global political, economic, factual levels (interview with Chokron).

resolved throughout the negotiations to deny Israel improved market access, because of diplomatic concerns over Netanyahu's popularity (interview with Di Cara). Pressure on other DGs stemmed more from industrial concerns, and required the Commission to establish consensus amongst commercial interests.

Another trait of the EU as a negotiating partner illustrated in these negotiations is the gradual centralisation of the Community's negotiating capabilities. DG-IB co-ordinated the Community's negotiations, and other Commission directorates-general also participated.

Directorate-General	Function	Items Discussed
DG-IAA	Foreign Relations, including CFSP	anti-dumping provisions
DG-IB	Foreign Relations, including Mediterranean	processed food, textiles, electronics goods, pharmaceuticals, chemicals, telecommunications and public procurement, rules of origin, political co-operation, cultural exchanges
DG-III	Industry	standardisation, rules of origin
DG-VI	Agriculture	agriculture, cut flowers, rules of origin
DG-X	Information, Communication, Culture	media, energy
DG-XII	Science	R&D
DG-XXI	Taxation	customs, rules of origin

The Commission's consultation on these matters evolved throughout the early-1990s. Its meetings with the Council's External Relations Committee left the Commission "in the driving seat", constrained more by the European Presidency, which was influential in directing the Council's Political Committee, than the Council itself (interviews with Sarat, Halskov).

Another traditional source of consultation, the ESC, dwindled in this period, becoming a marginal body by the 1990s. The ESC is supposed to advise the Council of Ministers on industry and other special interest concerns before the Council's opinions are drafted. However, it is not normally consulted on external relations; the only exceptions in the early 1990s were the Uruguay Round and the Green Paper for ECP future relations (interview with Bence). Although the ESC drafted opinions on the Association Agreements with Eastern Europe, it did not have the resources to do so for other regions (interview with Willems).

Negotiations on Specific Issues

Telecommunications and Public Procurement

A free-trade zone in telecommunications since 1989, the EU and Israel created evolutionary devices for enhanced trade in services and telecommunications procurement in an additional treaty along-side the Association Agreement. Israel requested a telecommunications element to the forthcoming Association Agreement negotiations already during the GATT Government Procurement Agreement (GPA) negotiations,¹⁵ which Israel later refused to sign without an agreement with Europe. Israel was concerned that the EU would overlook its small market, and attempted to ensure concessions in this area at an early stage. The Commission's position was that telecommunications offered their "only bargaining chip" in persuading Israel to open access in other public procurement areas (interview with Stenma). Indeed, Israel's

¹⁵ GPA, negotiated during GATT's Tokyo Round of multilateral negotiations, was concluded in 1979 and came into force in 1981.

negotiators viewed wider public procurement standards as “leverage” in the telecommunications procurement talks. Throughout the early 1990s, Far Eastern firms gained a series of high-profile public tenders in Israel; the Ministry of Industry and Trade viewed these events as directly related to their negotiating strength on telecommunications and public procurement in Europe (interview with Peri).

In negotiating the additional agreement on telecommunications procurement, DG-IB was well acquainted with European industrial positions; the main negotiator “knew the industry well. There are only a few main companies in Europe, and I would just phone them up and ask them what they wanted” (interview with Stenma). The negotiations took place between DG-IB and Ministry of Industry and Trade representatives from the Israeli Mission to the EU, in weekly working groups, as well as in periodic consultation with Coreper and national ministers. At ministerial meetings, most of the negotiated details were taken as read; “(w)e don’t report every single small detail. At that high level, you cannot say everything. You have to know which delegates will have a problem; usually it is only two or three” (interview with Di Cara). Unlike more accessible issues, telecommunications procurement was little discussed outside of functional meetings. Although DG-IB characterises telecommunications procurement as “too technical, too specialised” for political involvement, France, which had long used funding of telecommunications standards and development to establish influence in the Middle East,¹⁶ did exert pressure against granting concessions in this area. Overall, however, in its desire to open Israel’s telecommunications and other public markets, the Commission adopted a conciliatory view. This made negotiations with Israel distinct: “the difference is what they wanted we told them they could have. They were on the defensive” in their negotiating style (interview with Stenma).

¹⁶ France, aided by European funds, has equipped the Palestinian Authority with the French standard cellular system. This European standard, however, is not interoperable with the two American standards used in Israel (an analogue system designed by Motorola, used by the national carrier, and a Bell-South-developed digital system). It would seem that in pushing European standards, France satisfied both commercial goals of extending markets for French-developed goods, as well as political goals of reducing the likelihood of Palestinian dependence on Israel.

R&D

Linked to the negotiations for the Association Agreement were talks on Israel's entry into the EU's Fourth Framework Programme on Research and Development. The issue gained great symbolic value in Israel, and was vigorously pursued by Israeli negotiators. Although separate from the treaty negotiations, R&D bargaining involved many of the same negotiators, and progress in it was linked to progress elsewhere in the trade talks.¹⁷ Israel treated R&D as another provision of the Association Agreement, and was willing to forgo certain commercial demands in return for Israeli membership (interviews with Peri, Hemar). The functional arguments in favour of Israeli participation, however, were compelling, and negotiation on this issue saw the emergence of a distinctive alliance of Israel and the Commission against certain opposing member states.

DG-XII, and especially Commissioner Edith Cresson, supported Israeli participation. Opposition from the Council ranged in its concerns. Early in the negotiations, France was supportive of partial Israel membership. Its support waned, however, when Israel decided to pursue full membership, including voting rights in the management committee where potential Framework projects are considered. France "gave us the idea at the beginning but it wasn't 'synergy-intensive' enough, to coin a phrase," notes an Israeli negotiator; "(i)t was the (Israeli) Industry Ministry's idea to go for full membership" (interview with Shaton). Italy, Spain, Portugal and the UK joined France in objecting, until early 1995, when France then Britain dropped objections to Israel's non-voting participation in the management committees. During negotiations on this issue, France, Britain and Germany, particularly, raised the potential problem in negotiations that EU money would thus flow directly to private Israeli companies participating in Framework programmes (interview with Hemar).¹⁸ The Council of Ministers overall feared the precedent of non-European participation in European R&D.

¹⁷ The Agreement provides only that:

The Parties undertake to intensify scientific and technological co-operation. Detailed arrangements for the implementation of this of this objective shall be set out in separate Agreements concluded for this purpose (Article 40).

The most significant of these expressions is Israel's inclusion as a non-voting committee member in the Fourth Framework Programme.

¹⁸ The USA also put pressure on Israel not to join, for fear of Israel, which participates with it in the BIRD scientific co-operation programme, becoming a canal for technological transfer from America to

Israel, however, cited the precedent of Icelandic participation, and stressed the material benefits of Israeli participation: the high quality of Israeli scientists, and Israel's willingness to pay full membership fees even though it would join the programme mid-way. Also, Israeli and EU scientists were already in agreement that the Avicenez programme for scientific co-operation, in which Israel previously conducted joint research with Europe, was outdated. Technical experts from DG-XII and Israel's Office of the Chief Scientist, in the course of ordinary discussions, had already mentioned pursuing Israeli participation in the Framework Programme (interview with Hemar). In putting its case at the political level, Israeli exerted heavy pressure. In negotiations with the Commission, Israel emphasised the practical benefits to Europe of Israeli membership:

We were very stubborn, and we were willing to pay \$140 million in four years to be part of this game. The academic and scientific level of Israel is so high that the EU will be the net beneficiary. We couldn't say that (during the negotiations), but it was an idea. There was a (Community) constitutional problem; we're not from Europe. (Getting around) (t)hat was lobbying (interview with Shaton).

In arguing for R&D provisions at the "high" diplomatic level, Israel's Foreign Minister was an effective spokesman. Peres knew what appealed to European ministers, and did not fail to use this skill in selling Israeli Fourth Framework membership to them. "I thought that this was the main thing" in the negotiations, notes Peres; "If we give back even more land, we will need even more brains", and thus Europe should support Israeli efforts to enhance their R&D capabilities (interview with Peres). Israel also achieved backing at the technical level within member states with which it has bilateral scientific agreements, including France, the Netherlands, Spain and Portugal. Israel's deputy Chief Scientist notes that while it "was up to our ambassadors to improve bilateral relations, *these* links were done at the scientist, bureaucrat level" (interview with Hemar).

Because it acquired such a high symbolic value to Israeli negotiators, participation in the Fourth Framework Programme saw the unusual situation of Israeli negotiators pushing for a provision harder than their domestic interests wanted (discussed further in

Europe. Israeli negotiators note that this was "in the background of the negotiations" (interview with Hemar).

Chapter Eight). Some Israeli scientists felt that membership carried too high a price, with little results. Israel paid almost the full participation fee (\$35m out of the \$40m), and would have to pay additional member fees for future Frameworks. Israel began to participate only in the middle of the programme, and received technological knowledge worth less than its original investment. When voting on membership in the Israeli cabinet, the Minister of Trade and Industry originally voted against pursuing R&D association (interview with Morron).

Why then, did Israeli negotiators push so hard for membership? A variety of motivations came into play. For Israel's scientific community, membership was an honour and a validation of its domestic research capabilities. For the Foreign Ministry, R&D co-operation was a way to shift EU-Israeli trade from traditional sectors to high-technology areas, and to encourage FDI.¹⁹ Finally, R&D was an easy victory; Israel pushed for R&D "because there was less vested interest (in Europe). If you go to flowers or oranges, there are clear lobbies (of domestic interests in Europe). R&D was undecided; it was opening up", so Israel decided to pursue it (interview with Peres).

The actual negotiation was complex, and Israel adopted a three-pronged approach. Official negotiations took place between DG-XII and Israel's Office of the Chief Scientist. Although a major turning point in the negotiations came when Cresson led a delegation of EU scientists to Israel in 1994, the bulk of the negotiations took place at the deputy-ministerial level. Here, Israeli negotiators noted that the wider context of the negotiations, particularly the peace process and the status of other issues being discussed for the Association Agreement, occasionally affected bargaining (interview with Hemar). Outside of the DG-XII-Chief Scientist Office axis, Israel's Foreign Ministry worked hard to present R&D as a high-profile goal within the negotiations.

¹⁹ The words of one Foreign Ministry official who backed the R&D effort are typical:

There is a discrepancy: 17% of our export to Europe is high-tech; the rest is agricultural. To Japan, our exports are 40-45% high tech. The reasons for Europe's lower high-tech proportion are manifold. One: the Arab boycott. Two: telecommunications companies in Germany are reluctant to import chips from Israel; they are afraid they won't be able to export their products to Arab countries. Three: we didn't have real joint ventures with European companies. I thought that being able to have co-operation in R&D, where we are quite good, would lead to joint ventures (interview with Tenneh).

We worked with the capitals, the Commission, and the press.... I have to say, it was quite difficult. To those countries who were standing out in objection to Israel's demands, we pointed out the commercial interests involved (in their favour), and the peace process. We tried to change the bad press that Europe was getting in the Israeli press (interview with Tenneh).

The final settlement was negotiated incrementally. After pushing for mere participation in the Framework projects, the Commission, after intervention by Juppé during the French Presidency, offered Israel full membership in December 1994. Negotiations continued, however, until June 1995, when the Commission agreed to Israel's non-voting membership of the management committees, as well.²⁰

These delays split Israel's cabinet somewhat, pitting the Office of the Chief Scientist against other elements of the Ministry of Industry and Trade.

(T)his was one area of very difficult internal negotiations here between the administrations. One of the reasons everyone was hurrying, was that the Fourth Programme was going to be finished. Because if we finalise it later, we have less time to participate, and every year, we are paying \$35m.... So the Ministry of Science, particularly, which was eager to participate, more than perhaps other ministries, urged us to finalise the negotiations very quickly. It was not so important to them the terms in the area of Research and Development, and they said that we were very stubborn on all kinds of items of agriculture, which were not very important. And they said that for items like sweetcorn or so, we are giving up very important items (namely additional R&D time) (interview with Peri).

²⁰ In this, Israel was guided by a former employee of the telecommunications firm Nortel UK, who was familiar with Framework Programme participation from his career in Europe. He describes this stage of the negotiations:

I felt we should insist on being included in the programme committees. It took nine months to negotiate the programme committees. In the end, the Commission offered us to be on the committees without a vote, and Marcel Shaton (Israel's chief negotiator of industrial issues in Brussels) phoned me up and said should we take it, and I said of course! Most of the work on those committees is done mainly by consensus, anyway (interview with Morron).

Although sweetcorn and other items did delay R&D negotiations, however, they also enhanced Israel's position in this area, as failures to procure concessions in commercial areas bolstered Israel's chances of achieving higher levels of membership in the EU's Framework Programmes.

Flowers

Although this area falls within agriculture and is thus outside the remit of this study, negotiations on cut flowers were distinctive for the extremely strong pressure that Israeli negotiators experienced. Responding to this pressure, Israel's Brussels-based agriculture representative was "was a bull for extra flower concessions 'till the end" (interview with Di Cara), and gained Israel an allowance of 5,000 extra exotic flowers. At times, in his negotiations with DG-VI, Israel's agriculture representative invited Israeli producers to the meetings; this was the only instance within the negotiations of the Commission tolerating private interests at the talks. Also, as in other sectors, Israel strengthened its hand by tying the trade negotiations to the peace process. While the PA has a duty-free import allocation to the EU of 1,5000 tons per annum, Israel allows the PA to export an additional 2,000 tons within Israel's duty-free allowance of 25,000 tons. This is a small gesture for Israeli producers to make, but one which paid off handsomely in helping the more influential producers of exotic flowers to gain significant extra concessions.

Processed Food

Although this sector saw intense negotiations until days before finalisation, most negotiation focused on only a few food categories, as well as categorisation standards. During the Uruguay Round, the EU experienced a stiffening of national positions in agriculture, especially in cereal products. This was reflected in its position within the Euro-Mediterranean Association Agreements, first with Turkey, and later with Israel (interviews with Di Cara, Spitz). Negotiations with Israel were further complicated by differing standards of what constitutes agricultural and industrial goods. In the EU, two

transformations render food industrial; in Israel, the standard is one.²¹ So in addition to negotiations over duties on specific processed foods, Israeli negotiators (from the Ministry of Industry and Trade) and Commission negotiators (from DG-III) also engaged in dialogue on what *constitutes* processed goods for tax purposes. Because the Commission is under more pressure from member states to protect agricultural products, distinctions between agricultural and industrial product can greatly affect tariffs and NTBs. A further issue was Israel's (ultimately successful) demand that the EU tax only the raw (agricultural) portion of Israeli processed foods, and not the "value-added", or transformative, value. Israel refused to grant reciprocal treatment for European processed foods, instead linking this issue to concessions in other, unrelated, areas.

At the same time, DG-IB and Israel's Ministry of Industry and Trade negotiated new duties on processed food, with particular problems involving ice cream, pasta, chocolate, sweetcorn, and paté de foie gras. There were few problems for most other products. Israel had already dismantled tariffs, and the Community simply extended to them similar concessions already given to other countries, through GATT and bilaterally (interview with Spitz). The most contentious product was tinned sweetcorn, which France (fearful of setting a precedent for more liberalised market access in the face of the even larger competitor, Hungary) pushed to protect within these negotiations. The sweetcorn dialogue provides a good example of the Commission's evolutionary style in incorporating member states' particular protectionist causes. Initially, the Commission put forward gradually evolving suggestions, all of which were rejected by Israeli negotiators. After several rounds of discussion, the Commission then suggested various alterations to the negotiated agreement. First, they split the quota into frozen and canned. Later, the Commission secured French consent to a two-year reduction in sweetcorn quotas (interview with Spitz). Tariff and non-tariff barriers remained, but at a less intrusive level than had originally been insisted upon by France.

²¹ For example, milk may be made into butter. This is one transformation from the raw agricultural product, so in Israel butter is considered an industrial, not an agricultural, good. To be considered an industrial product in the EU, however, a second transformation is necessary, for instance transforming the butter into cakes or spreads.

Textiles

Rules of origin emerged as the only truly contentious element in the textile negotiations, and the very sensitive nature of this issue in the EU's external trade policy and in wider international trade constrained the Community's win-set. Fearful of creating precedents for Eastern European suppliers, the EU refrained from extending enhanced rules of origin or OPT to Euro-Mediterranean Partnership countries. Instead, the Community resolved to extend uniform rules of origin in a pan-European agreement, the deadline of which was continually postponed. At the time of the conclusion of the EU-Israel agreement, 1998 was the new deadline for such a comprehensive agreement on rules of origin. Given the EU's extraneous concerns in negotiating this aspect of the Agreement, specific concerns of the member states regarding trade with Israel were overruled by more strategic positions arrived at in Brussels.²² Also guiding the EU's relations with Israel on this point was the diplomatic necessity of procuring agreement with Morocco before Israel.

Israeli negotiators responded on a number of fronts to the EU's narrow and centralised win-set on rules of origin issues, and were consequently less than effective in their bargaining. In the words of one nationally-based negotiator: "Since this issue was co-ordinated in the end in Brussels, I had the feeling that we have agreements already. When we raised things in Italy, we were told it was already agreed. There was a feeling that there was a lack of co-ordination" (interview with Morav). This lack of co-ordination in the Israeli side might also indicate the high political value of OPT to Israel. "In terms of the economy, it's (OPT) not a major thing, but politically, it's very important. It cements the peace process. The Israeli market is small, so if Europe is enabling exports to Europe, this is very important. The main thing is textiles. Europe has 10% tolerance, except in textiles" (interview with Peri). Also, diagonal relations within a multilateral context involving Europe facilitate relations between Israel and its neighbours. "We subordinated this agreement (on rules of origin) to existence of free trade agreements with

²² Rules of origin and OPT were discussed in member states only within the context of a joint mission focusing on Mediterranean issues, organised by Israel's Ministry of Industry and Trade. These technical discussions included agricultural and textile issues. Conducted in Madrid, Paris, Rome and Athens in 1994, the discussions were characterised as "not political" (interviews with Morav, Peri).

Europe, in a triangular situation... It's not difficult for Israel. It is difficult for us to have agreements with Morocco, though, for example; we have the same agricultural products. And we have industrial problems: distance, religion, politics. We have good relations with Jordan and Egypt, but we have a small volume of trade with them" (interview with Chokron).

However, in this case, Community commercial concerns, and particularly the fear of creating precedents for Eastern European market access, blocked the Community's wider political wishes to overcome regional Mediterranean co-operation. At the end of the negotiations, and immediately after finalisation, Israel began to link diagonal provision with Europe's goal of fostering regional peace. This received its clearest, earliest diplomatic voice at a Joint Committee meeting in Cairo in October, 1996, when Efraim Halevi personally requested that the Committee consider allowing diagonal trade patterns. A postponement of 3-4 years for the imposition of the "no-drawback" rule was also requested, unsuccessfully.

Ratification

Because of the mechanism of advanced implementation before member-state ratification, internal EU approval by the Council of Ministers, and ratification by the EP, formed the only real constraints of ratification during the negotiations; an interim agreement instituted most tariff reductions without member state ratification. Negotiators sought to ensure Council approval at every step of the negotiations, as detailed above. The only other variable in internal EU ratification then was the EP, and this was neither expected to, nor indeed gave, any opposition to the finalised agreement. The main Commission negotiator "considered it mostly a routine case" in regard to EP approval (interview with Di Cara), and if Israel feared that the EP would delay the agreement, this was for bureaucratic, not ideological reasons. Israel's central Brussels-based negotiator for industrial issues met with an MEP only once during the negotiations, at the Parliamentarian's request. Because the EP does not usually take a position on trade issues, Israel assigned one figure to lobby the EP: not to ensure that it would support the agreement overall, but to press for a speedy approval, rather than delays. Even this dialogue was stopped, however, when Israeli negotiators learned, after finalising the

agreement, that Mitterand had put pressure on French socialist MEPs to support the agreement (interview with Halevy). Israel had expected French opposition to GPA (on commercial, not ideological grounds), and thought it possible that French MEPs might vote on national lines because of this issue. When France purportedly used its influence to prevent EP opposition, therefore, Israel altered its strategy of lobbying Parliament: “This was a big surprise for us. I was lobbying the Parliament heavily, but when I heard that they would support it, I pulled back; I didn’t want to be putting too much pressure on them then” (interview with Halevy).

As this study examines the phenomenon of EU-Israel negotiations, dialogues leading to member state ratification are outside its remit. Although national approval was generally expected (delays were anticipated,²³ but not ideologically-based objections), and because an interim agreement was virtually ensured during the member state ratification period, national votes did not significantly influence the course of the negotiations. Member states’ parliaments were required only to give majority approval to the Agreement, and for this reason, the Commission considered national ratification to be easier than Commission approval, which had to ensure initial member state approval in the Council of Ministers (interview with Di Cara). As it happened, member states, both at the domestic level and in the Council, began to turn against the Agreement for political reasons. The French and Belgian national parliaments refused to ratify the Agreement for five years in protest at the Likud Government’s resistance to pursuing the multilateral peace process further. France later blocked further Israeli participation in the Fifth Framework Programme in Research and Development. Political differences also disrupted EU-Israeli relations mandated by the interim agreement.²⁴ By May 2000, all EU member states had ratified the Agreement; the first Cooperation Council met in June of that year.

²³ For instance, due to national bureaucracies and delays, the EU-Tunisia Association Agreement, in which there are no political problems, was ratified by all member-states only in 1998, three years after its ratification by the EU.

²⁴ In November 1997, the Co-operation Committee was suspended for political reasons (Sarat), and within three years of finalisation, the Commission (in a 13.5.98 communiqué) had called for Palestinian territories to be treated separately from Israeli customs space. Israel calls this an infringement of the 1994 Israel-PA Paris Agreement to treat Palestinians within Israel’s custom’s envelope. In doing so, however, the Commission is once again using trade terms to push for a greater degree of Palestinian independence.

