

MAPPING ISRAEL'S POLICY OPTIONS REGARDING ITS FUTURE INSTITUTIONALISED RELATIONS WITH THE EUROPEAN UNION

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WORKING PAPER No. 3

OF THE

CEPS MIDDLE EAST & EURO-MED PROJECT

ALFRED TOVIAS*

ABSTRACT

The nature of the Euro-Mediterranean Partnership will change with the Enlargement of the EU to include 13 additional members since all Mediterranean non-Arab countries will be in the EU except Israel. Israel will therefore be obliged to revise its relations with the EU. This paper explores some possible policy options open to Israel. After discarding a continuation of Israel's present status in the Euro-Mediterranean Partnership, a second policy option gauges advantages and disadvantages for Israel of obtaining membership in the European Economic Area, i.e. full economic integration without political integration in the EU. Taking into consideration quantum political changes that have taken place in and around the EU, as well as in the Middle East, a third Israeli policy option postulates EU membership, so as not to be left behind and which would bring a "new vision" for Israel, once peace with its neighbours is in the offing, allowing for a complete change of the present terms of reference.

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1. Introduction

While participating in the Barcelona process as a southern Mediterranean country, Israel notably differs from its southern neighbours in terms of its socio-economic features, which are more similar to those of EU countries. The prospect of the EU accepting the future membership of up to 13 countries (including Turkey) in Eastern Europe and the Mediterranean Basin, all with GDPs per capita (in \$) below the Israeli level, will transform the EU into an economic and political entity that will be even closer than it is now to Israel – not only geographically, but politically, culturally and economically as well. Such an enlargement will fundamentally change the nature of the Euro-Mediterranean Partnership (EMP) since all Mediterranean non-Arab countries will be EU members, except Israel. Pressures to transform the EMP into a Euro-Arab Partnership will be strong. Under these circumstances, the EU and Israel will be obliged to view the type of link they wish to establish. This paper explores some possible policy options open to Israel.

2. Three policy options

Option 1: Betting on the EMP and the Barcelona process

According to many Israeli officials, the political benefits of the Barcelona process for Israel have been, at least in the short run, rather insubstantial. In economic terms, the importance of the Partnership is marginal as well. Israel does not benefit from bilateral MEDA funds, and cumulation of origin rules is a long way off, given the EU's traditional position that south-south free trade agreements must be signed and rules of origin in bilateral trade agreements must be unified beforehand. This is even more so since 2001 when it was decided to offer Pan-European cumulation to Mediterranean Non-Member Countries (MNMCS).

In spite of these deficiencies, this line of thinking underlines that Israel should still be clearly interested in the continuation of the Barcelona process. It is important for Israel to preserve this process as the only forum for multilateral cooperation with its neighbours, no matter the difficulties thus far – and in the foreseeable future. Although the present does not offer a comforting picture, Barcelona may be able to boost Euro-Mediterranean cooperation for the benefit of all the parties concerned once and if