Conclusions

The EU's external relations are not entirely structurally-mandated; as this chapter shows, effective negotiation can materially transform a negotiating partners' position vis a vis the Community. EU member-states are compromised in their negotiations. Because the "high" politics of foreign policy become the "low" and fragmented politics of trade policy, national economic goals and power struggles with other member states for control of EU institutions and policies compete with member states' broader foreign policy conceptions. Foreign economic policy becomes linked to a series of highly technical and contentious issues, in which member states must fight to preserve their own competitive interests. In the negotiations described in this chapter, many of the member-states that championed improved commercial terms for Israel on *political* terms (Germany, Spain, Italy) formed the staunchest opposition to individual industrial concessions on *economic* grounds. In this context, the Community Presidency emerged as one effective way of subsuming member-state commercial preferences in wider political goals. Countries that held the presidency showed themselves willing to act supranationally, at times overriding their own domestic commercial preferences to do so.

In ordinary member-state input into the Community's negotiating preferences, two dynamics emerge. One is the willingness of the Commission to emphasise and even manipulate member-state commercial objections in order to narrow its level-one win-set. Yet it is also seen that when structured commercial dialogue exists between member-states and outside negotiating partners, member-states can be directly approached to drop commercial objections within the Community framework. This is the case even when commercial links are at the export-promotion level. Commercial dialogue between Israel and Italy, Germany and Britain all helped Israel to diffuse potential commercial objections at the source, by utilising pre-existing friendships amongst economic policy-makers.

This enables another dynamic within the EU-Israel negotiators: the formation of cross-cutting cleavages, as certain Israeli interests gained "allies" within Europe. At the member-state level, this manifested itself in Israel's ability to promise not to seek specific concessions in order to procure member-state "allies", who then can pressure other

member-states on specific issues. For instance, Israel “captured” Spain in this way by promising not to seek additional tariff-free quotas on citrus, in exchange for Spanish pressure on France to drop objections on *fois gras*. Cross-cutting cleavages existed between Israel and the EU, as well, most notably in DG-XII’s support for Israeli participation in the Fourth Framework R&D programme, and between Shimon Peres and some (particularly left-leaning) European leaders, especially Socialist leader François Mitterand and Christian Democrat Helmut Kohl. Because of the complex nature of the negotiations, in which Israel implicitly linked European participation in the peace talks to trade as a side-payment in the negotiations, “high” political cross-cutting cleavages can be detected between Israel’s Foreign Ministry and the German and French heads of state, particularly when those states held the Community’s rotating presidency.

Both sides linked the progress of the negotiations to separate diplomatic goals. In Israel, symbolic victory in areas such as R&D was sought as validation of Israel’s “arrival” in the mid-1990s on the world trading stage. For Shimon Peres, an enhanced relationship with Europe was also seen as a validation of Israel’s historic shift in pursuing peace through multilateral means. Within Europe, finalisation of the Agreement was important to ensure European political influence in the Arab-Israeli peace process, and, at the end, as a means of constructing a new Mediterranean programme. These linked political goals placed pressure on negotiators to finalise, and widened the Community’s win-set, as commercial objections were dropped under pressure of various presidencies. A study of the Hungarian and Polish Association Agreements rendered the observation that

Even extremely weak actors *can* force the EC to change its mandate - emphasising specifically that negotiations are not only determined by power. Also the strategies which the Central Europeans embarked upon - in particular their tendency to ‘play on’ the EC’s new interest in actually wrapping up the deal - influenced the game (Friis 1999:246).

The same observation is valid regarding the concurrent negotiations for association with Israel. Israeli negotiators moved beyond the Community’s expectations for Israel, in part because of the Community’s desire to finalise an improvement in Israel’s trade status.

Finally, these negotiations illustrate that at the technical level, the skill of commercial negotiators can elicit gains from the Community. Both by tackling

commercial objectives at the member-state level, and through bargaining with Commission negotiators, Israeli negotiators were able to make some gains, especially in processed food, telecommunications procurement, and R&D.

Although the Community protected its traditional industries, notably textiles and public procurement, linkages between trade and diplomacy widened the EU's win-set, to the benefit of Israel. Within Israel, tensions between these goals split the Israeli cabinet, and ultimately narrowed Israel's win-set. The results of this disparity were a generous commercial settlement for Israel. Because the Community's negotiating position reflected both diplomatic and commercial concerns, the agreement reflects the political optimism of the time it was negotiated. However, because the Community's decision-making structure is centralised on commercial issues, subsequent political changes of heart were not able to impact on the finalised commercial portions of the agreement, which were implemented by an interim agreement signed directly by the EU (as opposed to the full agreement, including its elements of political dialogue, which were subject to member-state ratification). The Community's decision-making process thus emerges as curiously uni-directional. Political goals can inform the formation trade agreements. Advanced implementation, however, ends this process. For political concerns to halt negotiated trade arrangements, the EU must resort to the sort of ponderous economic sanctions described in Chapters Three and Four.

Chapter Seven

The Formal Negotiations

Introduction

Pre- Pre-Negotiation

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Pre-Negotiation II: March 1993 - October 1993

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Chapter Seven

The Formal Negotiations

Introduction

Realist and neo-realist approaches to international relations, and mercantilist and neo-mercantilist approaches to foreign trade policy, assume a centrality of the executive in decision-making. In a sense, *any* examination of a negotiated commercial treaty will conform to statist expectations of core governmental institutions. The context of the inquiry (a state-negotiated agreement) predetermines the answer: governmental negotiators, the only actors mandated to draw up treaties of this sort, are ultimately responsible for their state's foreign negotiated foreign relations. No institution below the mandated negotiating bodies, whether public, such as regional or member state governments, nor private, such as MNCs or industry associations, can directly influence the agreement in the same way as do the level-one negotiators. Influence by these sub-level-one actors, in the context of a treaty, is necessarily achieved through lobbying the core decision-makers.

The complex, multi-level structure of the EU allows a plethora of secondary actors access to negotiators, and both the structure and pro-business philosophy of the EU ensures that the needs of commercial and regional domestic interests shape the level-one win-set. Nevertheless, the course of negotiations is determined by an internal logic, as well, as negotiators respond to each other's ploys and tactics, and also take into consideration wider political and economic trends than simply safeguarding narrow domestic commercial interests. The very nature of negotiation is give-and-take, and side payments can disguise some of the benefits of negotiated agreements. Level-one negotiators also receive contradictory pressure from conflicting domestic interests, and do not always enjoy complete information about items being discussed. They can be faced with a narrow win-set due to their opponent's domestic structure, or have to respond to factors unrelated to trade, such as wider strategic and political linkages. Susan Strange puts this well; addressing international negotiations, she notes that bounded rationality

assumes that the motivations...remain the same over time - for example, throughout a negotiation, whether between governments, or between firms

or between firms and governments. But this, obviously, is not the case. The context of the bargaining changes - a shift in political opinions, an upset in the market - and with it, inevitably, the priorities or purpose for the protagonists. Less important but not to be overlooked is the fact that the protagonists in many situations act instinctively, without always being conscious of their current priorities and purposes (1996:20-21).

It is the goal of this chapter to provide the framework of these concerns, and illustrate how and to what level-one negotiators on both sides “formally” responded to one another during the course of negotiations EU-Israel, December 1992-March 1996.

Pre-Prenegotiation:

The opening of trade negotiations between the EU and Israel in October 1992 ended two years of diplomatic statements in both Israel and the Community hinting at a renegotiation of the 1975 FTA. Reasons put forward were several, ranging from the political (encouraging the peace process, providing a secure political context for Israel) to the economic (rectifying the growing trade gap between Israel and the EU, and maintaining Israel’s preferential status vis a vis Eastern Europe).¹ The first real indication that the EU might upgrade Israel’s trade status came at the end of Giulio Andreotti’s active Italian EU Presidency in the second half of 1990, during which Italy had supported the idea of a security organisation for Mediterranean states.² Regarding Israel specifically, the Italian presidency promised closer relations with Israel, specifically “anchoring” Israel in the EEA (although this proposal was never seriously developed and was soon forgotten).

No action was taken, but the possibility of upgrading the 1975 FTA was informally discussed within Israel throughout the early 1990s, and the Israeli Ministry of

¹ According to the Israeli mission to the EU, Israel had been actively trying to change its trade status since 1980 (interview with Shaton); this view is not supported by others, however, who trace serious efforts to start a renegotiation to the early 1990s.

² This idea was supported at the following year’s Edinburgh Summit, when Spain’s Felipe González, dramatically producing photographs of Morocco taken from the Spanish mainland, called for greater attention to be paid to the security of the EU’s southern flank, and added crucial Spanish support for a renewed Mediterranean policy, incorporating security concerns.

Industry and Trade established a committee to monitor relations with the post-1992 Community. Renegotiation gained a new urgency by mid-1992, when the EU upgraded its FTAs with EFTA, eliminating tariffs and NTBs on services and industrial items. Harmonisation between the Community and EFTA was also facilitated in trade-related issues, where EFTA accepted the *acquis communautaire*: competition policy, public procurement, subsidies, and regulations. The Community did not at this time harmonise trade barriers toward third countries, exacerbating Israel's slipping position in European trade. Israel itself began negotiations for a FTA with EFTA in April 1991, in an effort to gain a competitive place in the new European landscape. These negotiations were concluded on 16 July 1992, when Israel and EFTA abolished customs duties and NTBs on industrial and processed agricultural goods, fish, and other marine products. Israel also received better terms for its farm products in this agreement.

Politically, in the early 1990s, the Community's priority regarding Israel was to support the peace talks, which had begun at the 1991 Madrid Conference. After Labour's 1992 election victory, Israel's diplomatic credentials improved dramatically in Europe, and it became easier for the Community to support Israel's quest for a negotiated peace settlement with its Arab neighbours. As the friction the Community had experienced with Shamir dissipated, it became possible in the Community to conceive of a renegotiated trade agreement with Israel. Then EU Ambassador to Israel, Gwyn Morgan, commenting on the election, said that, while the Labour Government had not yet requested a renegotiation, "If I were advising Mr. Rabin or Mr. Peres, I would advise them to ask" (*Jerusalem Post* 31.7.92). While Israel has always maintained a disassociation of its foreign political and economic relations, its May 1992 decision, after months of refusing entry to the EU, to allow the Community to have a seat on the multilateral peace talks on disarmament, can plausibly be seen as encouragement for the EU to reconsider Israel's trade status. While still denying any overt link between trade relations and its participation in the peace process, Israel encouraged this parallel implicitly. Determined to court allies amongst the large member states, Israel linked trade and politics most obviously in its relations with Britain, through its November 1992 appointment of Moshe

Raviv, who previously had co-chaired the multilateral talks on the environment, to the sensitive post of ambassador to the UK.³

The 1992 election also enhanced Israel's internal negotiating capabilities. Shimon Peres was valuable in presenting Israel to Europe; he maintained links with Europe through the *Socialist Internationale*, and was widely seen as a statesman there. Seven years previously, Peres had succeeded in negotiating Spain's recognition of Israel, indicating that he could achieve diplomatic success in Europe. Prime Minister Yitzchak Rabin capitalised on this by appointing Peres Foreign Minister. Rabin also appointed Micha Harish, the Labour Party secretary-general, Minister of Industry and Trade. As an ordinary MK, he had helped Peres in his negotiations with Spain, so was seen as someone who could both handle further European negotiations, and whose previous work with Peres meant they could maintain the close relationship necessary not to compromise Israel's "win-set" in future trade negotiations. Harish also enjoyed close relations with the new Finance Minister, Avraham Shohat.⁴ Finally, Harish seemed capable of vigorously negotiating with Europe in his own right; he was a strong MK who pledged to enhance Israel's external trade arrangements, and to reduce the significant bureaucracy which hampered Israeli exports. While the Manufacturers' Association expected Harish to slow down the liberalisation begun by his *Likud* predecessor, Harish supported the reformist wing of the Labour party, and maintained existing privatisation plans.

Just before the Commission decided to renegotiate the 1975 FTA, there was a flurry of bilateral diplomatic activity between Israel and various member states. Thus, Israel's enhanced relations with individual member states in the early 1990s formed another motivation for Israel to pursue closer ties with the Community, and provided it with more ammunition during the talks. After downgrading its diplomatic representation

³ Britain was especially important to Israel at this time because of Israel's troubled diplomatic relations with France. In early 1992, diplomatic rifts with France over attitudes to the PLO led Israel to play up the peace aspects of its new cooperation with the EU and member states. In February, 1992, France admitted PLO leader George Habache for medical treatment in France, prompting criticism from Israeli Foreign Minister David Levy, which sparked a series of formal diplomatic complaints. Later that month, on an official visit to Israel, Edouard Balladur exacerbated the diplomatic rift by meeting with PLO officials in Jerusalem, in accordance with EPC policy, but clearly against Israeli diplomatic protocol, cooling relations further. Israel resolved after this to maintain close relations with the other large member states.

⁴ This was important to both Government and Industry, especially after the years of antipathy between their *Likud* predecessors, which had prevented the adoption of a coherent economic policy.

to Austria to *chargé d'affaires* after the 1986 election of Kurt Waldheim as President, Israel restored full diplomatic ties with Austria in July 1992. That same month, Israeli-Italian links improved when the Vatican agreed to form a joint body with Israel to negotiate full diplomatic ties.⁵ On 9 September 1992, Peres visited Britain, and discussed an end to the Western arms embargo against Israel, and EC participation in the peace process, which Peres encouraged. From 9-11 September, Peres visited France, and on 15 September, Rabin visited Germany, where he spoke at the Reichstag and a meeting of the *Socialiste Internationale*. Although Rabin did not overtly discuss a renegotiation of the 1975 FTA, the month's conciliatory shuttle diplomacy can be seen to have been aimed at gaining European promises of a future trade review. Just before the start of prenegotiation talks in December, Rabin visited the UK.

After a meeting in Brussels between Peres and Delors on October 2, 1992, the EC announced it would renew its FTA with Israel. Delors specifically stressed the diplomatic character of this decision: "It is the duty of the Community, both politically and in terms of friendship, to take these new realities into account", referring to the peace talks and regional co-operation (*Jerusalem Post* 4.10.92). While Delors placed EU-Israel relations in a wider Mediterranean context, Peres, long an admirer of the early neofunctionalist theorists, asserted that Israel "would like to copy the structure of the EC" in the Middle East (*Financial Times* 4.10.92). Already showing the flowery, symbolic style which was to characterise his behaviour throughout the negotiations, Peres soon capitalised on the Community's linking of trade with peace, and addressed the EP on 1 December, 1992, before the Council of Ministers' approved the mandate for the trade agreement. He thanked it for aid to the Palestinian Authority, and in a linked statement, pressed it to improve trade terms for Israel. The first salvo in Israel's public relations campaign had been launched, by its most agreeable foreign figure. Trade was formally linked to peace, and Peres was established as the "acceptable" face of Israel in Europe, championing grand

⁵ Since 1948, the Vatican had refrained from recognising Israel, though it did gradually agree to limited diplomatic exchanges. The 1965 *Nosra Aetate* declaration at the Council Vatican II removed theological obstacles to Vatican recognition of Israel, a point reiterated by Pope John Paul II at a meeting with Jewish leaders in September 1987. Previous Vatican-Israel ties had been at the level of an "apostolic delegate" in charge of Church matters in Israel, and a small office within Israel's Italian embassy devoted to the Vatican. Normal diplomatic relations began on 15 June 1994, following which the Vatican immediately requested a place, along-side EU states, the USA, Egypt and Japan, on the multilateral peace talks.

visions of regional peace in the language of the European Community itself. In December 1992, the Council of Ministers formally approved a renegotiation of Israel's 1975 FTA, though this was not officially transferred to the Commission until 6 December 1993.

Pre-Negotiation I: 16 December 1992 - February 1993

Informal talks, led by Stephano di Cara, Head of the Israel Desk in DG-IA, and Oded Eran, Deputy Director General for Economic Affairs at the Israeli Foreign Ministry, opened in Brussels on 16 December 1992, with a second round scheduled for January in Israel. While the rhetoric surrounding the opening of the talks had been intensely political,⁶ Eran notes in the first round of negotiations "(t)he talks were entirely substantive, without any political content at all" (*Jerusalem Post* 5.1.93). Items on the agenda for the December 1992 talks included: rules of origin; standardisation (with Israel requesting mutual recognition of certification by standards institutes); agriculture; processed food; government tenders (for which Israel was willing to reciprocate from the beginning); services; financial services; movement of capital; and research and development.

On rules of origin, the EU indicated early on that it might consider an EFTA-like agreement with Israel. On standardisation, the EU agreed to immediately open negotiations on recognition of standards and certification. It was agreed that transparency would be ensured for competitors on government support of other bidders. On intellectual property, both sides agreed that the topic should be addressed in the agreement, but during the first round, the EU presented Israel with a long list of international conventions that Israel had not yet signed. The EU agreed to send a team of experts to Israel in February or March to assess its R&D capabilities. For services, the EU offered Israel an arrangement similar to that offered to Eastern Europe and Morocco: reciprocal right of establishment, where services with some exceptions would have the

⁶ Typical of the political expectations attached even to the prenegotiation phase were those voiced by French Foreign Minister Roland Dumas on his first visit to Israel for three years (after a diplomatic strain resulting from Arafat's reception at the *Lysée* in 1989), 8-18 January, 1992. Dumas overtly linked the EU's strong commercial links with Israel, and Israel's resulting need "de laisser une place importante à la Communauté européenne" through the current economic negotiations, with eventual EU influence in political questions (*Le Monde* 11.1.92).

right to establish centres in other countries. In financial services, the EU indicated a possible willingness to establish a right of establishment for financial services; Israel told the EU it had yet to formulate its own policy. The EU was also open to allowing Israeli small businesses access to EU small business development programmes.

Rabin began to raise these issues among Israel's domestic business community. The EFTA-Israel FTA had come into force on 1 January 1993, but Israel's deficit with the EU was still rising. At a 6 January 1992 closed meeting with Israeli industrialists, Rabin emphasised Israel's \$9b in purchases from the EU each year, and criticised Europeans for not buying more Israeli products, and the Community for trade discrimination. Industry organisations such as the Manufacturers' Association began to place influencing the talks with Europe on their own agendas.

Despite this rising impetus to press ahead with economic negotiations, differences in EU and Israeli attitudes to Middle East terrorism arose after 17 December, 1992, when, following a rise in terrorist attacks, Israel expelled 415 members of the violent irredentist groups *Hamas* and Islamic Jihad to Lebanon for two years. This quickly became a major international controversy, and the new EC ambassador to Israel, Albert Maes, took a strong line against the deportations. President Herzog visited Britain during the crisis, but was unsuccessful in gaining British support for Israel's policy on the terrorists. In protest at the deportations, the Commission, with considerable support from the EP, cancelled a planned visit to Israel in January, and suspended the prenegotiation talks altogether in February 1993. The talks resumed, at a senior level, in Israel the following month.

Pre-Negotiation II: March 1993 - October 1993

EU-Israel prenegotiations were given new impetus on 10 May 1993, when Germany and Israel signed a joint declaration on extending co-operation in economic and technological fields. The agreement established a German-Israel Co-operation Council for advanced and environmental technology, and strengthened the bilateral German-Israeli Foundation for Scientific Research, founded by the German and Israeli Governments in 1986, increasing its capital from DM 150m to 300m (each country paying an equal share). This, and the subsequent high-profile meeting between Peres and Foreign Minister Klaus Kinkel in Bonn, brought about a rapprochement between Israel and Germany which

Germany helped to extend to the rest of the EU; meeting Peres, Kinkel indicated that he would help to reconcile the EU to Israel (German Embassy, London). Ministerial talks continued during this phase of the prenegotiations; Rabin visited France and the Netherlands 30 June-3 July, pressing commercial issues at each place.

In addition to winning German support in Europe, during this round, Israel's internal negotiating position became more complex, as external political considerations⁷ and internal industrial pressures affected "rational" economic considerations of Government ministers. Israeli textile manufacturers, which stood to lose much from a new agreement with Europe based on liberalised industrial practice, successfully placed pressure on the Manufacturers' Association to put protection of this sector high on its agenda. The Israeli Government resisted many of the Association's demands for textile and other sectors, not primarily because of trade negotiations with Europe, but because liberalisation (which mainly would benefit third country exporters with no trade agreements with Israel) was a condition for USA loan guarantees. Nevertheless, Harish and Shohat did partially capitulate to pressure from the Manufacturers' Association, delaying the liberalisation of Israel's textile market by two years, with import fees set at 20% for raw materials and 40% for finished goods. The resulting two-year extension was a compromise with the Association, which had called for the reintroduction of NTBs. This victory of the Association also set a possible precedent for other powerful industrial interests, especially in wood and steel sectors, to renegotiate the government's export exposure policy.

Within the negotiations, Israel during this stage also unsuccessfully suggested a renegotiation of rules governing trade in financial services, requesting EEA-like status.⁸

⁷ Also during this period, Israel introduced a concurrent issue to negotiate with European member states, and put pressure in May and June 1993 on the G-7 to repudiate the Arab League boycotts. Germany passed anti-boycott legislation 1 May 1993 (joining the USA, France, Belgium and Luxembourg). The US, France, Germany, Italy, and Britain gave tacit assurance to Israel that the G-7 meeting in July would set conditions for lifting the boycott. Instead of doing so, however, the G-7 meeting issued a broad statement, tacitly *condoning* the boycotts by calling for a number of linked measures in the Middle East: an end to the boycotts, but also an end to Israeli settlement in the occupied territories, restrictions on "Jewish" building in East Jerusalem (suggested by Britain), Israeli respect for its obligations in the territories, and promises for reconstruction in Lebanon.

⁸ At issue was the valuation of Israeli banks in European countries. At the time, European banking authorities took into consideration only the subsidiary's assets, and not those of the bank as a whole in Israel. Such a situation not only affects banks' abilities to compete in financial markets, but even prevented them from obtaining work permits for key personnel, thus further limiting their overseas

These negotiations were carried out by the head of Israel's Finance Ministry's International Division, Ehud Kaufman, and were rebuffed by the Commission, which was loath to extend EFTA-like status to Israel in that area. Kaufman argued for a linking of the trade in financial services position to that of R&D, where the EU was amenable to a separate agreement with Israel, on the basis that R&D was an area where Israel contributes to the EU economy. Following these meetings, it was agreed to send a European delegation to Israel to investigate the financial services there, and report to the Community at the end of 1993. Kaufman also pointed to the precedent of such a delegation to Israel's R&D sector, where the returning delegation later lobbied the Community itself for increased links with Israel in that area.

Preliminary talks were suspended in late October 1993 at Israel's insistence, as the EU rejected Israel's vision of eventual EFTA-like status, and instead offered a plan of final status comparable with the Maghreb states. That month, Mitterand, with Kohl's backing, called for four "joint actions" to create a new EU foreign policy, including hosting another international conference to support the Middle East peace talks.⁹ The plan failed to appeal to Israel, which stepped up its complaints about European economic discrimination. That same month, Rabin publicly criticised the EC for discriminating against Israel in trade, calling EC policy "unbalanced". In November, Rabin again attacked the EC (in the presence of senior Community diplomats, who were attending an academic seminar in Jerusalem) for not instituting fairer trade practices against Israel, and for not passing anti-boycott legislation. He called the EC's trade policies "unjust", and demanded more flexibility in the Community's negotiating position.

Pre-Negotiation III: November 1993 - December 1993

From 19-21 November, 1993, Ehud Kaufman and David Klein, the Director of Monetary Affairs at the Bank of Israel, headed an Israeli delegation which met in Brussels

growth. The Israeli refusal to eliminate foreign currency controls also impeded European concessions on this point.

⁹ The other points included aid to Bosnia and rebuilding Mostar and observing Russia's January elections.

with EC negotiators to discuss trade in financial services.¹⁰ At this time, the Community agreed in principle to negotiate an eventual, general, EEA-like agreement with Israel. Prenegotiation talks resumed in a limited fashion, and the Commission gave tacit assurance that they would soon receive a mandate for formal negotiations. Expecting the December Council of Ministers Meeting to call for a start to negotiations, Rabin and Peres between 29 November and 2 December 1993 visited Paris, Rome, and Brussels, lobbying for the mandate. Rabin also visited Bonn and London, pressing for a wider opening position with the EU. On 1 December, the EU announced its intention to upgrade the 1975 FTA. Again, the Council of Ministers emphasised the link between a new trade agreement and Israel's pursuance of the peace process. Willy Claes, Foreign Minister of Belgium, which then held the presidency, linked the promise of a new deal with the first phase of Palestinian self-rule in Gaza and Jericho, to be achieved by 13 December (*Jerusalem Post* 2.12.93). Five days later, the Council of Ministers asked the Commission to start negotiations. One early unusual feature of the negotiations was the interest paid to them by the EP. Willy de Clercq, Chair of the Committee on External Economic Relations, informed the Commission he wanted to be consulted on agreements with Israel and Mercosur.¹¹ This arrangement contributed to the surprisingly warm reception that the Association Agreement eventually received in the Parliament (see below).

First Phase of Negotiations: 20 December 1993 - July 1994

On 20 December, 1993, the EU approved the mandate to begin negotiations to update its FTA with Israel. Manuel Marin, the Commissioner charged with Mediterranean policy, formally opened the negotiations on behalf of the Commission in Israel, on 17 February. DG-IA handled the main agreement, with input from DG-III and

¹⁰ Originally conceived of as part of the Association Agreement, renegotiation of EU-Israeli trade in financial services was left out of the final negotiating mandate given by the Council of Ministers.

¹¹ This request might be seen as related to the complaint the previous year of Peter Kittlemann, *rapporteur* for economic and trade aspects of relations with Russia, that the Council had not respected the Declaration of the Stuttgart Summit, which asked that the EP be consulted over the EU-Russia Interim Agreement.

DG-XII, especially for the separate, related agreements on public and telecommunications procurement, on which DG-III took the lead. In Israel, while the agreement would procedurally have normally been the provenance of Israeli negotiators Micha Harish and Yaacov Tsur only, the EU's insistence on the talks possessing a political element brought Peres into the negotiations, as well. Oded Eran and Zohar Peri, of the Israeli Foreign and Industry Ministries, respectively, represented Israel in the day-to-day talks, opposite the Commission's Head of Israel Desk, Stephano Di Cara. The talks were meant to encompass not only trade, but also financial service issues, R&D, and cultural and environmental issues, negotiated by relevant specialists in Israel and the Commission. Conclusion was envisioned by the end of December 1994.

Israel's negotiations were approved by the Council along with negotiations with Tunisia; both mandates were approved without discussion in point A of the Council Meeting "because there weren't any problems (with either mandate politically)...There wasn't a problem necessitating a debate around the table of the Council of Ministers" (Alain Juppé, French Embassy, London, *Service de Presse et d'Information* 24.12.93); instead they were initially regarded on their economic merit, alone. Yet, from the beginning, there was a tension between political ambitions and "low political" trade issues in the EU-Israel talks. Negotiations were both a symbol of Europe's encouragement of the peace process, and real talks on a range of trade issues. In both Europe and Israel, this internal tension marked negotiations throughout 1993-1995, and beyond.

At the start, splits emerged in Israel's negotiating team. Trade was fiercely fought over, largely because Israel's Ministry of Industry and Trade was keenly aware of Israel's position vis a vis EEA members. Israel had wanted to join the EEA until the EU mooted the idea in 1992; subsequently, Harish and others in his Ministry wanted to negotiate the closest agreement possible to EEA status.¹² Yet the Israeli Foreign Ministry was split in its approach to this. Peres increasingly regarded the talks as a high political symbol, while his deputies, especially Yossi Beilin, then Deputy Foreign Minister, emphasised the content of the negotiations to a greater degree. Thus, the first ministerial meeting

¹² From January 1994, the EEA took precedence over the Community's 1972 bilateral FTAs with EFTA, and the 1975 Israeli FTA. While it stopped short of a customs union, the 1994 harmonisation achieved the "four freedoms" between EU and EEA, enforcement of common competition rules, and closer cooperation in areas such as education, environment, R&D and social policy.

between an EU member state and Israel after the start of formal negotiations involved Peres, and emphasised the political, not trade, content of the talks. This was reinforced in February 1994, when then Portuguese Foreign Minister Jose Manuel Barroso made an official visit to Israel. Meeting with Peres, Barroso stressed Palestinian frustration with Israel for not following the Oslo timetable, and for not releasing Palestinian prisoners. He also pledged Portugal's support for the trade negotiations, stressing their dependence on success in the peace talks. Peres supported this position, thus setting a "high" political tone to the talks early on. Peres continued these conciliatory overtures towards Europe, in the most part, in the early part of 1994. In November 1993, Israel had dropped the need for visas from Spanish visitors, and in January 1994, the Spanish cabinet had done the same for Israel. At the end of February, Peres, who had originally negotiated diplomatic recognition for Israel with Spain, used the gestures with visas as an excuse to visit Madrid, again focusing discussion on grand "high" political reconciliation, rather than the concurrent trade negotiations.

At the same time, however, other elements in the Foreign Ministry were beginning to back away from Peres' grand statesmanship in Europe, and push for concrete concessions. In March, Deputy Foreign Minister Yossi Beilin travelled to London to meet with British Foreign Minister Douglas Hurd, and instead of issuing optimistic statements about peace and co-operation, as Peres might have done, he pushed hard for Britain to remove its objections to Israeli participation in EU R&D programmes, and to lift the arms embargo placed by Britain on Israel during the Lebanon War in 1982. Soon after this meeting, in May, Britain did remove objections to R&D; the arms embargo was lifted later, after domestic political pressure (See Chapter Four). Beilin's actions can perhaps be explained as Peres' assignment of "hard" requests to others, in order to spare Peres' image as a great peacemaker, untainted by material negotiations, abroad.

Against the background of conciliatory statements by the Foreign Ministry, Israel's Ministry of Industry and Trade in early 1994 found it increasingly difficult to link trade negotiations to high political goals. On 30 May 1994, Harish made a public statement of frustration with EU refusal to budge on rules of origin and OPT. Although he overtly linked the negotiations to EU's desire to reward Israel for the peace process, he noted that the recession in Europe made this difficult. Between 31 May and 2 June 1994, Harish met in Brussels with EU Commissioners, in an attempt to revive

negotiations which were then flagging. Instead of grand pronouncements about peace, Harish pushed on the issue of R&D, pointing out Israel's concurrent bilateral negotiations in R&D with Belgium, and its recently completed R&D agreements with the Netherlands and Spain. Harish accused Britain and France of acting as the primary obstacles to approving Israel's participation in the EU R&D "Framework" programmes as an equal member (*Jerusalem Post* 7.6.94).

In fact, Britain and France were not blanketly opposed to Israeli participation in European R&D programmes, but advocated a case-by-case approach. By this stage, however, Israeli participation in European R&D programmes had acquired symbolic importance in Israel as a measure of the efficacy of the agreement, and Harish pushed ahead for a comprehensive agreement. Even Israel's Foreign Ministry pushed for an agreement. The 13 June 1994 meeting of the annual EU-Israel Co-operation Council, attended by the Israeli and all EU foreign ministers, was devoted to discussion of trade issues. In this case, Douglas Hurd, with whom Beilin had had success the month before, was represented by a deputy, weakening Britain's championing of Israel, and thus Israel's position at the meeting. Before leaving for Europe, Peres had overtly linked progress in the peace talks to the negotiations. In a press conference, he said: "We have stopped settlements. We have recognised the PLO. We are, in a way, empty-handed when we have to show the return. We feel we are entitled to have a fair deal, economically speaking" (*Jerusalem Post* 13.6.98). In fact, at the meeting, Peres spent most of his time negotiating the "low" political issues of R&D and public procurement in telecommunications. At the same time, he also held separate meetings with Alain Juppé, and with Italian Foreign Minister Antonio Martino.

Israel's position with Italy was particularly difficult at this time, as the new Italian government contained three Fascist ministers, including the important Minister of Agriculture, with whom Israeli officials refused to negotiate. Yossi Beilin was particularly outspoken about Irene Pivetti, the new President of the Chamber of Deputies, who was regarded as anti-Semitic, (unlike the other Fascist ministers). Although Israel considered downgrading its diplomatic links with Italy, in practice the only effect the year-long Italian government on EU-Israel negotiations was to push agriculture onto the foreign affairs diary whenever Israelis had to discuss agriculture at the ministerial level (interview with Morav). Peres' visit in June 1994 was thus additionally focused on the

trade negotiations, and he was forced to pay closer attention to the details of the negotiations than he otherwise might have.

In July 1994, as the EU wound down its business in preparation of Summer holidays, negotiations stalled. Israel expressed dissatisfaction with an EU position paper on rules of origin, public procurement, free trade for services, and agricultural quotas. Further disagreement was evident over EU proposals to allow Israeli companies participation in only some R&D projects, raising fears in Israel that Israeli participants would be relegated to unimportant research. In public procurement on telecommunications, the issue was more complex. The Israeli position at this point was reciprocity, with the EU demanding Israeli liberalisation first, as a sign of good faith, before European public communication tenders became open to Israeli bids (*Israel Business Today* 5.8.94).

Reaching the Preliminary Conclusion: August - December 1994

Israel continued to exert extensive, unofficial, diplomatic pressure on France to follow Britain's May lead in ending its objection to Israeli participation in the Fourth Framework for R&D. On 19 August, 1994, Prime Minister Eduard Balladur informed Rabin of France's decision to drop its objections. Only Belgium remained opposed to Israeli participation until more ministerial-level shuttle diplomacy convinced them to drop their objections, as well. On 12 September, Israeli Science Minister Shulamit Aloni met with Belgian Science Ministers Jean Maurice de Haus and Philippe Maux,¹³ who in the past had criticised full Israeli participation in EU R&D. Following the meeting, they reversed their decisions. On 29 September, the Science Ministers of the 12 member states met in Brussels to discuss the Commission's recommendation that Israel join the 4th Framework of R&D. Under intense pressure to conclude from Germany, they voted in favour of it.

At this point, having achieved the important symbolic victory of Fourth Framework membership, divisions between Israel's Foreign and Industry Ministries became much more apparent, even directly to high-ranking EU negotiators. While Peres

¹³ Belgium had two science ministers: one each for its Flemish and Walloon communities.

intensified his vision of the agreement as a political document, Industry and Trade Minister Micha Harish became more outspoken in his insistence that Israel get the best trade deal possible. Differences would soon intensify as the agreement drew to a close, with Peres agitating for a timely end to the negotiations, so that Israel could be seen to achieve the symbolic backing of the EU, and Harish trying to extend the agreement to get the best deal possible.

At the end of August, 1994, Peres visited Germany, which then held the Council Presidency. On 23 August, he met with Kohl, and both men reaffirmed close Israeli-German relations. Once again, the trade agreement was seen as a symbol of close high political relations. Peres indicated that Israel supported Germany's bid for a seat on the UN Security Council, while Kohl indicated that Germany would like to see a quick conclusion to the negotiations with Israel. Peres agreed, despite the fact that real trade issues were holding up the actual negotiations. Throughout September 1994, the EU continued to object to Israeli demands to open markets further for Israeli processed food and textiles, and for access for Israeli firms to European government procurement.

On 8 November 1994, Juan Prat, the Commission's director-general of economic external relations, visited Harish in Israel. Harish raised the issue of EU intransigence in public procurement in telecommunications, and said that, despite the agreement's political importance, he would oppose signing it until European markets were opened further. He threatened to refuse Israeli access to government contracts for power generating equipment products from German firms such as Siemens and ABB, unless Israeli firms were given greater access in Europe. Harish complained of limits on processed food imports into the EU, and demanded treatment equal to that given to Eastern Europe for citrus juice, processed tomatoes, turkey meat products, and frozen corn. He also objected to rules of origin in textiles, demanding equal treatment for Israeli raw textile products, which were subject to full import tariffs when sewn abroad, unlike European raw textile products sewn in Eastern Europe. That same month, Israeli Chief Scientist Shuki Gleitman and Zvi Yannai, Director General of the Science Ministry, which fell under Harish's jurisdiction, participated in talks in Brussels with DG-XII over lowering Israel's R&D \$30m membership fee.

Finally, at the end of the year, intense negotiations between Israel and DG-III began for separate, related agreements on public and telecommunications procurement

(COM9960148 final). On 22 December, 1994, the EC finalised its part in the WTO's negotiations on an international Government Procurement Agreement (GPA). Israel had also been active in the GPA negotiations, but declined to ratify expressly in protest of the Community's refusal to include telecommunications equipment in the GPA.¹⁴ The Association Agreement mandate included liberalisation in this area, and mentioned the establishment of separate negotiations, under EEC 113.¹⁵ These were begun in earnest in December, 1994.

From October, all negotiations took place against the background of the developing EU new initiative towards the Mediterranean (discussed in Chapter Three). On 19 October, the Commission announced that it wanted the Council of Ministers to create a Euro-Mediterranean Economic Area (likened, at the time, to the EEA by External Relations Commissioner Manuel Marin), underpinned by Ecu 5.5 billion in aid and programmes from 1995-1999. Explaining the timing of this initiative during the German presidency, Marin noted that "the only country which can launch a realistic attempt to rebalance Europe's relations with its neighbours is Germany; we think the German presidency understands that" (*Financial Times* 20.10.94). Fearing that sponsoring further Mediterranean initiatives might harm the Socialists' chances in the presidential election of April-May 1995, and anticipating criticism from anti-federalists for what seemed in 1994 to presage a new CSCE-like institution, Mitterand in December 1994 announced that France would not use its presidency, in the first half of 1995, to host a forum to discuss a Euro-Mediterranean Zone. Mitterand was clear, however, in favouring increased aid to the Mediterranean, which was then approximately 40% of that given to Eastern Europe. France pledged to host a Mediterranean summit during its presidency, but left the big meeting to Spain, which promised it would hold the forum to

¹⁴ While most WTO-directed trade is on a most-favoured-nation basis, government procurements are exempted for industrialised nations, plus South Korea and Israel. Instead, these countries bilaterally negotiate an open procurement market amongst themselves, at three levels: state agencies; local municipalities; and public enterprises. Three principles govern this, including the EU-Israel negotiations: transparency; non-discrimination; and open procurement.

¹⁵ In March 1996, the ECJ's ruled, on EU-USA public procurement (C-360/93), that 113 only applied to transfrontier services. Because the Community's public procurement agreement with Israel encompassed more than services within countries, as well, the Commission negotiators worked on the basis of EEC 113, 66, 57(2) and 228(3). This necessitated consultation with the EP, although in reality, such consultation was minimal (interview with Stenma).

define the new Euro-Mediterranean partnership during its presidency in the second half of 1995.

At the Essen Council of Ministers meeting in December 1994, the EU pledged a free-trade zone and a Euro-Mediterranean economic area. Set up in the context of ongoing Association Agreement negotiations with Israel, Morocco, and Tunisia, which were equal in content to the Eastern Europe Association Agreements in all but accession, the new partnership encouraged other Mediterranean states to deregulate and open their markets, along the lines of what was already being done in Morocco and Tunisia. An aid component was also added; the Franco-German compromise achieved at Essen agreed to raise Mediterranean spending between 1995 and 1999, not quite keeping up with aid to Eastern Europe. (Ecu 5.5b and 7b respectively '95-'99). Special provision was made for Israel; the Essen conclusions noted Israel's high level of economic development, and recommended granting "special status in its relations with the EU on the basis of reciprocity and common interests".

Yet Israel's continued commercial demands, particularly in agriculture and public procurement, led to a stalemate in November 1994. Commission Director General Juan Prat indicated in that month that the EU could not meet any additional Israeli demands. The Commission seized on Israel's non-compliance of the 1975 FTA provision in its continued practice of issuing one-year certificates on coaches imported from Spain as justification for a slower pace in the negotiations towards an Association Agreement in the 1990s.

Diplomatically, the end of 1994 also saw a minor political crisis in the peace process, stemming from differences between the EU and Israel, and a resulting willingness in Israel to halt the peace talks altogether. On 28 November, 1994, the EU, over Israeli objections, rescinded its eight-year old arms embargo of Syria as a reward for its participation in the peace talks.¹⁶ Peres unsuccessfully argued that the arms embargo should be linked to Syrian *progress* within the peace talks, and to Syrian repudiation of the Arab League boycotts against Israel. That month, EU member states met in Brussels with Middle East delegations to discuss their respective relations with the Community,

¹⁶ The EU imposed the arms embargo after a Syrian-backed attempted terrorist attack on an El Al plane in London in 1986.

and supported the EU's decision to remove the embargo. That evening, in reaction, Rabin announced that peace talks with Syria were at a standstill, despite the EU's obvious intention to encourage this aspect of the talks.

Crises of Conclusion: December 1994

Kohl had long desired to conclude agreements with Israel, Tunisia and Morocco during Germany's Presidency. This would have been a weighty accomplishment, and would have mitigated the image Germany had acquired as focusing on the Community's Eastern borders to the exclusion of other regions. The last week it was possible to finalise the agreement with Israel before the Christmas break was 12-16 December, yet the negotiators on the ground, including Peres' by-now-nemesis Micha Harish, did not feel able to conclude. Throughout the weekend of 16-19 December, Klaus Kinkel and Shimon Peres exchanged telephone calls, during which they finalised the agreement in principle. However, both internal divisions in Israel between Foreign Minister Shimon Peres, Agriculture Minister Yaacov Tsur and Industry and Trade Minister Micha Harish, and domestic election pressures in Germany, made a final finalisation of the negotiations impossible. Harish later indicated that Germany had been so concerned about its internal elections that it was unable to devote time to lobby member states to procure better terms for Israel in the agreement. Both Harish and Tsur, dissatisfied with the way the agreement then stood, withheld their support.

On 18 December, Harish and Tsur met with Peres and indicated their refusal to sign the agreement with EU, citing the EU's refusal to allow access to government telecommunications procurement, raw textile exports, processed foods, and agricultural products, and its refusal to allow full Israeli participation in R&D projects. Nevertheless, the next day, Peres went ahead with the Israeli-EU endorsement. This provisional version included a simplification of some bureaucratic procedures and Israeli participation in EU government-funded R&D projects. Although Israel's Foreign Ministry had previously pushed for EFTA-like status, Peres was willing to forgo this parity in order to conclude the agreement quickly.

Harish and Tsur, who had earlier delayed an FTA with Turkey, opposed this draft treaty, primarily on grounds of industrial public procurement and the lack of EFTA-like

status being offered to Israeli agriculture exporters. Ehud Geller, Head of the Marketing and Origin Trade Division of the Manufacturers' Association, entered the debate in Israel in support of Harish, publicly stating that European protectionism was the root of Israel's trade deficit there, particularly in telecommunications (*Jerusalem Report* 9.3.95). The end of 1994 also saw the conclusion of the initial round of Israel-Canada negotiations for an FTA, and the beginning of contacts for a trade agreement between Israel and Mexico. Israeli industrialists were already optimistic about Israel's unprecedented diplomatic recognition, and wanted to gain the best trade deals possible, rather than quickly conclude agreements for symbolic value only.

Despite divisions within Israel, on 19 December, Klaus Kinkel announced that the EU had reached "agreement in principle" with Israel on a new trade agreement. That same day, Germany also announced the opening of negotiations for a co-operation agreement with Egypt. The Germany Presidency could thus claim some progress in EU-Mediterranean relations, but the bulk of the EU-Israel Association Agreement remained unresolved. Israeli Ambassador to Germany Avi Primor later said "the Chancellor had presented Israel with 'a gigantic gift' when he successfully pressed at the European summit in Essen for special status for Israel in relation to the EU. Links between the two states had come 'extraordinarily close' and Germany had become 'indispensable' for Israel. German firms were showing an interest in investing in Israel..." (FRG Embassy Press Release 17.5.95). Rather than indicating strains between the two countries, Germany's failure to conclude the EU-Israel Association Agreement during its presidency saw the start of strong German support for Israel throughout the remaining eleven months of negotiations, and in the ratification process.

Second Phase of Negotiations I: January - March 1995

1995 began with a French Presidency, and a hardening of the Israeli position. On 26 January, Israel's Central Bureau of Statistics disclosed that Israel's trade gap had widened significantly in 1994, and that trade with Europe accounted for most of the increasing deficit. At the same time, Israel's trade with Japan, for instance, rose from a deficit of \$280m in 1993 to a trade surplus (including diamonds) of \$20m in 1994

(*Jerusalem Post* 27.1.95), making the gap with Europe all the more startling.¹⁷ The Ministry of Industry and Trade seized on these figures as an excuse to resist concluding a hasty agreement with the EU, and intensified its war with the Foreign Ministry. In late January, Harish announced “I don’t see any reason today to agree to a pact that fails to provide economic answers, even partial ones, to lower our trade deficit with Europe...The way I see things, we want a pure economic agreement which will deal with the \$7b trade gap that is only getting worse”, and blamed the Foreign Ministry for failing to achieve economic targets (*Jerusalem Post* 31.1.95). Yaakov Tsur joined Harish in condemning the current terms of the proposed agreement. “Europe, which claims it wanted to help us because of our favourable stance on peace, is in fact showing no goodwill...In the past, the Europeans say they did not want to help us because of Likud policies in the territories. I have met with five different European agriculture ministers, and now they say they don’t want to help us because they have their own economic problems” (*Jerusalem Post* 2.2.95). The EU responded to Israel’s seizure of their growing trade gap by helping to establish a Trade Deficit Committee, headed by the EU’s then-Ambassador to Israel, Jean-Paul Jesse, to examine reasons for the deficit. The Committee did little real work, however, and privately, Jesse blamed Israel’s more American-oriented business culture for Israel’s slipping trade with Europe, compared with its more constant trade levels with the USA.

Israel’s Foreign Ministry reiterating throughout January and February 1995 that the slow pace of the peace process made it necessary to conclude the agreement while there was still the will to do so in Europe. It received support in this position in February 1995, when then-Israeli Ambassador to the EU Mordechai Drori publicly warned that EU support for the Agreement was about to wane due to lack of progress in the peace talks (*Jerusalem Report* 9.3.95). Yet there were clear differences in the diplomatic positions towards Israel displayed by the large European states in various political contexts. France was generally hostile towards perceived Israeli delays in the peace process; as France held

¹⁷ Israel’s trade gap had risen by 23.8% to \$7.9b. 83.5% of this deficit derived from trade with the EU and EFTA, even though only 35.3% of Israel’s exports ended in those countries, permanently, and even though Israel’s exports to the EU rose by \$240m in 1994, overall. Israel’s rise in EU exports was fueled by exports to Italy, Holland, Germany, Belgium and Spain, which rose by \$35m-\$60m. It was offset by a fall in exports to France, Portugal, Greece and Denmark. Israel’s exports rose 11.16% in 1994, but its imports rose by 15.76%.

the presidency in the first half of 1995, this was significant. In February, Juppé led the Troika on a visit to Lebanon, Syria, Israel and Gaza; their stance towards Israel was cool, and emphasised European dissatisfaction with Israel's pace of negotiation in the peace talks. Peres attempted to meet French demands for renewed energy in the peace process, and in late February he held meetings with Yassir Arafat and Egyptian Foreign Minister Amir Moussa, as part of a French-organised academic conference.

Within the context of NATO, however, and at American insistence on the inclusion of Israel, European member states consented to closer strategic bonds with Israel. Citing the growing threat of Islamic fundamentalism in North Africa, NATO, led by France, Spain and Italy, announced plans for new links with Egypt, Israel, Morocco, Tunisia, and Mauritania (at Spain's insistence, after it threatened to block Israel's inclusion without Mauritania). The first stage of this programme was regular official exchanges, with the possibility of future growth into a greater security commitment. While this did nothing to bring closer economic ties, the NATO initiative, coming in the midst of drafting the Euro-Mediterranean programme, indicated a recognition of Israel's integral place in any future European relations with the Mediterranean region.

The Council of Ministers responded to the stalemate between Peres, Harish and Tsur in February. French Foreign Minister Alain Juppé led an EU delegation to Israel in meetings with Harish and Tsur; the structure of Israel's participation in the Community's R&D Framework programme was high on the agenda. During the visit on 9 February 1995, Harish and Rabin met with Juppé, and Harish emphasised Israeli participation in the R&D working committees, where members' role in various projects is decided. Harish later recalled that he had pointed out that under existing proposals, Israel would pay full dues, "but had to sit in the hallways instead of sitting on the committees where the work gets done". According to Harish, Juppé then surprised everyone present by announcing "I will make sure that you will have observers inside the committees" (*Jerusalem Post* 13.2.98).

In addition to discussing the agreement, which the EU wanted to conclude at the following week's negotiating session of experts, Israeli ministers attempted during the visit to introduce another issue into EU-Israel negotiations: the EU's refusal to allow Israel into the "Western European and Others" bloc at the UN, which includes Australia. Juppé refused this linkage of issues, responding that Israel must work towards

membership in the Middle East regional bloc. His refusal to discuss this matter, which was important to many Israelis, including those in the Foreign Ministry, introduced some tension into the EU-Israel relationship. This was exacerbated when Juppé later led an EU delegation on a visit to Orient House, which the PLO maintains is their diplomatic representation in Jerusalem, in violation of the Oslo Accords. The visit, which merely reflected the EPC position that Jerusalem is the capital of Palestine, not Israel, nevertheless, prompted a formal complaint from the Israeli Government about treating the PLO's Jerusalem headquarters as a legitimate diplomatic site.

Although the Juppé visit was widely seen as a diplomatic disaster, it also was a canny exploitation of a weak and inconsistent Israeli Government by the EU. For in addition to being split over when to conclude the trade accord with Europe, the Israeli government was split on the issue of Orient House. Its existence as the "Foreign Ministry" of the PLO in Israel technically violated the Oslo Accords' prohibition against establishing it as an official government agency of the Palestinian Authority. Rabin had previously threatened to cancel the Oslo Agreements if this violation continued. Yet when Juppé and other EU delegations, following an EU guideline that all visiting officials ought to call on Orient House as a gesture of support for its political role in Palestine, the official Israeli reaction was weak. Nothing stronger than a formal complaint was made, and Deputy Foreign Minister Yossi Beilin even made a statement to the press that the visit to Orient House was unimportant.

After the Juppé visit, the Harish-Tsur faction gained another ally within the Israeli Government. On 21 February, the Knesset Finance Committee recommended holding out for more concessions on the agreement, publicly siding with Harish against Beilin, who had addressed the committee and put the case for a speedy resolution. Specific changes which the Harish-Tsur-Finance Committee bloc wanted to wait for included increasing flowers and citrus quotas, extending by two weeks (until end of July) the amount of time that Israel could export grapes to Europe, observer status in R&D committees, and opening government tenders to Israeli bids. Committee chairman Gedalya Gal (Labour) announced "The Prime Minister and the Foreign Minister should see (the negotiations) as a task of the highest importance, and should make an additional effort to improve it and to obtain more in this important field" (*Jerusalem Post* 22.2.95).

Yet resolution to various trade differences between the EU and Israel remained elusive. After a series of meetings in Israel between three leaders of the EU delegation for agriculture and processed food, with the Israeli Ministry of Agriculture, an impasse was reached in late March 1995 on agricultural issues: orange prices and quotas, quotas on turkey meat and cut flowers, and the export period for grapes.

Diplomatic relations were mixed at this time, with bilateral UK-Israel relations in the ascendancy, and German-Israel relations weak. British trade with Israel had increased more than 30% in 1994, as Israel became Britain's third-biggest trading partner in the Middle East, with British exports of US\$1569m, and imports of \$717m. Reflecting domestic industrial pressure, Prime Minister John Major in March 1995 led a group of 28 British industrialists on a trade mission to Israel. Before leaving for an official visit of Israel, he classified past UK-Israel relations as "schizophrenic" (*The Times* 13.3.95), and openly linked his encouragement of commercial ties with more "high" political relations between the two countries.

At the same time, German-Israeli relations were weakened as Germany's support for Iran grew. In March 1995, Germany reinstated the Hermes export cover, opposed by Israel, Britain, and the USA,¹⁸ under which the German Government offers credit guarantees to German firms exporting to Iran. One week later, however, the Government leaked, in the *Frankfurter Allgemeine*, that it had brokered secret talks between Israel and Iran over the release of Israeli Airforce Captain Ron Arad, captured in Lebanon in 1986. While its conciliation was welcome, the leak was not, and Rabin immediately paid a 4-hour visit to Kohl in Bonn to discuss Germany's attempt to force Israel to admit that it, too, had been negotiating with Iran in this way.

Within the EU, Spring 1995 saw the development of the Euro-Mediterranean programme, with continued EU commitment to include Israel in it, despite the resentment that caused among some other target countries. On 18 March 1995, the Informal Foreign Affairs Council, the Council's six-monthly meetings of foreign ministers, discussed the EU's future Euro-Mediterranean conference, scheduled for 27-28 November in Spain. Because of Israel's presence, Syria and Syrian-dominated Lebanon announced they

¹⁸ In May 1995, Rabin made a point of praising President Clinton's 30 April characterisation of Iran "as the source of assistance to terrorism in the Middle East" and pledged Israeli backing for the USA's policy of dual containment of Iran and Iraq (European Wireless File News Alert 5.3.95).

refused to attend. The Council introduced 3 aspects to the Euro-Mediterranean programme: a political and security aspect; an economic and political aspect, under guidelines agreed at Essen; and social and human exchanges. These were confirmed at the 10 April Council of Foreign Ministers meeting, and the Troika was dispatched in April-May to convince the countries invited to the Euro-Mediterranean conference in Barcelona to attend.

Second Phase of Negotiations II: March-May 1995

Within the EU-Israel trade negotiations themselves, negotiators made some progress during this period on the telecommunications public procurement agreements, and on 7 March 1995, Alain Juppé announced that the Council of Ministers had “asked the Commission to define a global compromise now which can be presented to the Israeli authorities” (French Embassy in London 7.3.95). The talks were still evolving, however, and on 25 April 1995, when negotiations opened on Israel’s participation in EU R&D projects. Israel’s dues were initially the main issue of discussion, but R&D issues quickly became linked to progress in government procurement.

In the second week of May, 1995, the European Commission proposed a package deal capitulating to Israel’s primary two demands: government procurement and R&D. The Commission did not meet other Israeli demands, such as agriculture and processed food import quotas and rules of origin. The Commission’s proposal was given added urgency by the fact that the French presidency was to end the following month, thereby delaying negotiations during the hand-over. Commission negotiators, with the exception of those working on the public procurement agreements, were ready to conclude. Divisions between the Israeli Foreign Ministry and Ministries of Industry, Finance and Agriculture, were all that stood in the way of finalisation. While Israeli officials from outside the Foreign Ministry generally supported Harish’s attempts to gain the most preferential deal possible, Peres, mindful of the upcoming election and seeking both a symbolic victory for Israel and to ensure his role in achieving it, pushed for a speedy resolution.

On 14 May, Peres, Harish, Ministry of Industry and Trade director general Yosi Snir, and Agriculture Ministry representatives discussed approving the deal as it then stood. Harish threatened to veto the signing of the accords if Peres threatened to unilaterally go ahead with it. Peres capitulated, and agreed to demand additional European concessions, including access for Israeli firms to European government procurement contracts, participation in R&D decision-making committees, more flexibility on rules of origin, and better conditions for agricultural and processed food exports. Sources at the meeting later disclosed that Peres had regarded agriculture as expendable, and suggested giving in to the Europeans on food issues. This angered Harish and Tsur, strengthening their opposition to Foreign Ministry haste.

On 19 May, Harish, away conducting unrelated trade talks, sent Peres a telegram, urging him not to cave into European pressure to conclude the talks without further concessions. He asked Peres to protest about planned increases in tariffs on processed foods as of 1 July 1995, to stress rules of origin, to resolve parameters for future negotiations on public procurement, and to settle R&D participation. Harish warned he would not sign the agreement unless these demands were met. The division in the cabinet, long suspected in Europe, was highlighted again, as this latest difference was picked up by the press in Israel and then Europe (*Jerusalem Post* 19.5.98). At about this same time, the EU showed a willingness to use the embryonic trade agreement with Israel to push for political concessions on the wider international stage. The Council of Ministers informed the USA that were they to oppose a vote of condemnation of Israel in the UN that month, the trade agreement with Israel would consequently be delayed (*Financial Times* 19.5.95).

By 21 May, Rabin and Peres arranged government backing to bring the agreement to a vote at a special cabinet session on 25 May. The fact that this meeting was held at all showed Rabin's open support for Peres, and two days before the meeting, Harish complained publicly that "This vote is happening because of the primaries politics" (*Jerusalem Post* 22.5.98), rather than because the time was right to sign the agreement. After Harish's criticism, Rabin and Peres consulted, and Rabin then told ministers he wanted to vote immediately, even though it was not yet on the cabinet's agenda. Harish was personally upset, and persuaded Rabin to delay the vote three days, so that ministers would have time to read it.

In calling for a vote then, Peres argued that because of the slow pace of the peace process, the EU was in danger of withdrawing support from the agreement. Peres wanted an immediate vote so that the Council of Ministers meeting could initial the agreement at its next meeting on 29 May. Both Harish's and Tsur's stance remained unchanged. Harish later noted: "Our goals were not achieved. If so, why approve the agreement?" (*Jerusalem Post* 22.5.98). Tsur recalled: "I remember last fall when the Europeans tried to scare us by saying if we don't sign now, things will get worse. In fact, the terms have improved since then" (*Jerusalem Post* 22.5.98). Harish argued that the vote should be delayed for weeks or months, certainly until after the Council of Ministers 29,5,95 meeting, and after Helmut Kohl's visit to Israel in June, and appealed to Rabin to postpone the cabinet vote. On 23 May 1995, the EU postponed their meeting to sum up the treaty negotiations until 12 June, and Rabin cancelled the planned cabinet vote.

The diplomatic and economic background to the events of Spring 1995 was not encouraging, either. Diplomatically, May was dominated by poor Israel-Swedish relations, despite Israeli attempts to move closer to the three new members, with which it had always had cool relations. Political gestures of closeness were marked with misunderstandings,¹⁹ and on 16 May, Swedish Deputy Prime Minister Mona Sahlin cut short a diplomatic visit to Israel after Israel objected to her meeting PLO officials in Orient House. In an effort to forge closer links between Israel and the other new member states, Thomas Klestil in November 1994 had become the first Austrian President to visit Israel. In September, 1995, Israel moved closer to Finland, which had long let it be known it would like to see a Palestinian ambassador from Israel, by sending it Israel's first Arab ambassador, Ali Adeeb Yihya.

Economically, Spring 1995 was dominated by the Bank of Israel's 31 May devaluation of the shekel, allowing it to vary within a wider band. The Bank's target at the time was an annual 6% fall, which was hampered by the shekel's devaluation. The EU and Israel were then informally considering future talks on liberalisation of trade in

¹⁹ Israel's attempts to officially apologise for the September 1948 murder of Count Folke Bernadotte, the Swedish Red Cross worker killed by Stern Gang terrorists because he opposed Israeli control of Jerusalem, were undermined when Yehoshua Zetler, one of those involved in the assassination, insisted he did not apologise.

financial services. The shekel's devaluation, heralding a more natural, market-determined rate of the shekel, supported this.

Last Minute Adjustments, June - July 1995:

Helmut Kohl visited Israel on 6 June 1995, and encouraged Israeli cabinet consensus by promising German support in interceding for Israel in the negotiation conclusions. After this, Israeli Science Minister Shulamit Aloni came out in support of a quick conclusion to the agreement, in opposition to Harish's demands to obtain a better deal.²⁰ The following day, a ministerial committee of Prime Minister Yitzhak Rabin, Foreign Minister Shimon Peres, Agricultural Minister Yaakov Tsur, Science Minister Shulamit Aloni, and Police Minister Moshe Shahal agreed to initial the agreement, in absence of unanimous approval for a full signing. Harish, in Moscow, sent a letter to the committee opposing initialling the accord; although the cabinet adopted most of his conditions for signing the agreement, he opposed because his conditions were turned into recommendations, with only R&D being kept as an actual condition. Public procurement in telecommunications, agricultural goods and processed foods access, and rules of origin/OPT were seen as recommendations, only. The committee also linked Israeli's final approval of the agreement with a non-voting position for Israel on the R&D committees. The meeting found Aloni aligned with Peres in pushing for conclusion.

As obvious differences remained within the Israeli cabinet, the Council of Ministers, meeting in Luxembourg on 12 June, had removed the approval of the Association Agreement from their agenda. Instead, the Community opened up some fresh issues that had previously been resolved. Alarmed at the prospect of waiting another six months until the next Council of Ministers meeting, Peres flew to Europe to lobby for a hasty conclusion to the agreement, during the Spanish presidency. Hoping to have the agreement signed at the following week's EU Council meeting, Peres telephoned his Belgian, Dutch, and Italian counterparts in order to persuade them to support the

²⁰ The occasion for Kohl's visit was, fittingly, the renaming of Jerusalem University's Institute for European Studies the Kohl Institute "as a tribute to...Kohl's work to promote European Union and Israel's inclusion in this process" (FRG Embassy in London Press Release 17.5.95).

agreement. (The Netherlands and Belgium, particularly, were opposed to the R&D provisions in the deal, which they felt betrayed the goal of building European unity).

On 25 June, Yaakov Tsur met with Peres and reiterated that he would only sign a deal after a suitable conclusion to the citrus export issues, for which Spanish objection was Israel's primary obstacle. Israeli and Spanish agricultural negotiators discussed citrus quotas until an agreement was reached on 17 July, 1995. However, by that date, new demands by France and Austria over foie gras and apples, respectively, simultaneously introduced new problems and further grounds for Tsur's threatened non-signing of the agreement. Rabin had met with Chirac and Juppé in Paris on 12-13 July to address these issues, but unsuccessfully. Late in the day of 17 July, Tsur and Harish reached a compromise with Peres on the agreement. The citrus problem was to be addressed separately in December, with minimum verbal agreements only given in July. The Manufacturers Association lent its support (with cautious warnings that more still had to be done for public procurement, processed food and textiles), which further encouraged the Ministry of Industry to settle at this point.

These delays were not unique in the EU's trade negotiations with Mediterranean countries. On 16 July, the EU signed its first Euro-Mediterranean Partnership Agreement, with Tunisia. At the same time, the accords with both Israel and Morocco were delayed: the Moroccan agreement had run into problems over fishing rights and the slower pace of Moroccan liberalisation and economic reforms, compared with Israel and Tunisia.

Concluding the Agreements, August - December 1995:

Little was accomplished during the month of August 1995, outside of a minor diplomatic spat caused when the EU announced it would boycott Israel's "Jerusalem 3000" celebrations, citing the Jewish (rather than Moslem and Christian) character of the event. Various Israeli ministers protested the EU's decision, but this had little effect on the negotiations. In September, Israeli President Ezer Weizman visited Bonn, but the tone of his visit was ceremonial. Deeper diplomatic rifts were shown that month when Felipe Gonz  lez, during the Spanish presidency, visited Jordan, Syria and Lebanon, pointedly missing Israel. The negotiations were not discussed at a ministerial level

throughout this difficult period; instead, Commission negotiators worked to finalise the provisions already negotiated.

At first, the Agreement was scheduled to be signed in October. This was later pushed back until the next foreign ministers meeting on 20 November, because Peres had to be in an Amman for an economic conference for ministers. This also gave Israel and Morocco time to sign their bilateral agreements, under the aegis of the EU's Euro-Mediterranean Partnership programme. On 1 November 1995, Mordechai Drori, Israeli ambassador to the EU, and Rainer Gerold, head of the Commission's research department, initialled an agreement on Israel's participation in R&D programmes (excluding nuclear research).

On 4 November, at the end of a Tel Aviv rally in support of the Peace Process, Prime Minister Yitzhak Rabin was assassinated by a fanatically right-wing Israeli law student. Foreign Minister Shimon Peres became prime minister, keeping the rest of Rabin's Government intact, with the exception of appointing Ehud Barak Israel's new Foreign Minister. Nothing changed, formally, in the pace of the negotiations.

The Council of Ministers signed the full scientific co-operation agreement on 20 November. On 21 November, Peres, visiting Brussels with Micha Harish (Industry) Yaakov Tsur (Agriculture) and Shulamit Aloni (Communications and Science), signed the Agreement, along with Spanish Foreign Minister Javier Salona and Jacques Santer. Later in the day, Peres announced his new Government in Israel. (Negotiations for the Public Procurement and Telecommunications Agreements continued for another month, until 22 December. Israel afterwards ratified the GPA before the interim Public Procurement Agreements went into force at the beginning of 1996. Israel ratified the Agreements immediately; the Council of Ministers formally ratified them on 24 February, 1997.²¹)

The main Association Agreement was signed on 28 November 1995. Concurrently, the EU hosted the Barcelona Conference, where 27 participants (including the PLO) concluded talks, approving trade liberalisation programmes for energy, industry, science, telecommunications, tourism, and transportation. ("High" political issues such as nuclear weapons, the Arab-Israeli dispute, and self-determination were ignored.) Though much of the content of the discussions was economic, countries were represented by their

²¹ 97/474/EC. *Official Journal* L 202, 30/07/1997, pp. 0072-0073.

Foreign, not trade or finance, Ministers. Free trade in industrial goods was envisioned in a Euro-Mediterranean Economic Area (EMEA) by 2010 between the EU and Morocco, Algeria, Tunisia, Egypt, Cyprus, Malta, Israel, Syria, Lebanon, Jordan, Turkey and Palestine. The resulting Barcelona Declaration was delayed several weeks because of Syrian refusal to denounce terrorism within the context of the agreement.²²

Britain's various stances on provisions of the Euro-Mediterranean Partnership programmes throughout the Barcelona conference matched Israel's, and Britain emerged as a natural ally of Israel within the Partnership context. While France, Spain and Italy emphasised the social elements of the agreement, Britain remained wary about the success of this aspect of the Partnership, especially in curbing Islamic fundamentalism. Britain, along with Germany, was also cautious in expanding the EU's commitments to many new countries in North Africa. British Foreign Secretary Malcom Rifkind chaired the session on the economics of the new relationship, and he called for a market-led rather than aid-led approach to Mediterranean prosperity. In 1993, UK exports to Maghreb had been approximately 3% of total EU exports, but its share of EU aid to the region was 16% (*Guardian* 25.11.95), prompting it to favour a trade-based approach; this also suited Israel's ambitions, as one the most liberalised Mediterranean non-EU member state. Finally, Britain's political view of the wider region was similar to Israel's: Britain emphasised region's Middle Eastern character, where British influence is strong, as opposed to France's influence in the Maghreb.

EU Ratification December 1995 – June 2000:

On 15 December 1995, following a request from the Council and Commission for the matter to be expedited, the EP voted on an interim trade agreement between the EU and Israel. On 13 December, the EP had voted to allow a customs union with Turkey, but the vote was not overwhelming: 343 voted in favour, 36 abstained, and 149 voted

²² The Barcelona Declaration provides a comprehensive framework for a Euro-Mediterranean Partnership. This encompasses three "baskets" of relations: security, trade, and culture. Although Barcelona envisions bilateral Association Agreements as the main tool of bringing about closer ties, it also established the MEDA Programme: a budget line allowing grants to aid development in non-member Mediterranean states. (Israel is barred from bilateral MEDA grants due to its more developed nature, though it is eligible to receive MEDA money for regional programmes.)

against, primarily because of concerns over Turkish human rights practices. The Socialist party, especially, was equivocal about that union. Yet the EP nearly unanimously approved the EU-Israel Association Agreement, on 1 March 1996.²³ Luigi Caligaris, speaking for the Foreign Affairs Committee, overtly linked the agreement to peace in the Middle East: “We need the economic development of Israel to help the Palestinians as well, and break the cycle of violence” (*JP* 3.3.98).

Later that month, on 25 March, Israel’s new Ambassador to the EU, Ephriam Halevy, EU Commissioner for Research Edith Cresson, and Italian Research Minister Giorgio Salvini signed the scientific co-operation agreement.

In Israel, the Knesset approved the vote immediately. Although Harish had largely succeeded in determining the pace of negotiations, the wider Israeli business community affirmed Peres’ vision of linking Israel’s external trade capabilities to the peace process. Before the May 29, 1996 general election in Israel, businessmen, accounting for 70% of the country’s GDP, endorsed Peres. In this unprecedented action, business figures argued that the peace process was necessary for further business development in Israel (*Financial Times*, 15.6.96). *Likud* leader Benjamin Netanyahu won the election, however, with a margin of less than 1% of the vote, against a background of an upsurge of terrorist attacks in Israel and rocket attacks on Northern Israel from Lebanon.

European member-states were slower to ratify the agreement. Britain and Germany ratified the agreement almost immediately, while other states took longer, usually in keeping with an ordinary though slower pace of ratification. France and Belgium linked ratification to the failing multilateral peace talks, and ratified the agreement only in June 2000, Belgium taking its cue from French acceptance of the agreement. Throughout this process, all but the political aspects of the Association Agreement functioned through the EU-Israel Interim Agreement.

²³ The Agreement passed 165 to 2, with 3 abstentions; only the European Radical Alliance voted against it.

Conclusions

In the talks leading to the 1995 EU-Israel Association Agreement, both European and Israeli negotiators displayed many of Putnam's preconditions for a narrow win set, including internal divisions between negotiators (between member-states and especially between competing visions during rotating presidencies in the EU, and in Israel between the Foreign Ministry and others) and strong and varied domestic interests vying for influence (discussed in Chapter Eight). In a way, the Israeli negotiators were more constrained, being subject to much more intense scrutiny at home than their Community partners. Both sides recognised that association materially benefited Israel much more than the EU, and this recognition widened Israel's win-set well enormously. Yet, in a way, the Israeli negotiators were able to constrain the Community's win set more effectively, by offering side payments: particularly, the broader possibility of a regional Middle Eastern peace, underpinned by an association agreement with Europe.

For although the agreement is almost entirely commercial in character, it was linked to Israel's wider integration in the Middle East – and the EU's role in shaping a regional peace – from the beginning. These negotiations can be seen as a bifurcated process: on one hand, real, "low-political" bargaining typical of any bilateral trade agreement; and also as a unique, "high-political" gesture towards Middle Eastern peace. The second intruded on the former in the many starts and stops of the negotiations, and in the race towards the end to conclude before the breakdown of Oslo undermined the remarkable sense of optimism that characterised Europe's engagement with Israel during this time.

Chapter Eight

Commercial Influences on the Negotiations

Introduction

Formal Industrial Input in the Negotiations

Israeli Industry Lobbying in Europe

European Firms Lobbying the Agreement

Israeli Firms Lobbying in Israel

Public Procurement

Conclusions

Chapter Eight

Commercial Influences on the Negotiations

Introduction

In cases of highly interdependent commercial co-operation, various concerns can lead firms to take an interest in international trade negotiations. In examining the behaviour of American private interests in influencing and responding to the SEA, for instance, Hocking and Smith (1997) identify three motivations: interest in market access and internal operating conditions; their role as “insiders” and resultant stake in SEA reforms; and the internationalisation of many American firms, which distanced them from mainstream “American” positions. Whilst Israeli firms indeed became increasingly international during this period, most instances of European-Israeli FDI and co-operation arose *during* the 1992-1996 negotiating period, as the erosion of anti-Israel boycotts and a number of trade promotion initiatives encouraged internationalisation. The primary commercial background was therefore not one of extensive investment, but rather cross-border trade. Instead of behaving as international firms, Israeli private interests responded to the EU-Israel negotiations primarily through pressure on the Israeli Government: by demanding protectionist stances at home, and by pressing Government negotiators to insist on favourable European industry rules. Israeli industry stood to gain a great deal from some European concessions which were requested during the negotiations, especially liberalised rules of origin, OPT and R&D, as well as some separate industrial issues which were discussed separately during the trade negotiations, such as liberalisation of financial services, mutual recognition of standards, and research on patented items. In almost all cases, however, they chose to pursue these aims through influencing level-one negotiations.

In addition to pressuring Government negotiators to include these issues in Israel’s win-set, however some (exceptional) Israeli private interests approached the Commission independently. This took a number of forms, including direct lobbying, the use of European commercial “allies”, and pressure on European national Governments to exert influence in the Council and through Coreper. Some elements of Israeli industry also tried, unsuccessfully, to recruit foreign governments and firms to a pan-industrial,

international lobbying effort on OPT. While instances of direct pressure were tentative and weak, they indicate a perception of the Commission as directly open to pressure from outside sources. European industry, on the other hand, was conspicuous during the negotiations by its absence. While some European firms did lobby on behalf of Israeli partners (discussed below), and other European firms wielded power within the EU throughout this period on issues that affected EU-Israel trade within the Community's broader foreign trade policy, European firms were generally unconcerned with the specifics of the EU-Israel Association Agreement. The tangential character of European-Israeli economic relations, Israel's small size, and the fact that most electronics goods and other areas of high growth already enjoyed few tariff or non-tariff barriers led European firms and their EU-level associations to ignore the negotiations. As will be seen, this apathy amongst European private interests enhanced the influence of certain Israeli and concerned European interests, allowing them to champion some specific agendas within the Commission unopposed.

Formal Commercial Input in the Negotiations

In the negotiations, formal, limited, contact between Commission and Israeli companies took place. The most extensive of this was the presence of representatives from the Israeli flower industry on the Israeli agricultural negotiators' team: a situation that was not repeated in any other commercial sectors during the negotiations. In the telecommunications public procurement agreement, this took the form of one formal exchange of information. In telecommunications, this exchange was important, for the industry in Israel, as in Europe, was then being deregulated and privatised. A host of smaller telecommunications providers came into existence during the period of negotiations, and the main Israeli provider, *Bezek*, lobbied the Israeli government strongly, shifting its tactics to approach ministerial-level politicians, instead of lower-level functionaries. *Bezek's* largely successful lobbying narrowed the Israeli Industry Ministry's win set, as Commission officials recognised that the Ministry did not represent all of Israel's industrial interests in this area.

In processed foods, too, regular industry meetings, outside of lobbying for specific agreements, influences policy-making both within the EU and Israel. Since the mid-

1980s, DG-III, food sub-group, has held seminars with industry and member states. Thus, during the negotiations with Israel, the Commission immediately knew which European associations would be most affected, and was able both to predict their positions and to solicit their specific advice. Caobisco, the Association of Chocolate, Biscuit and Confectionary Industries of the EU, whose managing director has close personal contact with the Head of Unit for DG-III's food sub-group, was most affected, though the British Cake Alliance and the ECCCA (European Chocolate Confectionery Association) were also active in general lobbying of the Commission during this period.

Even where industry's role was not formalized, corporate pressure generally served to strengthen official bargaining positions. European negotiators were aware of Israel's strong corporatist legacy, for instance, and their perception that Israeli companies were vigorous in domestic lobbying, and that Israeli ministries thus accurately represented their priorities, enabled Israel's Industry Ministry to negotiate with perceived authority in Europe (interview with Di Cara).

A similar identification of European negotiators' position with European industry functioned in one area of the negotiations: the parallel telecommunications public procurement agreement. Here, the Commission did indeed display the policy networks and public-private interest identification noted by Zacher and Sutton, Mazey and Richardson, and others. The Commission's chief negotiator previously worked in the private sector, and has explained that in the negotiations with Israel, his perspective had not radically altered: "In telecommunications, I knew the industry well. There are only a few main companies in Europe, and I would just 'phone them up and ask them what they wanted" (interview with Stenma). In this case, like the quasi-cartels observed by Strange, the limited number of truly major players in this sector in Europe allowed them to form close linkages with legislators, and to convey simple preferences, uncomplicated by significant industry infighting. This did not carry over into other areas of negotiation. In the more complex textile industry, for instance, corporate preferences were unable to similarly impress demands on the Commission's public procurement policies ("In other industries - textiles, for example - I have no clue" what the companies' general positions are [interview with Stenma]). In the main agreement, too, the diverse nature of this sector in Europe precluded any neat identification of European negotiators with domestic

demands (beyond the relatively high levels of protection that already mark the textile sector in most industrialised regions).

At the start of the negotiations, the Israeli Government and Manufacturers' Association of Israel (MAI), which in Israel enjoy a quasi-corporatist relationship (discussed in Chapter Five), requested formal MAI representation in the negotiations along with the Ministry of Trade and Industry, as flower manufacturers enjoyed with the Ministry of Agriculture's team. Highlighting splits between the Israeli Ministries of Foreign Affairs and Trade and Industry that would later weaken Israel's negotiating position overall (discussed in Chapter Six), the MAI was championed by the Ministry of Trade and Industry, which characterised the Commission's refusal to allow MAI representatives on the Israeli negotiating team a "formal problem with the Commission" (Peri). In fact, the Israeli negotiators initially included the MAI in their representation, until Commission negotiators dramatically refused to commence talks:

The Manufacturers' Association did a big lobby on the Ministry of Trade and Industry; they wanted to be a part of the negotiations. We (the Foreign Ministry) said no, they insisted... and they were asked to leave the room by the EU negotiators. The EU is negotiating with the Government of Israel; it didn't want industry on the committees" (interview with Chokron).

Barred from the formal negotiations, the MAI instead kept up a constant dialogue both with Israeli negotiators and with member state embassies where they repeated their "buying list" throughout the negotiating period (interview with Nahum), and continuously targeted the Commission with information and requests (interview with Sugarman).

Israeli Industry Lobbying in Europe

As discussed in Chapter Five, Israeli firms during 1992-1995 were in a state of flux. The early 1990s continued a period of economic expansion, industrial privatisation and restructuring, and transformation from low to high-tech industrial output, which had begun in Israel in the mid-1980s. Though influential within the Israeli political economy, Israeli firms were too small in number and size to form the sort of triangular relationship between domestic and foreign governments described by Stopford and Strange's "states,

firms and diplomacy” model (1992). However, this does not result in pure mercantilism; state preferences are not always independent from and superior to industrial interests. A very few Israeli firms are influential within Europe, particularly when they enjoy close relations with significant European companies. Some, such as the agro-chemical subsidiary of Koor (discussed in Chapter Five), maintain offices in Brussels to coordinate European business and, on occasion, political actions (interview with Milo). This, as well as the crucial role which Israeli companies play in shaping Israeli government negotiating positions, indicates complex interactions.

In fact, many Israeli Government negotiators were unsure or even ignorant of Israeli lobbying elsewhere in Brussels. Israel’s primary negotiator characterizes the negotiations as almost entirely devoid of direct industrial representation (interview with Shaton). Another Israeli observer characterized the feeling within the Israeli Government as unsure whether direct lobbying was taking place or not, outside of a few specific cases involving MNCs: “It’s hard to say. There are so many channels in the Commission, so many layers, so many committees, so many people in the DGs, so many frameworks.... I’m not sure that they did; it’s hard to tell” (interview with Hirshler). Even the MAI, which was engaged in influencing the negotiations more than most Israeli interests, was constrained by ignorance of the Community polity. “It is not clear why we don’t lobby in the EU: history, cost, and maybe a lack of consciousness, or knowledge about how it (EU) works”, one official notes (interview with Sugarman). During the negotiations, the MAI considered hiring lawyers to lobby the Commission, though this was not eventually pursued.

Still, some Israeli commercial sectors did engage in lobbying in Europe designed to affect the Association Agreement negotiations. In processed food, for instance, Israeli sweetcorn growers and canners lobbied for the extension of the recent preference given to Hungarian exports to Israel. Traditionally, Israeli sweetcorn exporters had enjoyed preferential access to European markets; only France’s Bordeaux region competed directly with Israel in this area. With the extension of preferential access to Hungarian products, however, European opposition to trade liberalisation was aroused, and the sweetcorn issue was heavily lobbied on all sides. European opposition at the time to this concession was further strengthened by the fact that the French foreign affairs minister at the time represented Bordeaux, though Commission officials noted an overall

strengthening of national protectionist urges during this time; “There has been a stiffening of (national) positions, especially in agriculture” (interview with Di Cara); the Food sub-group of DG-III admitted that the Community was competitive in all areas, “except those like sweetcorn” (interview with Spitz), particularly after the Uruguay round, during which European process food actually became *more* protectionist, particularly in cereal products. Nevertheless, *petites histoires* such as the elevation of Bordeaux’s regional interests to high political level affected the negotiations in many sectors. Israeli companies, unsuccessful in OPT, won on the sweetcorn issue (which was linked during some of the negotiations and traded for OPT), eventually gaining preferential access.

Another example of an aggressive Israeli industry during 1993-1995 is Teva, whose surgical equipment division lobbied DG-IA, for both import issues included in the Association Agreement; and also because they desired a new patent law. However, this company betrayed its outsider status and lack of knowledge of local lobbying norms: virtually all members of the Commission with whom it had contact considered Teva’s methods heavy-handed. In particular, Teva created a negative impression with its attempts to organise luxury Commission missions to Israel; two of these were eventually cancelled, one on the express order of the Commission’s Head of the Israel Desk, and one by an official within DG-III, because it was deemed to be inappropriately close to a bribe. Nevertheless, Teva lobbied both DG-IA and DG-III, to which DG-IA directed Teva for the mutual recognition of standards issue. Within DG-III, Teva was particularly successful in gaining access, though its dramatic approaches were often misdirected. The DG generally prefers to see trade associations (interview with Deboyser), yet when the CEO of Teva travelled to Brussels and requested to see the Head of Unit for Pharmaceutical Products of DG-III (Directorate E), he was granted a meeting. They discussed the prospect for mutual recognition of standards, though the Head of Unit later confided “I (already) have knowledge about our trade with Israel” (interview with Deboyser); the connection was impressive, but the lobbying done at too high a level to influence the Commission’s agenda.

In R&D, where the Israeli Chief Scientist’s Office pushed very hard for membership in the 4th Framework, Israel’s Government knew of and encouraged the help

of individual scientists in preparing the mood in Europe.¹ This was effective in gaining Israel's unique membership in the 4th Framework programme. One Israeli official active in the negotiations notes:

There was not a lot of lobbying, but nevertheless Israeli scientists... from the Weitzman Institute and several others the EU is using (for joint programs with European institutions) helped to influence the point of view of Israel as an advanced, important nation. This change in European perception enabled cooperation and profit with Israel at the industrial level.

(interview with Hemar)

This echoes the words of one prominent Israeli scientist affiliated with the Weitzman Institute, who describes a long-term relationship between certain prominent European and Israeli scientists who later pushed for closer cooperation between the Community and Israel for personal and private professional motives, and because they believed that bilateral scientific cooperation was being replaced with multilateral cooperation, and they wanted to encourage that. The following quote is worth printing at length, for it shows the nuanced give-and-take within the scientific establishment that influenced negotiators:

(Paolo) Fassella (the Director of DG-XII at the time) knew Israel. Many years ago, he had a sabbatical here. Also (one of his deputies) Uberto (Bozzo) had an idea about Israeli science: not much, but an idea. He was interested in a solar tower here, and he visited Israel, privately, with Fassella, I don't know, in 1989 or 1990. This was not an official visit, you understand; for a Commission official to make an official trip to Israel is more difficult; this was unofficial... DG-XII did send a delegation of scientists to Israel, I think in 1991. They visited academic institutions here. And they made a recommendation (when they returned to Brussels) that Europe should be interested in Israeli science. This was a turning point for the EU... We urged them. I went quite often to Brussels. I am a former diplomat, and have some contacts in Brussels, and went privately. But when I was there I would speak to scientists (including those in DG-

¹ This issue was also unusual in being negotiated both by an official in Israel's Ministry of Trade and Industry and a private lawyer, familiar with scientific issues (interview with Morron).

XII). Also, Israeli scientists at that time had great (personal, bilateral) contacts with Germany, France, and to a lesser extent, Italy. Our bilateral ties (with these countries) were massive, well by scientists' standards. They were personal ties, and ties with specific institutions... (interview with Bar-On).

In 1992, the Weitzman Institute established a Brussels office, which provided an additional platform for informal influence on DG-XII. The President of the Institute visited Brussels often during the negotiations, while Weitzman scientists met daily with officials in the Israeli Embassy in Brussels on this issue. At the same time, individual members of the British Joint Research Council and the DFG, the German state scientific organization, supported the idea of Israeli participation in the 4th Framework. While this was not linked to the Weitzman scientists' actions, most of the scientists concerned were acquainted with each other, and shared their ideas and opinions on this matter. During the negotiations, Edith Cresson, then Commissioner for Science, appointed an Israeli as one of her two scientific advisors. While formally this had nothing whatsoever to do with the Community-Israel negotiations, it is characteristic of the extensive low-level scientific openness that characterized Europe and Israel at this time.

These extensive contacts encouraged DG-XII to explore possibilities of Israeli involvement. After rejecting DG-XII-initiated relationships as untenably bureaucratic, individuals within the directorate general began to explore Israeli membership in the 4th Framework. Concurrently, Israeli scientists lobbied the Israeli Ministries, which initially were concerned about intellectual property rights of joint projects and were also loath to pay the Framework membership fees.

In addition to this direct pressure for R&D cooperation, Israeli interests pursued membership in the 4th Framework thorough national channels, as well. The Israeli Office of the Chief Scientist, acting as the "outsider" identified by Grant (1993), took the lead, requested help in calling for Israeli membership in the 4th Framework from member states with which Israel already had bilateral research agreements, particularly France and the Netherlands. The Office also requested Israeli ambassadors to place this issue high on their political agenda, and the ambassadors to Spain and Portugal were later noted to have been particularly effective in pushing for this (interview with Hemar). In addition, Israel's foreign ministry pushed this issue hard at the ministerial level, eventually receiving

assurances from the German, British and French foreign ministries that they would back Israel's membership (interviews with Ben-Zvi, Hemar).

The above are examples of fairly straightforward lobbying of the Community: both formal and informal. Perhaps the most unique lobbying strategy during these negotiations took place around outward processing traffic (OPT), which would have allowed Israeli manufacturers greater flexibility in outsourcing production (and still exporting goods to the EU under Israeli tariff agreements). OPT, which was not adopted, would have most benefited the Israeli textile industry, which took the lead in lobbying for it: strenuously, by the standards of commercial lobbying of other areas of this agreement. The Commission perception was that this was “*very heavily lobbied*” by Israeli interests on this issue (interview with Di Cara). Israeli company Delta Galil, particularly, pressed the Commission to extend to Israel rules of origin such had been extended to Eastern Europe.

What made OPT unique was that it capitalised on the peace process then going on. OPT would allow Israeli manufacturers to transfer some of the assembly of products to third countries, re-import the now-assembled product into Israel, and then export it as an Israeli product. Such “diagonal” trading arrangements were discussed in the context of the Mediterranean Partnership, as a means of stimulating cross-border trade in the region, but were applied sparingly. The issue gained new urgency after 1994, when Delta Galil became the first Israeli textile company to relocate production to Jordan, and later to Egypt.²

Delta was quick to realise the value to the EU of stressing regional links in manufacturing that OPT would encourage in the Middle East, and lobbied heavily on this issue. Realising their outsider status, Delta did not approach the EU directly, but instead lobbied the Israeli Government to place OPT high on their agenda in the formal negotiations, and also pressed Marks & Spencer, their biggest European customer, to push the issue within Europe. Marks & Spencer did this minimally and to little effect: both at overly “high” levels, for instance the company chairman mentioning the regional benefits of OPT when he met with heads of state; and at overly “low” levels, most notably through the Israel Britain Business Council, where they supported the provision. The

² Although the EU had low textile tariff agreements with both Israel and Egypt, production split between these two countries could still fail to satisfy domestic content requirements for the EU.

company declined to push for it strongly within either the UK or European industry associations through traditional lobbying channels, where their support might have been more effective (interview with Cohen), feeling that their intervention would have had little effect without the support of textile companies in other countries (interview with Ginty).

Most interestingly, Delta and other Israeli companies encouraged Jordan, Egypt, Turkey and Morocco to press OPT within Europe, as well, explicitly in terms of encouraging regional peace and stability:

We (Delta) told people that in allowing this with (Jordan, Egypt and Turkey), we would then promote peace, and this would promote commercial agreements. We always tied it in to the peace dividend; we always linked it (interview with Gilboa).

The MAI took the lead in presenting this to the EU, seeking consensus to be able to speak not only for Israeli industry but from commercial partners in other countries, particularly the Federation of Egyptian Industries, as well.³ Marks and Spencer remained the only European company speaking out for the provision. In the end, OPT was not included in the Association Agreement, although the EU and Israel did reach agreement on broad rules of origin guidelines.⁴ Few Arab countries or industries within them lobbied with Israel for OPT; Egypt and Jordan, which might have had the most to gain from OPT with Israel, did not take active roles in this, possibly because the establishment of the Jordanian-Israeli Irbid Industrial Park and Egyptian-Israeli Gora-Karni Industrial Park (where rules of origin restrictions do not apply) rendered OPT less pressing.

³ Although the MAI strenuously pushed for joint lobbying with their Egyptian counterpart, this was limited, and the MAI was able only to boast the support of the Federation of Egyptian Industries in requesting OPT in MAI-directed lobbying (interview with Nahum).

⁴ It should be noted that lobbying for OPT in Israel was not entirely about the peace process, nor even an attempt to gain the possible advantage available from the EU. Concurrent to the 1993-1995 negotiations with Europe, Israel was conducting negotiations for its first free trade agreement with Hungary, where many individual Israelis had personal connections with Hungarian Jews in the textile industry. Expanded OPT would have allowed Israel to capitalise on these growing links, and establish an early presence in a major industry whose trading conditions indicated that it was poised for a growth in trade with the EU, and which would within a decade be incorporated in the EU fully. And the East European dimension was precisely why the EU was so cautious about expanding OPT; in textiles, especially, the EU fears a precedent of OPT being applied to the much larger German-Czech potential for joint manufacturing.

European Firms Lobbying the Agreement

By most accounts of those intimately connected with the negotiations, European commercial input was limited. Although some Israeli negotiators felt that opposition to some Israeli requests during the negotiations “often come from one (EU) producer, who wants to keep his monopoly” (interview with Chokron, also Hemar), other negotiators characterise the negotiations as not as heavily lobbied as other agreements (interview with Stenma). The use by EU institutions of industrial committees for purposes of dialogue also marginalises small countries such as Israel. To large, pan-European organisations, seeking what Grant (1993) has called the lowest common denominator of position amongst their members, small trading partners such as Israel are, in the words of one European industry association official, “not worth our time” (interview with Arnould). In the textile and processed food industries, particularly, European industry is cohesive in approaching the Commission, and these were two sectors in which the EU-Israel negotiations were especially contentious.⁵

What lobbying took place was primarily limited to the processed food industry, and then only to the months before negotiations concluded in 1995. In the final months of the negotiations, European companies, which had hitherto ignored the EU’s negotiations with Israel, “got to know what was going on” (interview with Spitz) for the first time, as European industry associations adopted this as a lobbying goal. Unlike the interests of the European telecommunications industry in the negotiations on public procurement, for instance, which the Commission actively solicited, the Commission only paid attention to the interests of European processed food interests when industry associations lobbied it (or when the French foreign minister represented Bordeaux); “(i)t depends on how much an (industry) association takes the initiative” (interview with Spitz). Misinformation can also affect industry’s lobbying position and strategy, as happened in processed food with Italian pasta manufacturers, who lobbied against concessions to Israel, but on misinformed lines (interview with Spitz), ultimately weakening their credibility and

⁵ In these areas, the Commission’s strong position also stemmed from the realisation that concessions granted to Israel might form precedents for requests from other Maghreb and Mashrek states.

influence overall. The resultant heavy European lobbying limited the EU's eventual concessions to Israel.

In some instances, European firms were requested to lobby by Israeli firms with which they shared commercial links. When Outward Processing Traffic (OPT) was still on the negotiating agenda, for instance, the Israeli textile firm Nilit requested that one of their smaller customers, a German company, write to the relevant Minister in Germany, requesting support on this issue. There was no wide campaign to support OPT, however: Nilit singled out this customer, because they were known to want to expand German OPT exceptions. Other customers were deemed unsupportive of OPT and were not approached (interview with Rousso).

Even in cases where there was common ownership, the European branches of firms often behaved quite independently from their Israeli operations. The American company Motorola is a case in point: the Brussels lobbying of Motorola Europe refused to lobby aggressively on R&D, instead directing Motorola Israel to lobby independently. According to Motorola's chief European lobbyist, operations were far from sufficiently integrated to allow the company to speak with one voice; even on issues, such as Israeli participation in the 4th Framework, where there were no internal conflicts between different geographic branches of the company, the company's different national offices were not sufficiently cohesive for joint lobbying (interview with de Racourt). Other European or international companies with both Israeli and European branches, or Israeli companies with European partners, subsidiaries or owners, similarly did not use these European links to influence the negotiations (interview with Aharonov).

One uniquely active company is British firm Marks and Spencer, which has a long history of commercial and personal links with Israel (discussed in Chapter Five). During these negotiations, the company supported investment in Israel, and couched its arguments in terms of the economic peace dividend that would flow from the region as multilateral peace talks progressed. Marks and Spencer chairman Sir Richard Greenbury was personally influential in this, although the firm engaged in little technical-level lobbying, and then on the limited issue of OPT (interview with Cohen).⁶ This low-key

⁶ Marks and Spencer, while a highly influential firm overall, generally does not lobby for issues alone, and instead goes through industry associations (interview with Ginty).

position adopted by an overtly pro-Israel European company is typical of the lack of involvement of Jewish or other pro-Israel community lobbies during the negotiations. Labour friends of Israel, for instance, is typical in noting that they undertook nothing more than “a small campaign of informal networking” to create support for a wide association agreement within Britain (interview with Webber). Again, the argument that increased trade would promote and capitalise on regional peace talks was employed.

While European firms were generally not very active in lobbying for provisions in the EU-Israel Association Agreement in Europe, many took steps, as local branches or subsidiaries, or through local importers, to lobby the Israeli Government in order to affect negotiations, primarily to stress the importance of R&D cooperation and OPT. Much of this work took place through industry associations such as the MAI or Israel Exporters’ Institute; indeed, in the 1990s, many Israeli commercial associations (including MAI) and chambers of commerce created new categories of membership to accommodate foreign companies.⁷

Israeli Firms Lobbying in Israel

The competing demands of an increasingly diverse industrial sector, and the Government’s inability to satisfactorily represent all facets of Israeli industry in foreign negotiations, became apparent during the 1993-1995 trade talks. While the protectionist consensus that marked both the Ministry of Trade and Industry and the MAI in the mid-1980s had largely disappeared (although the textile sector remains more protectionist, with the notable exception of the Israeli firm Delta) by the early 1990s, the structure of negotiating responsibility forced Israeli negotiators to adopt an all-or-nothing approach. The wide remit of the EU-Israeli trade talks encouraged broad trade-offs between diverse sectors, and domestic industry responded by pushing hard to gain advantages against other domestic sectors. This was further encouraged by the representative structure of agriculture and industry in Israel’s Government. While a single Agriculture Minister

⁷ Foreign-owned companies can join the Israeli Federation of Chambers of Commerce if they agree to local labour standards; most refuse to do so, and so maintain associated membership status (interview with Snir).

championed broad agricultural interests, more than one ministry represented Israel's larger and more diverse industrial sectors.

This led to unbalanced trade-offs between agricultural and industrial concessions, pitting interests such as sweetcorn producers against scientists pushing for greater R&D, both trying to encourage the Government to stress their particular concerns in the negotiations. The co-ordinator of the Ministry of Industry and Trade's negotiating position regards this type of equation as "harmful" and unfair (interview with Peri), a legacy of Government structure from the days when agriculture enjoyed a greater role in Israel's economy, and so had greater weight than more high-tech sectors. Similarly, both very large companies (interview with Ben-Zvi), the manufacturing sectors represented by the MAI, enjoyed the benefit of historic closeness with the Israeli Government, with their interests naturally adopted by Government negotiators (interviews with Chokron, Peri, Nahum, Peri). The Israeli negotiators' strong identification with domestic industry was noted by European negotiators, who attributed this to Israel's corporatist legacy (interview with Di Cara), rather than to strong commercial lobbying during the negotiations. It might also be seen as natural, given the chief Israeli industrial negotiator's extremely close relationship, throughout the negotiations, with the CEOs of all of Israel's major companies (interview with Shaton).

Although the Ministries of Agriculture and of Trade and Industry were generally receptive to commercial interests during the negotiations, the split in the Israeli negotiating team between Foreign Minister Peres and Trade and Industry Minister Harish (discussed in Chapter Six) limited the sway of otherwise influential Israeli companies. The Israeli wine-making cooperative Carmel was typical of many large companies in noting that although they enjoyed traditionally strong political influence with their relevant ministries, they lacked direct connections with the Foreign Ministry, with whom they had not traditionally had much contact: "We (Carmel) were quite successful in influencing Harish. I believe we had a really good connection there. He understood that we should push the EU to get a better agreement. I believe it was in our interest to push. But Peres was much stronger than Harish", and more difficult to reach (interview with Ben Moshe).

This hints at the unique nature of these negotiations, discussed in Chapters Six and Seven: on one hand, they were real business negotiations, setting tariff levels that would affect exporters for years to come. Yet they were also about something larger: about the

“high political” acceptance of Israel by Europe and even the wider world, which the new Agreement, and particularly unique provisions such as membership in the 4th Framework R&D Programme, signified. Thus the linkage of issues such as OPT with the peace process.

In some cases, this dual nature of the negotiations betrayed a bifurcation in goals within the Israeli private sector. The R&D issue, for example, which emerged as a highly symbolic issue, granting Israel a unique associated status with the EU, was championed by Israeli academics (discussed above and in Chapter Six), and by some Israeli negotiators as good for Israeli companies (interviews with Ben-Zvi, Peri). However, Israeli companies were cool to the idea. Whether because Israeli industry already enjoyed significant bilateral research programs (interview with Ben-Assa), or links with foreign companies that participated in the 4th Framework Programme (interview with Friedberg), or feared sharing R&D with European competitors (interview with Buchalter), the demands of many Israeli companies fell far short of the Government’s eventual negotiating goal.

Instead, the largest Israeli companies pushed for a broad goal of liberalisation in both the negotiations with the EU and also in concurrent free trade negotiations with Canada and other regions. The Federation of Israeli Chambers of Commerce, for instance, conducted a public campaign during this period to educate Israelis about the need for liberalisation (interview with Snir). Even the traditionally more protectionist MAI became significantly less so under the leadership of Dov Lautman. Other large companies and cooperatives adopted liberalisation as their goal during this period (interview with Ben Moshe). Many saw Israel’s own liberalisation as their primary goal; although a few companies, primarily textile and processed food companies and those concerned with public procurement, followed the negotiations with the EU closely, most of the impetus to open Israeli markets during this period was part of a wider move to openness and internationalism brought about by new prosperity and excitement about economic expansion in a newly peaceful and internationalist Middle East.

Public Procurement

Concurrently with the EU-Israel Association Agreement, negotiators worked on a separate agreement on public procurement. The Commission, in proposing the Public Procurement Agreement for a Council decision, links the Agreement to the Community's regional approach to the Middle East. The Commission emphasises the "concrete contribution to the region's economic development and political stabilisation" afforded by the Agreement, as well as mentioning bilateral EU-Israeli political and economic relations, commercial benefits accrued to European suppliers, and future Israeli participation in GATT's basic telecommunications services negotiations (COM(96)148 final). This is not borne out, however, by the DGI-Public Procurement *administrateur* who negotiated the agreement, who felt there was "not really" any political content to the negotiations. The Commission felt some general pressure by Israel to conclude the agreement before the Israeli elections of 1995, and observed that after the elections, Israeli negotiators were notably more relaxed. Otherwise, however, the agreement was "too technical, too specialised" and too minor - "it was just a small piece in the overall (trade negotiation) process" - to have political content (interview with Stenma).

The Agreement was crucial within the context of the overall agreement, however; Commission negotiators saw telecommunications as their "only bargaining chip" with which to push Israel to open other protectionist areas. The EU, with one of the most liberal procurement systems, is eager for other countries to similarly liberalise; a negotiator explained that "with the SEA, the EU is on the offensive" in this area (interview with Stenma).

Israel's main exemption to opening public procurement is urban buses. The EU, strong in this industry, produces approximately 90% of city buses used in Israel. Israeli negotiators pointed out that the EU thus gained nothing in opening this sector to public procurement, and might actually lose as American companies became more able to enter the market. Internally, the Israeli position stemmed from the Ministry of Defense (which insisted on maintaining bus assembly capabilities in Israel for strategic reasons) and from protectionist feelings in the Ministry of Transport. This Ministry has been strong enough within Israel to maintain a policy that two-car households must purchase one vehicle domestically, and was able to influence the Ministry of Trade and Industry to prevent

liberalisation in public sectors, as well (interview with Peri). The Egged and Dan monopolies, which run public buses in Jerusalem and the rest of the country respectively, are able to maintain unusual social policies within Israel, such as high pay and the insistence that they remain the last bastions of male-only employment. This power in turn indicates a high profile within the Ministry of Transport. Commission negotiators received no member state pressure to push on this issue, and acquiesced to the Israeli exemption.

On the issue of medical bandages, which Israel had successfully exempted from the GPA, however, the Commission received strong pressure from Portugal, which has an industry in this area, through the 113 Committee. Though the Israeli Ministry of Industry and Trade received similar pressure from the Manufacturers' Association, which is perceived in the industry as being "dominated" by protectionist textile interests (interview with Rousso), this exemption went to the EU in negotiations.

In telecommunications, continuous industry input, with no traceable trail of formal pressure, affected the Commission's negotiating stance. This input was intensely personal, and in the absence of major issues affecting various sectors, negotiators' personal ties with specific industries alone seems to determine the Commission's permeability to it. The Community's prime negotiator for the dual public procurement agreements, for example, notes that his personal work history in telecommunications made him more willing to consult with European industry on telecommunications issues.

In telecommunications, I knew the industry well. There are only a few main companies in Europe, and I would just phone them up and ask them what they wanted. In other industries, textiles for example, I have no clue (what the companies' general positions are). In general, the lobbying was not very intensive. It never is (with Israel) (interview with Stenma)

The telecommunications procurement negotiations were "quite competitive" (interview with Stenma). Covering purchasing equipment for network operators, interested European companies called for non-discrimination. A Commission official, however, active in these negotiations, noted that European industry did not lobby over the telecommunications agreement not because it was not consulted, but because it "is weak;

they don't have their act together".⁸ Although Alcatel nearly killed the EU's telecommunications procurement agreement with the USA some years earlier, and other French companies had been active in lobbying the Commission, this *fonctionnaire* noted that more could have been done to push the Commission to be more aggressive in this area. Yet another *fonctionnaire* emphasised the interests of industry in affecting their respective government negotiators, drawing a distinction between high political rhetoric and the real work done by technical negotiators, who were more aware of and in closer and more specific communication with industry. Speaking in almost neofunctionalist terms, he noted that "This issue was a good example of good communications between industry and government; behind it were real interests.. The Peres Government wanted to conclude (the negotiations) as quickly as possible, but industry minded. (The negotiation) was a long process. The first period was monopolised by foreign affairs, but industry (negotiators within the Commission and Israeli Government) in eight months (of negotiations) was more efficient at negotiating" (interview with Di Cara).

This was reflected in the Commission's perception that the Israeli telecommunications industry had little influence on, or was in agreement with the position of the Israeli negotiators. Bezek, particularly, was seen as "strong" in influencing the public procurement issue (interview with Di Cara). Israel's Diplomatic representative in Brussels indicated he represented all Israeli industrial concerns equally (interview with Shaton). Israeli telecommunications companies, mindful of technical differences and convinced of European protectionism in public procurement despite challenge mechanisms, did not press on many issues.

When Israeli negotiators required dialogue with domestic companies, it was done directly with the Ministry of Industry and Trade, and not as part of associations such as the MAI or the Israeli Electronics Association (interviews with Bernstein, Ben-Assa, Koritshoner, Friedberg, Fishler). Telrad Telecommunications and Electronic Industries Ltd., for instance, were solicited for opinions by the Department of Industry and Trade, and later kept informed of the pace of negotiations, at the ministerial level, between 1992 and 1996. Yet, despite also having warm relations with the Foreign Ministry and Ministry of Defense (a client), and despite having a history of joint political action on domestic

⁸ Official (listed in bibliography) requested this to be off-record.

regulation issues with Tadiran (disputed by Tadiran), Telrad felt “didn’t think (it) could influence it (the negotiations)” (interview with Friedberg). Germany is perceived as being unfairly dominated by Siemens, and France is considered even more unfairly dominated by Alcatel; Telrad would not even consider moving into that market in private or public sectors (interviews with Ben-Assa, Koritshoner, Friedberg). This is in stark contrast to Telrad’s activities during negotiations for the later Israel-Canada Free Trade Agreement, where it lobbied strongly both in Israel and Canada, though on domestic content, not public procurement issues. A somewhat different version is presented by Tadiran, which considers cooperation with European firms such as DSC, the European part of IBM, Alcatel and others possible. Yet here too, NTBs are considered difficult to penetrate, particularly Article 36 of the UPA. As the Tadiran CFO explained:

If we want to go into France or Germany, we have to get approval to sell. It takes lots of time and lots of money. (For example,) PABX is a private switch within France. We didn’t try (to compete to supply it) even; we heard it was so difficult. That was about five years ago. In Germany and Italy, in the end, after one or two years, we got approval (by making technical corrections mandated by the Commission). But we got the impression that these (technical changes) were not real obstacles (interview with Fishler).

This perception that real liberalisation of public procurement in telecommunications is impossible in a European Community dominated by national champions seems to have prevented Israeli domestic industry from engaging in the multi-level negotiating process.

Conclusions

In the three categories of Hocking and Smith put forth at the beginning of this chapter, of (American) companies being engaged in Europe as traders concerned with tariffs, as insiders concerned with how Community policies affect them, and as internationalists, virtually all Israeli companies behaved as traders. Beyond tariff levels and rules of origin, few issues engaged Israeli industry: public procurement, OPT, R&D, and other side issues not included in the agreement such as patent law and standards recognition. European firms barely engaged in lobbying, besides a very few specific

issues, such as protecting domestic sweetcorn. Even when European commercial interests did affect Community-Israel negotiations directly, it was usually as part of a wider campaign or dialogue, and not aimed at this Association Agreement specifically. Israel either fell below the radar screen of most European companies, or else European industry was concerned that precedents should not be set for other negotiations.

Given that the Agreement was of much greater importance to Israeli companies than to their European competitors (just as trade with Europe is much more important to Israel than vice versa), it is perhaps surprising that more was not done to influence the agreement creatively within Europe. Certainly, the success of some Israelis in influencing the Agreement, most notably scientists from Israel's Weitzman Institute, indicates that creative influence was possible. Unlike the scientists, few companies sought to influence the Commission directly through direct lobbying; most left this to the MAI, or more often to their Government negotiators, instead. The presence of representatives from the flower industry on the Israelis' agriculture negotiating team, the formal exchange of information in the telecoms and processed foods sectors, and a generally close relationship between Israeli Government officials and industry sufficed for most Israeli companies' lobbying of the agreement. Although the Israeli Government itself was lobbied heavily during this period, few new initiatives were taken. Moreover, the linked nature of the negotiations, and the gulf between the Israeli Foreign and Trade Ministers, weakened much Israeli representation on the negotiations.

Few Israeli companies also attempted to exploit European connections. There were some attempts to persuade European importers or customers to press their governments for particular issues (mainly in textiles and processed foods), but these were few. Instead, the absence of more joint influence on the 1993-1995 negotiations indicates a lack of central decision-making in most European-Israeli initiatives. Even within the same company, such the American company Motorola, or in cases where European firms owned Israeli companies, such as Nortel and Telrad, European offices rarely liaised with Israeli headquarters to coordinate political positions. This speaks of fragmented relationships, characteristic of many international alliances, but all the more so given that many European-Israeli business partnerships were new in the 1990s, having recently been created in the new openness that characterised Israel's economy then.

Finally, it is notable that European firms had some of their strongest influence on the Association Agreement negotiations through reputation more than actual action, as Israeli companies declined to press their Government to address NTBs. This lack of engagement, coupled with an absence of experience or even of sophisticated understanding of the Community's workings and institutions, indicates a relatively young and immature relationship between Israeli companies and the EU. It is likely that this will change, however, as Israeli companies become engaged with Europe, expand, and become overall more global. In the next round of EU-Israeli negotiations, if a new agreement ever replaces the current one, it is therefore quite possible that Israeli companies would act more as the internationalists of Hocking and Smith's discussion. The almost total lack of engagement of European firms during the negotiations, however, indicates that the reverse is less likely to occur: as greater European-Israeli links grow, Israeli firms are much more likely to become concerned with their market access and treatment within the Community than vice versa.

Chapter Nine

Conclusion

Using Trade Policy to Achieve Foreign Policy Goals

The European Commission's Relative Autonomy in Shaping Trade Policy

The Role of Member-States in Commission-Driven Negotiations

Decision-Making in a Bureaucratic System

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Chapter Nine

Conclusion

In examining the negotiations between the EU and Israel that led to the 1995 EU-Israel Association Agreement, this thesis has explored the question of how far the EU can use trade policy as a vehicle for foreign policy. It questions the autonomy of the Commission in negotiating trade agreements, and investigates its behaviour and motivations. This thesis broadly finds that there are too many conflicting interests at stake on both sides to enable a Community of governments to use trade negotiations to convey political objectives.

As with all political relations, the context discussed in this thesis is particular and unique. Therefore, as well as investigating the EU's will and ability to achieve foreign policy goals through commercial agreements, this thesis also explores the evolution of the relations between the EU and Israel. In addition to contributing general insights into EU constraints and behaviour when "high" political goals are pursued through "low" means, this thesis also illuminates the state of EU-Israeli relations, historically, and in the context of other Euro-Mediterranean partnerships. In this context, this thesis also investigates the economic, political and foreign-policy changes that shaped Israel in the 1980s and 1990s, concluding that these rendered Israel a more economically diverse and liberalised, internationalist country, and allowing it to participate in the negotiations of 1992-1995.

Using Trade Policy to Achieve Foreign Policy Goals

Recognising the relative autonomy of the European Community in matters of trade policy, as opposed to other forms of foreign policy, in the 1960s the Hallstein Commission sought to deliberately increase the Community's stature using its commercial powers. Since that time, the Commission, in its ability to negotiate foreign trade agreements, has remained the Community's most independent and effective institution, behaving with relatively autonomy once it receives a mandate for negotiation from the Council of Ministers. This thesis discusses the myriad of influences on the Commission from national, commercial and social sources, as well as the strong direction the Commission receives from the Council of Ministers, particularly the

Presidency. Yet the fact that the Commission remains the Community's sole negotiator, and is not significantly constrained by level-two ratification (discussed in Chapters Four, Six and Seven, and below), ensures that, once a mandate has been received to create a new trade agreement, the Commission is able to be relatively independent in negotiating and concluding foreign agreements.

Given this autonomy, the Community has at times sought to achieve foreign political goals (which would require a degree of consensus that is difficult to achieve in other areas of EU policy-making) via commercial agreements. The Euro-Mediterranean Association Agreements, of which the EU-Israel Association Agreement is one, provide examples of the Community enriching commercial agreements with "high" political elements. As discussed in Chapter Three, they contain provisions for political and cultural cooperation and, in the case of Israel, contain provisions for the suspension of trade should the EU, presumably through unacceptable behaviour towards Arabs or Palestinians, give the EU "moral" reason to wish to override negotiated free trade.

Yet a central point of this thesis is that the very opening of negotiations with Israel was a political act. The Council of Ministers was fairly explicit (from the point of the view of the Commission) in extending the offer of a new trade agreement in order to encourage the Arab-Israeli peace process (taking place multilaterally, which the Community had always sought and Israel had previously rejected), to reward Rabin's Labour Government, and possibly even to ensure that the EU would continue as a major player in the peace talks overall.¹ Moreover, as Commission negotiators in DG-IA report, not only was the *mandate* of trade negotiations linked to encouraging Israel in pursuing Arab-Israeli peace talks, but the *course* of some of the negotiations too was linked to this goal. Rather than reporting specific pressures from the Council of Ministers to grant Israel trade concessions in order to encourage its resolve in pursuing peace, some Commission negotiators report a general atmosphere of concession, of "not... be(ing) able to say no to anything" (Chapter Six), throughout the negotiations. An additional element making these trade negotiations a vehicle for high-political goals, as well as the hard-fought "low" trade issues that occupied negotiators through most of the talks, was DG-I's consultation the Council of Ministers through the more political

¹ Commission negotiators do explicitly reject the notion that the EU consciously traded the 1995 EU-Israel Association Agreement for a gavel-holding position in the multilateral peace talks, however.

(though weak) Maghreb-Mashrek Committee instead of the more industry-focused 113 committees.

Much stronger was the influence of the Council of Ministers on the Commission, particularly DG-IA, through the use of various Presidencies (especially the Spanish, who had a great vested interest in developing the Community's NMP, the French, and the Germans, who wished to conclude Euro-Mediterranean Partnership Agreements during its 1995 Presidency in part to deflect criticism that Germany was preoccupied solely with Eastern Europe as a foreign policy arena). The resulting EU-Israel Association Agreement was largely shaped, and largely enabled to conclude in 1995 (before Netanyahu's administration brought the end of window of opportunity afforded by various Israeli Labour governments, discussed further below), because the member states holding the Presidency in the latter half of 1994 and in 1995 acted against their own national commercial interests to help move the negotiations along. This provides strong evidence of the EU's ability to consciously shape hard-fought commercial negotiations to encourage separate political goals.

In these ways, trade policy was an effective means of furthering some of the Community's limited, clear, and uncontroversial foreign policy goals (viz. encouraging the peace process). In other ways, however, trade policy was a *poor* substitute for foreign policy: particularly as France and Belgium's refusal to ratify the Agreement on political grounds in the face of the break-down of the Oslo peace process until June 2000 had little effect on the Agreement, which for most purposes was governed by an interim agreement from 1995-2000. In fact, the only provisions that were held up by member-states' non-ratification were those arrangements for political dialogue that arguably might have lent the EU greater political influence with Israel and possibly helped it to advocate its political goals in that context.

The European Commission's Relative Autonomy in Shaping Trade Policy

Even though the Community recognises trade policy as one of its most autonomous competences, in these negotiations the Commission, particularly DG-IA, was constrained by its culture of closeness with the Council of Ministers. This showed a division within the Commission: whilst negotiators in DG-IA felt a political component (wanting to be "generous" in order to encourage the concurrent peace talks) in the course

of ordinary, daily negotiations with Israeli officials, officials in other DGs did not report feeling this political component at all. This congruence with the goals of the Council of Ministers did not arise from formal consultation, but rather seemed to be the result of a degree of politicisation within parts of the Commission, and an awareness of the Commission's potential role in affecting foreign policy through trade policy.

The Commission was also constrained by its need to gain consensus amongst the member-states, again represented by the Council of Ministers, to conclude agreements. In the absence of a credible ratification procedure in the face an interim agreement with the Community, the consensus required in order to conclude agreements emerges as a stand-in for ratification constraints in the course of negotiations. In theory, the threat of non-ratification by member-states does present a significant widening of the EU's win-set. Despite the existence of interim agreements, which weaken threats of non-ratification, Commission negotiators are still keenly aware of states' commercial (and political) positions, and eagerly pursue consensus throughout commercial negotiations. In the case examined in this thesis, the strongly consensus-driven character of EU negotiations seemed to reflect more a desire to successfully conclude the agreement than to ensure future member-state ratification. Final approval by the by the Council of Ministers thus becomes a ratification constraint on Commission negotiators much more than eventual member-state ratification.

Israeli negotiators recognised, for example, that all member-states had to agree to conclude the Association Agreement in 1995, and that nationally-based commercial concerns (for instance disputes over sweetcorn) could hold up the Agreement at this point, even if later nationally-based ratification was overridden by an interim agreement. This need for the Commission to gain consensus thus emerged as the Community's primary constraint in the negotiations. Whilst the Commission was helped by the later Presidencies, which worked to moderate some national demands (especially domestic demands) in order to facilitate conclusion, the need to balance competing national interests to produce a viable agreement rendered the Commission much less autonomous than it appears to be in the abstract. In the course of some parts of the EU-Israel negotiations, the Commission functioned relatively autonomously and a-politically, as experts on various commercial issues negotiated with Israeli officials. In other areas, the Commission functioned as a much more political entity, seeking to balance competing national desires and commercial goals. The drive to conclude the agreement relatively

rapidly, too, was a political one: based on “high” political fears that a conservative Israeli Government would replace Sharon’s, rather than on commercial concerns.

Compared with some other Community institutions, however, the Commission acted autonomously to a high degree. This period saw evidence of a decline of some minor EU institutions that formally have consultative roles with the Commission, such as the ESC, whose influence was negligible in the context of the negotiations examined in this thesis. The Maghreb-Mashrek Committee, too, was weak in this context. The EP, although gaining new powers during this period, had little formal role, and almost no interest in, the EU-Israel negotiations. Even the EP’s past limited halting of the 1987 Fourth Financial Protocol to the 1975 EC-Israel FTA had almost no effect on the course of Community-Israel trade, and any potential threat of similar future actions should political differences re-emerge between the Community and Israel, seems not to have affected the Commission’s thinking in the course of the negotiations at all.

The Role of Member-States in Commission-Driven Negotiations

Most obviously, member-states constrain Commission win-sets and function as final arbiters of Community trade agreements through their role as ratifiers of these agreements. However, the Community’s use of interim agreements, which allow near-total implementation of trade agreements before ratification, removes this role from member-states, greatly decreasing their power over the Commission. Member-states can be said to hold more influence over Association Agreements than other types of commercial agreements because their ratification or non-ratification does hold up the political elements of Association Agreements. However, in the case study presented in this thesis, this threat of non-ratification was not found to be significant to negotiators crafting the Agreement. Both Commission and Israeli negotiators seemed to regard eventual member-state ratification as ensured, and neither side was concerned with the length of time it might take. The position of the Israeli official who, during France’s and Belgium’s refusal to ratify the agreement, explained the delay as characteristic bureaucratic behaviour of the Community (Chapter Four) seems to have been typical of most people involved in negotiations.

Yet member states do have enormous influence on the Commission’s negotiation of Association Agreements, both through the Council of Ministers and directly. The

consensual nature of Community negotiating ensures that member-states' interests – primarily commercial interests – are represented throughout the negotiations. Additionally, the myriad of opportunities for commercial input and influence in the Commission and essentially pro-business attitude of the EU ensure the Commission will be open to these often nationally-based positions (though the Commission does prefer to work with pan-European representation, in part for that reason). In the EU-Israel Association Agreement negotiations, no member-state adopted an overt “high” political goal for the negotiations (other than encouraging broad concessions to Israel and, on the part of France and Germany, pushing to conclude the negotiations in 1994 or 1995). Member-states did, however, sometimes emerged as champions of domestic industry, using their influence and tacit threat of non-approval at the Council of Ministers level to shape the negotiations. Such actions make the more “communal” behaviour of member-states when occupying the Presidency more startling. This thesis documents the markedly different attitude and goals of member-states (particularly Spain, France and Germany) when President, as they worked against their own national commercial interests in some cases in the cause of wider Community goals.

During the EU-Israel negotiations, some member-states also adopted specific issues, such as France's support of Israeli membership in the 4th Framework Programme, or its opposition to concessions on sweetcorn. When the issues adopted are non-controversial, member-states can have a great deal of influence. The championing of particular regional commercial interests is often effective, except when concessions on these issues are traded in Putnam's “synergistic linkages” or side-payments. The adoption of more complex issues, such as the 4th Framework membership, are more difficult; yet, even here, French officials' support for this helped Israeli negotiators a great deal of support in requesting this concession. When member-states are seen as “allies” of a negotiating partner, as Israeli negotiators saw France on scientific matters, or Germany in general during the final months of negotiations, for example, they can be targeted for intensive lobbying for even greater intervention. The Israeli negotiators pursued the use of “allies” in this way, requesting general support for broad concessions and favourable side-payments. Israeli negotiators particularly targeted “ally” countries during their Presidencies, when they were more likely to push to grant Israel greater concessions and were more open to Israel's two-pronged negotiating strategy (discussed in Chapter Six) of treating issues as a-politically as possible at the Commission level,

whilst simultaneously linking progress made in the trade negotiations to European encouragement of the peace process, in other forums.

Decision-Making in a Bureaucratic System

During the negotiations, the Commission was able to present a more technical, a-political, and consequently consistent face to Israeli negotiators. Despite the fact that this thesis argues the EU-Israel Association Agreement was negotiated during a brief “window” of particularly warm feeling towards Israel concurrent with the Oslo peace process, relations between Israel and the Governments of various member states vacillated greatly during this time (discussed in Chapter Three and Seven). Issues related to the Israeli-Palestinian conflict continued to create diplomatic tensions between individual member states and Israel throughout the 1992-1995 period, even as the overall position of the European Union was one of broad encouragement and reward of Israel as it participated in multilateral peace talks. Israel’s expulsion of *Hamas* and Islamic Jihad activists in 1992 and the intractable issue of PLO representation in Orient House in Jerusalem, especially, created often-bitter diplomatic rows between Israel and individual member states in this period. Even Governments that in the context of the negotiations were considered “allies” by Israel, particularly France and Germany, clashed with Israel over these and other “high” political issues during the negotiating period.

Yet throughout, the relations between Israeli and EU negotiators – and Israeli and member-state officials in the context of the Commission-led negotiations – remained largely consistent and technical. The use of trade agreements to further high political goals such as encouraging Israel’s participation in the peace process can thus be seen either as more effective, in maintaining consistency in the face of vacillating diplomatic rhetoric, or as too blunt, in allowing the negotiations to go on and conclude even in the face of negative political developments. For relations between the Community and Israel during this period were not even, and though the broad encouragement offered by the renegotiating of the 1975 FTA was the overriding message the EU sent to Israel between 1992 and 1995, it was not the only one.

The complex behaviour both of the EU and of some member states, in simultaneously censuring Israel and working to grant it additional concessions in the trade negotiations, reflects the intricacy of any trade negotiations, in which innumerable

commercial and social issues arouse conflicting goals and responses. Thus, for example, when Alain Juppé visited Israel (representing the Community) in 1995 and called for Israeli observer status in the 4th Framework Programme, and then went on to assert the EU's solidarity with Orient House and to refuse EU support for Israeli membership in the "Western European and Others" UN bloc (both important diplomatic issues for Israel), he embodied the complexity of the EU's relations with Israel, and reflected the limited nature of the trade negotiations within the wider web of EU-Israeli diplomatic issues.

The negotiations reflected this duality. The Council of Ministers offered Israel the trade negotiations for fairly clearly political reasons, and DG-IA reported identification with the Council of Ministers' feelings of generosity and encouragement of Israel throughout the negotiations, for this reason. This feeling within the Commission represents a major departure from the Commission's otherwise technical, a-political character. Yet the Commission's day-to-day behaviour in the negotiations was primarily marked not by this feeling of (commercially) "irrational" generosity, but by a close identification with commercial concerns, as each technical issue was hard-fought by Community experts. This was aided by established, structural access of commercial organisations to the Commission, the existence of 113 Committees (used only in some sectors, and more by DG-III than DG-IA), by the close identification of many Government officials with national industrial concerns, and by broadly pro-(European) business attitudes within the EU as a whole. Member-states, too, reflected a duality towards Israel during these negotiations, as has been noted. Most identified strongly with domestic commercial concerns, and backed their domestic producers. Yet they also, particularly when acting as President, harboured broadly pan-European goals of encouraging the peace process and creating a Euro-Mediterranean Partnership Programme, which often contradicted their support for domestic commercial concerns.

In fact, the Community negotiated the 1995 EU-Israel Association Agreement generally "rationally" from a commercial stand-point: fighting to maintain market dominance for European industry and to widen market access within Israel. The Israeli business community obviously had greater stakes in the negotiations than the Community's, and as a Euro-Mediterranean Association Agreement, it was understood that Israel would lower its tariffs more slowly than the EU (though faster than other Euro-Mediterranean partners). The disproportional effect of this Agreement in Israel

accounts for the much higher degree of interest and lobbying displayed in Israel than within the EU. Yet, in the day-to-day negotiations, the Community conformed to expectations of a “rational” negotiator.

This thesis examines the negotiating strategy in light of Putnam’s three level-one negotiating strategies. One of these predicts that negotiators try to enhance the level-one prestige of their opposite number. This can be detected slightly in the EU-Israel negotiations in the Community’s consistently high regard for Yitzhak Rabin and Shimon Peres and the Community’s funding of left-wing Israeli political movements, although not in the way Putnam envisioned. The EU did not try to widen Peres’ win-set by making him more popular in Israel; this would have been clumsy and impractical, and the Nobel Prize Peres had won anyway made him highly prestigious in Europe (if not commensurately prestigious in Israel). Putnam also describes negotiators offering strategic “synergistic” linkages and coalitions at the domestic level of one’s opponent in order to increase the size of his win-set. The use of side payments was extensively used throughout the bargaining, as commercial and scientific issues were traded and linked. Although the political background of the peace process informed the commercial negotiations, these did *not* enter the bargaining as “synergistic linkages”. Finally, Putnam notes that negotiators seek to convince their opposites that the agreement they are able to deliver is “kinky”: the agreement on the level-one table is at the very outer limits of acceptability at level-two. This was seen throughout the negotiations, as various commercial issues were hard fought. It was obvious to both sides that some issues were non-negotiable; many others were negotiated fiercely.

Israel’s Transformation in the early 1990s

These attempts to distinguish between “rational” negotiating behaviour, in which commercial concerns, not high political goals, inform Community actions, and “irrational” behaviour, in which non-commercial concerns affect Community negotiators, presuppose that liberalising trade with Israel is in the Community’s commercial interests at all. While a case can be made for the Community benefiting from enhanced trade with Israel in the 1990s and beyond, this was not always a given. The transformation of Israel during the 1980s and particularly the early 1990s was profound, as both Israel’s political system and economy went through a series of upsets,

ultimately resulting in a much more liberalised, less state-owned and controlled, economy and a more diverse political system. At the same time, the influx of a highly-educated work force from the former Soviet Union both enriched and transformed Israel's work-place and society. By the 1990s, Israel's economy had liberalised sufficiently and showed enough promise that there were real economic incentives for the EU to pursue enhanced trade with it. Moreover, the traditional nature of most EU-Israeli trade, and the growing trade surplus the EU enjoyed with Israel, lent urgency to this course.

In promising real economic benefit to the Community (and in providing it a "rational" set of behaviour, from which its use of the negotiations as an incentive to participate in multilateral peace talks departed), Israel's Association Agreement was unusual. The asymmetrical nature of most Association Agreements (certainly the Euro-Mediterranean Association Agreements) betrays their fundamentally political nature. The EU extends unreciprocated concessions to poorer, usually neighbouring, countries, for a variety of reasons: to anchor them in stable regional associations, to help them to modernise economically, to allow them to export their goods to Europe without necessarily demanding similar market access in return. Theoretically, locking in delayed market access (as most Association Agreements demand that the non-European partner lower tariffs and other market barriers, but much slower than the EU) should benefit the Community in the future, when their trading partners' economies have matured. Yet this is not always a realistic expectation, particularly for poorer trading partners. However, in the case of Israel during the Association Agreement negotiations, the promise of future enhanced trade with Israel was a real commercial incentive to renegotiating its trade status, according to Commission negotiators.

This is significant because it speaks to a wider transformation within Israel during the period examined in this thesis, as Israel became a much more modern, prosperous, internationalist nation. Israel in the 1990s enjoyed a real peace dividend, as most boycotts against it lapsed and its economy liberalised and diversified. Especially in science, there began to be a more real incentive to cooperate with Israel. This lent Israel greater confidence to pursue ambitious political goals, such as initiating greater diplomatic recognition and new trade agreements. It is an interesting anomaly that Community trade with Israel remained primarily low-tech, even as Israel's economy experienced a profound shift, and Israel's trade with the US and Japan became markedly

more high-tech. The new Association Agreement held out a promise to change this: altering the nature of EU-Israeli trade, and especially, narrowing the Community's trade surplus with Israel, emerged as important sub-themes to the negotiations.

These changes also highlighted the duality of Israel, and the Community's view of Israel: at times both "Middle Eastern" and "Mediterranean", and with strong and controversial ties to Europe historically, Israel has defied easy diplomatic or economic characterisation. The Community viewed Israel as a problematic, Middle Eastern country, for instance, in extending the offer of a new Agreement as an incentive for participating in peace talks. The framework for that Agreement by the end of the negotiations was the Euro-Mediterranean Partnership. Yet, as is discussed in Chapter Four, the EU-Israel Association Agreement is unique within that context. Instead, the resulting Association Agreement reflects the uniqueness of Israel's relations with the Community. During the negotiations, Israeli negotiators sought to stress links with Iceland and Switzerland, which they invoked as precedents of countries that economically and culturally were close to "Europe" gaining special status from the EU. Israeli negotiators had even thought of requesting EEA status from the Community. While the EU-Israel Association Agreement is far from containing all the provisions of the EEA, it is unusual amongst other Euro-Mediterranean Association Agreements, in calling for closer relations and in imposing greater burdens of market liberalisation and tariff reductions on Israel. The negotiations also highlighted the disassociation between Israel and its neighbouring countries, and the limits of Israel's abilities to interact with its neighbours, as attempts to elicit Egyptian and Jordanian joint lobbying in OPT issues within the Community failed to get off the ground. Israel has always been anomalous in its region; these negotiations provided yet more evidence of Israeli exceptionalism within the Mediterranean and Middle East.

Within Israel, the 1980s and 1990s also saw the emergence of some new attitudes towards European countries. In part, Israel became very internationalist in general in the 1990s, as Israelis enjoyed wide-spread diplomatic recognition for the first time in the country's history, and as unprecedented wealth as Israel's per capita income for the first time exceeded \$17,000 made travel and leisure activities (often reflecting an international sophistication or sensibility) more acceptable and wide-spread. It also reflected an intensive effort since the 1980s to gain wider European diplomatic recognition. Nevertheless, despite Israelis' historic associations with Europe, and the

new diplomatic relations between European member-states and Israel in the 1980s and 1990s, Israeli attitudes towards “Europe” as a whole remained somewhat equivocal.

Domestically, this period saw a transformation of Israeli party politics, which impacted the course of the negotiations with the EU. There was an emergence in Israel, for the first time, of an identification of business with one political party: Labour, which was increasingly seen as the party that could guarantee the “peace dividend” with its continuing enthusiasm for the multilateral peace talks. There were also divisions within Israel’s Labour Government over how much to emphasise the peace dividend and how to capitalise on the historic nature of Israel’s new economic and political relations. Israel’s negotiating position with the EU was most obviously hampered by deep splits between Shimon Peres’ Foreign Ministry and Micha Harish’s Ministry of Industry and Trade over the ultimate purpose of the negotiations (commercial vs. political) and over when to conclude.

According to Putnam’s conception, such divisions would widen Israel’s win-set, weakening it. This seems not to have been the case, however, primarily because of the overwhelmingly technical nature of the negotiations, and also because of the a-political behaviour of the Israeli negotiators, who were generally able to mask inter-ministerial rivalries when working with the Commission. A final insight gained by these negotiations is the efficacy of a strong diplomatic force in negotiating with the EU. Israel’s negotiators were highly skilled, with close coordination between Brussels and European capitals, a separate network of information-sharing between Israeli embassies in southern European capitals, and generally close relations between Jerusalem and Brussels (though not always between Jerusalem and other European capitals). The negotiations also illustrate the worth of the (long-held) Israeli strategy of insisting on a strict separation between trade and political matters within the Commission, all the while using officials in individual capitals to push the linkage of commercial negotiations with the overall peace process. In this way, by stressing Peres’ vision of the peace process and using his prestige as a level-one negotiator, Israeli officials were able to capitalise on different strengths and emphases within Israeli ministries, while they relied on a negotiating cadre with technical expertise at the Commission level. The split nature of the Community itself, with the Commission much more focused on technical matters and the Council of Ministers more focused on high political matters, accommodated this

strategy and helped to minimise the negative effects of splits within the Israeli Government over how to conduct the trade negotiations.

The EU and Israeli Particularity

Israel has long held a distinctive place in the Community and its member-states. The history of European-Jewish relations, the high profile within the Community of the Arab-Israeli conflicts, and the anomalous position of Israel in its geographical setting, neither fully Middle Eastern nor Mediterranean, has led to widely varying foreign policies in member-states and the Community itself. One unusual aspect of Israeli particularity within the Community has been its role in EPC. Whilst issues related to Eastern Europe primarily shaped EPC, Israel occupied a high-profile place in galvanising and coordinating Community attitudes within EPC. Member-states have traditionally held widely different attitudes towards Arab-Israeli and Israeli-Palestinian issues, and EPC allowed member states to moderate their disparate political positions, largely in line with France's, on these issues. Such actions in turn helped European Political Cooperation to develop, as the Arab-Israeli conflicts spurred movement on foreign policy positions amongst the member-states. When the Arab League singled out the Netherlands for possible sanction because of their support for Israel in the 1973 "*Yom Kippur*" War, the process of using EPC to forge a common European position on Israel was accelerated. Dutch membership in the Community also allowed the Netherlands to overcome practical problems arising from this, while EPC allowed the Netherlands to easily shift their political position to one more in line with the rest of the Community.

Another distinctive aspect of Community-Israel relations has been the high political profile the Arab-Israeli conflicts have occupied within coordinated Community action. While the Community since the 1980s has attempted to use commercial incentives to achieve political aims, Israel's prominent position within its foreign policy concerns has meant that various Community institutions were able to use political censure – through official statements, for instance, or through the EP's 1988 partial commercial boycotts – as well as more traditional (and blunt) commercial incentives. The results, however, have been mixed: the EU has enjoyed some real influence, particularly in encouraging Palestinian aspirations to statehood through its rhetoric and limited financial aid; yet it resulted in an alienation of Israel, to some extent, summed up

in the words of the Israeli negotiator in Chapter Two who characterised the EU-Israel relationship as one of “trauma”. This negative influence rarely relied on concrete actions (the EP’s non-ratification of the financial protocols excepted), and can be described as the sort of attempted “moral suasion” described in this thesis’ introduction. While this “suasion” was often received negatively by many Israelis (though the rhetorical and financial support offered by the Community to left-wing Israeli groups did strengthen them), the shift in European attitudes in the 1990s, when Israel received some encouragement and positive rhetoric, added to Israeli enthusiasm for the peace process, and the feeling that Israel was enjoying a new “peace dividend” of greater international trade and also good-will.

Another way in which the case of Israel is distinctive in the EU’s foreign policy-making is the awkward way that Israel fits into the NMP and into the Euro-Mediterranean Partnership Programme, the category to which its Association Agreement belongs. Some of the Community’s (particularly Spain’s) primary concerns in calling for New Mediterranean Policy in the early 1990s and the Barcelona initiative in 1995 were strategic. The Community also sought to use Barcelona to address immigration, smuggling, crime and other cross-border issues that do not principally concern Israel. Perhaps most obviously, Israel is singular within the Euro-Mediterranean Partnership initiative in its exclusion from the MEDA loan programme, the centre-piece of the Euro-Mediterranean Partnership Programme. Also, as detailed in Chapter Three, Israel’s Association Agreement is different from other Euro-Mediterranean Association Agreements in calling for faster tariff-reduction timetables. This situation highlights the unique situation of Israel vis a vis the EU: while the Community relates to it as a Mediterranean country, Israel decreasingly resembles other Mediterranean countries economically, socially, politically, and regarding European security.

Political Pressure and the 1995 EU-Israel Association Agreement

One way in which this thesis attempts to move beyond traditional analyses of multi-level bargaining is by examining the political pressure, or lobbying, that is aimed at influencing Level-One negotiators. Given the extensively documented commercial and social lobbying that goes on within both the EU and Israel, and the structural openness that both the European Union and the Israeli Government maintain to sources

of external pressure, it might perhaps seem obvious that commercial and other interests would influence the EU-Israel Association Agreement, as interests affect so many other trade arrangements. Yet in that case, this thesis primarily documents a relative *absence* of effective outside lobbying. At the social and commercial levels, some outside interests did seek to influence the course of the negotiations, but generally quietly and in a limited capacity.

Social interests, for instance, had virtually no involvement in influencing the negotiations. This thesis documents the intersection of two indications for political action, the organisation and behaviour of social groups, and the political structure of their host states, and finds that conditions for real influence domestic social (primarily Jewish) groups were sharply limited within the EU at this time. Groups' behaviour attributes varied from state to state, with Britain and France hosting the most politically active Jewish ethnic groups, especially those that in some cases (the *Sephardim* in France and Conservative-voters in the UK) were will to identify as an ethnic bloc with broadly "pro-Israel" policies. At the EU level, Jewish communal groups attempted to similarly organise during this period, and failed to do so. Groups' organisation characteristics were also evaluated: again, only French and British communities had the requisite mass and organisation to take controversial political positions. In Germany, the small Jewish community enjoys exaggerated influence for historic reasons, but declined to take political stances on Israel. The many strong German (Christian) links with Israel similarly did not intervene in relations with Israel above the *länder* level during this period.

The structure of state decision-making also limits the will and ability of domestic social groups to act. Only in the UK does a political tradition of "outsider" lobbying intersect with a viable Jewish community willing to lobby on issues related to Israel; this is seen in the adoption of ending Britain's arms embargo against Israel as a major political goal during this period. Yet, even when this type of lobbying is encouraged, the intergovernmental nature of the EU discourages strong domestic lobbies in individual member-states from addressing larger, pan-Community issues. More limited domestic goals are easier to influence, and this period saw no domestic social organisations even envision attempting to influence the wider Community through their member-state. At the EU level, many factors, including the structural difficulties of social organisations gaining access to Community institutions, the disorganised nature of pan-European

Jewish groups (which tried to organise internationally during this period and failed), and the international political environment have limited the emergence of any sort of Jewish communal lobby at the Community level. Some pro-Palestinian European Christian groups did press for Palestinian exemptions from Israeli trade agreements during this period, in line with existing Community positions. Yet this pressure was negligible, and did not materially affect the negotiations.

More effective were commercial influences. Structurally and philosophically, the EU is extremely open to commercial lobbyists. Although it particularly encourages pan-European representation, the main commercial influences on the Community's negotiators in this case were nationally-based, primarily represented through the individual member-states. Very few European industrial interests were affected enough by EU-Israel Agreement to be roused to lobby to influence it, and those few that did were often more concerned with the precedent of EU-Israel trade being applied to Eastern European competitors later. Within Israel, many industries were strongly affected by the Agreement. While a few Israeli interests attempted to influence the Community directly, most Israeli lobbying was channelled through traditional institutions, primarily the MAI. Both Israel's Ministry of Trade and Industry and the European Commission (particularly DG-III, whose negotiator quite openly took his cues from industry) were highly sensitive to domestic commercial concerns; this helped to satisfy commercial interests and to limit non-traditional actions of direct lobbying.

The early 1990s saw the emergence of the first independent commercial association dedicated to affecting the EU's relations with a major trading partner: the Trans-Atlantic Business Dialogue represented a major step in the evolution of commercial influence on the EU (and the USA). Yet, concurrently, the EU-Israel negotiations sparked only the most limited direct lobbying. Obviously, the EU-USA commercial link is too advanced even to credibly compare to the EU's trade with Israel. Still, the vibrant international background of new forms of lobbying emerging to affect international trade at least raises the question of why European, or particularly Israeli firms (which had a greater stake in the trade negotiations), engaged in little lobbying on this issue.

Lack of information emerged as a major impediment to lobbying the EU-Israeli Agreement. Most European firms were unaware and uninterested in an agreement with such a small trading partner. Most Israeli firms and industry associations were unsure

about the EU and ill-informed about how to attempt to influence it directly or through member-states. Even those Israeli firms with strong European links failed to engage in significant lobbying due to lack of awareness and knowledge about the EU, and to a lack of international communication within linked companies. The one Israeli firm that did aggressively attempt to lobby outside of traditional channels, Teva, failed to realise that the Community is largely closed to what Grant has called “outsider” interests, and failed to cultivate the requisite “insider” interests that might have been more useful. Even Israeli interests that could have plausibly turned to European partners as “insiders”, such as Telrad or Motorola (which are part of Canadian and American companies respectively with branches in Europe), failed to do so due to lack of awareness of the negotiations in general, and a lack of close coordination with their European partners. The Israeli interest that was most successful in influencing the Community in creative ways was the scientific community, particularly individual scientists from the Weizman Institute. Using both Israeli Governmental allies and engaging in low-level lobbying in national-states and maintaining a dialogue with DG-XII, these individuals were able to secure one of the most surprising elements of the Association Agreement: Israeli membership in the 4th Framework Programme.

Ultimately, the background of commercial lobbying was perhaps most influential in affecting the course of the formal trade negotiations, in accordance with two-level analysis expectations. Putnam’s model recognises that domestic constraints, resulting in narrow win-sets, can be used as bargaining tactics with international partners. Milner refines this, pointing out that win-sets are divided in this way – the “Schelling conjecture” – only when domestic divisions are clear, well-publicised, and independently perceived by foreign negotiating partners. The strategy of presenting commercial pressures as domestic constraints was born out during the EU-Israel negotiations: by the European negotiator, for instance, in Chapter Six, who noted his job was to “filter out what is strategy or what is really pressure from industry. With Israel, sometimes we can’t tell why they are pushing on a particular item: is industry really on their back, or is it just strategy”? Similarly, the same European negotiator characterised his strategy as “keep(ing) the offer limited”.

These negotiations illustrated a stark contrast between the more sophisticated Israeli negotiators who were able to gain significant concessions on behalf of their domestic industries from the EU, and officials from Israeli industry, who were unsure of

how to attempt to affect the negotiations. The EU-Israeli Association Agreement thus presents a largely traditional model of lobbying and political pressure, but a more advanced and sophisticated process of formal negotiation. It is likely that any future EU-Israeli trade agreement will be the recipient of more forward forms of outside interests that are being pioneered in other trading spheres. This 1995 Agreement, instead, presents a model of negotiation and commercial influence at the dawn of an era of new and more sophisticated lobbying activities. In this largely traditional bilateral trading relationship, industry behaved largely traditionally, in engaging in limited lobbying primarily at the member-state level. Threats of commercial constraints were perhaps most influential in informing negotiators on both sides. The one aspect of the resultant Agreement, scientific cooperation, that reflected innovative new forms of influence, was negotiated and lobbied by particularly internationalist agencies. Were EU-Israeli trade to become more high-tech, as the development of Israel's economy suggests it will, it is quite possible that any future EU-Israel trade negotiations would see the influence of stronger, more innovative lobbies of the type that characterise the EU's more complex commercial relations with other industrialised regions.

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Interviews

(Positions indicated during years 1993-1995)

1. Admon, Michael, Director, Regional Marketing and Economic Blocs, Israel Export Institute, Marketing Division, interviewed Tel Aviv, 10.7.97.
2. Aharonov, Nati, Export Manager, Generic Pharmaceuticals, North America and Western Europe, Teva Pharmaceuticals Industries Ltd., interviewed Petach Tikva, Israel, 17.7.97; private correspondence 22.9.97.
3. Arnould, Guy, Director General, EURATEX, interviewed by telephone, 30.3.98.
4. Bar, Alon, Minister, Economic Affairs, Israeli Embassy in Madrid, interviewed Madrid, 6.2.97.
5. Bar-On, Hanon, Senior Adviser to the President, Weizmann Institute of Science, interviewed Jerusalem, 22.7.97; private correspondence, 11.9.97.
6. Ben Moshe, Abraham, Managing Director and CEO, Carmel, Societe Cooperative Vignerones des grandes Caves, interviewed Rishon Le Zion, Israel, 31.8.97.
7. Ben-Assa, Micha, Vice President, Business Systems, Telrad Telecommunication and Electronic Industries Ltd., interviewed Lod, Israel, 22.8.97.
8. Bence, Jean-François, Administrateur, European Social Committee, Leader of Delegation to Israel, interviewed Brussels, 12.11.97.
9. Ben-Zvi, Ronit, Director, European Department, Foreign Trade Administration, Israeli Ministry of Trade and Industry, interviewed Jerusalem, 26.8.96.
10. Bernstein, Dr. Boaz, Manager, Economics Department, Motorola Israel Ltd., interviewed Tel Aviv, 8.7.98.
11. Blatt, Sigal, Economist, Food Division, Israel Manufacturers' Association, interviewed Tel Aviv, 14.7.97.
12. Buchalter, Richard, Director, Strategic Initiatives, Motorola Communications Israel Ltd., interviewed Tel Aviv, 8.7.97.
13. Chokron, Lydia, Deputy Legal Adviser, Legal Affairs Department, Israeli Ministry of Foreign Affairs, interviewed Jerusalem, 21.8.96.
14. Cohen, Brian, Director General, Israel-Britain Business Council, interviewed London, 11.12.97; private correspondence 5.2.98.
15. Davis, Helen, Director, British Israel Public Affairs Centre, interviewed 11.12.97.
16. de Racourt, Hughes, Chief Lobbyist, Motorola Europe, interviewed Belgium, 12.11.97.
17. Deboyser, Patrick, Head of Unit, European Commission, Pharmaceutical Products, DGIII, Directorate E, interviewed Brussels, 11.11.97.
18. Di Cara, Stephano, Functionaire, European Commission, DGI-B, Israel Desk, interviewed Brussels, 16.7.96 and 12.11.97, and by telephone 2.9.98.
19. Ettenberger, Karl, Director, External Economic Relations, Siemens, interviewed by telephone, 17.2.98.
20. Fern, Arno, Geschäftsführer der Israelitischen Religionsgemeinschaft Württembergs, interviewed Magève, France, 29.3.98.
21. Fishler, Haim, Corporational Vice President Control and Chief Financial Officer, Tadiran Telecommunications Ltd., interviewed Petach Tikva, Israel, 7.7.97.
22. Friedberg, Uri, Assistant to the President, Telrad Telecommunication and Electronic Industries Ltd., interviewed Lod, Israel, 22.8.97.

23. Gal, Noa, Manager, America, West Europe and Africa Section, International Trade Relations Department, Federation of Israeli Chambers of Commerce, interviewed Tel Aviv, 8.7.97.
24. Gilboa, Ofer, Managing Director, Delta London, interviewed by telephone, 17.2.98.
25. Ginty, Tony, Government Affairs Manager, Marks and Spencer, interviewed by telephone, 8.9.98.
26. Golomb, Shmuel, Managing Director, Israel Insurance Association, Association of Life Insurance Companies of Israel Ltd., interviewed Tel Aviv, 29.8.97.
27. Göthel, Klaus W., Director, African Region, Near and Far East, Siemens, interviewed by telephone, 27.2.98.
28. Halevy, Efraim, Israeli Ambassador to the European Union, interviewed Magève, France, 29.3.98.
29. Hallen, Lesebotte, Director, The Interparliamentary Movement for Free Movement (Kangaroo Group), European Parliament, interviewed Brussels, 11.11.97.
30. Halskov, Søren, Council of the EU, DG-E, Directorate E, Mashreq/Maghreb, Middle East, interviewed by telephone, 18.9.98.
31. Harish, Micha, Industry Minister, State of Israel, interviewed Jerusalem, 14.7.97.
32. Hemar, Dr. Azriel, Director, Division of International Relations and Cooperation, Office of the Chief Scientist, Israeli Ministry of Trade and Industry, interviewed Tel Aviv, 14.7.97; private correspondence 22.12.97.
33. Hirshler, Rachel, Assistant Economic Minister, Israeli Embassy in Washington DC, interviewed by telephone, 19.2.97.
34. Inbar, Eyal, Economic Officer, Delegation of the European Commission to the State of Israel, interviewed Ramat Gan, Israel, 10.7.97.
35. Kellett-Bowman, Edward, MEP (UK, Dorset, Member, European Peoples' Party), Member, Parliamentary Delegation to the Mashreq Countries and Gulf States, interviewed by telephone, 23.10.97.
36. Kipper, Felix, Executive Director, Israel-British Chamber of Commerce, interviewed Tel Aviv, 20.8.97.
37. Koritshoner, Odel, Vice President, Finance, Telrad Telecommunication and Electronic Industries Ltd., interviewed Lod, Israel, 22.8.97.
38. Krasny, Boris, President, Policy Political Communications Management, interviewed Tel Aviv, 29.8.97.
39. Krueger, Harvey, Vice Chariman, Lehman Brothers, interviewed London, 20.10.98.
40. Levene, Ivor, Head, Middle East and North Africa Liaison, Marks and Spencer, interviewed London, 2.12.97.
41. Malkis, Shmuel, Manager, Economic Department, Israel Insurance Association, interviewed Tel Aviv, 29.8.97.
42. Miller, Edgar, Managing Director, Palladian Ltd., interviewed London, 20.10.98.
43. Miller-Koebel, Wolfgang, Head of Division, Ministry of Economic Affairs, State of Baden-Württemberg, interviewed by telephone, 23.9.98.
44. Milo, Yehuda, Deputy President and Chief Financial Officer, Koor Industries Ltd., interviewed Tel Aviv, 15.7.97.

45. Morav, Rachel, Counselor, Economic Affairs, Israeli Embassy in Rome, interviewed by telephone, 9.3.98.
46. Morron, Meyer, Consultant, European R&D, Matimop, Israeli Industry Centre for R&D, interviewed Tel Aviv, 14.7.97.
47. Nachum, Moshe, Director, Department of Foreign Trade and International Relations, Israel Israel Manufacturers' Association, interviewed Tel Aviv, 12.8.96 and 20.8.97.
48. Ottolenghi, Dr. Daniel, Senior Economist, European Investment Bank, Directorate for Lending Operations Outside the European Union: Mediterranean Countries, interviewed by telephone, 23.10.97.
49. Paldi, Ilan, Manager, Israel Office, Marks and Spencer, interviewed by telephone, 15.2.98.
50. Peres, Shimon, Foreign Affairs Minister, State of Israel, interviewed Tel Aviv, 30.7.97; private correspondence 30.9.97.
51. Peri, Zohar, Deputy Director General, Foreign Trade Administration, Israeli Ministry of Trade and Industry, interviewed Jerusalem, 26.8.96
52. Pollack, Stuart, Director, Conservative Friends of Israel, interviewed by telephone, 8.9.98.
53. Porat, Daniel, Vice President International Business, Agan Chemical Manufacturers Ltd., Makhteshim Chemical Works, Ltd., interviewed by telephone, 16.7.97.
54. Roie, Rachel, Counsellor, Commercial Affairs, Israeli Embassy in Madrid, interviewed Madrid, 6.2.97.
55. Rosenberg, Jeanette, Director, Department of Trade and Industry (UK), Israel Desk interviewed London, 7.12.97.
56. Rouso, Lois, Director of Marketing and Business Development, NILIT Ltd., interviewed Tel Aviv, 15.7.97; private correspondence 18.9.97.
57. Sarat, Dominique, Council of the EU, DG-E, Principal Administrator, Israel, interviewed by telephone, 18.9.98.
58. Sharf, Shimon, Export Manager, CTS Chemical Industries Ltd., interviewed Petach Tikva, Israel, 10.7.97.
59. Shaton, Marcel, Director, Industry Division, Israeli Mission to the European Union, interviewed Brussels, 11.7.96.
60. Shur, Zvi, General Manager, Israel Diamond Manufacturers Association Ltd., interviewed Tel Aviv, 7.7.97, and by telephone, 16.12.97.
61. Siterman, Gidon, Minister, Economic Affairs, Israeli Embassy in London, interviewed London, 20.11.97.
62. Smith, Llewellyn, Director General, Organisation Européenne pour la Recherche Nucléaire, private correspondence, 24.10.97.
63. Snir, Baruch, Deputy Manager, Economic Department, and Director, Export Department, Federation of Israeli Chambers of Commerce, interviewed Tel Aviv, 8.7.97; private correspondence, 18.9.97.
64. Spitz, Dr. Hermann, Administratour, European Commission, DGIII, Food sub-group, interviewed Brussels, 11.11.97.
65. Stenma, Oliver, Functionaire, European Commisison, DGI, Public Procurement, interviewed Brussels, 24.7.96.

66. Style^{OBE}, Peter, Executive Director, British Overseas Trade Group for Israel, interviewed London, 27.1.98.
67. Sugarman, Daniel, Economist, Foreign Trade Division, Israel Manufacturers' Association, interviewed Tel Aviv, 14.7.97.
68. Tenneh, Tzvi, Director, Economic Department, Israeli Ministry of Foreign Affairs, interviewed Jerusalem, 21.8.96.
69. Thomson, David, Department of Trade and Industry (UK), Israel Desk, interviewed London, 7.12.97.
70. Ullman, Dr. Uri, Head, European Desk, Israeli Ministry of Finance (until 1995, Head, European Desk, Ministry of Finance, Jerusalem; from 1995, Minister, Economic Affairs, Israeli Embassy in Bonn), interviewed by telephone, 16.2.98.
71. von Schöppenthau, Dr. Philip, Adviser, International Trade, EuroCommerce, interviewed Brussels, 14.11.97.
72. Walmsley, David, Department of Trade and Industry (UK), EU Trade Relations, interviewed London, 7.12.97.
73. Webber, Miler, Director, Labour Friends of Israel, interviewed by telephone, 7.9.98.
74. Willems, Georgine, Chef de Division, European Social Committee, interviewed Brussels, 11.11.97.
75. Wohl, Amos, Counsellor, Commercial Affairs, Israeli Embassy in London, interviewed London 20.11.97.

Private Remarks in Chatham House - Hebrew University of Jerusalem Conference, 20.10.98

(Positions indicated during years 1993-1995)

1. Gaon, Benjamin D., President and CEO, Koor Enterprises
2. Krueger, Harvey M., Vice Chairman, Lehman Brothers
3. Miller, Edgar, Managing Director, Palladian Ltd.
4. Raff, Eitan, Chairman, YOZMA Venture Capital Ltd., Chairman, Bank Leumi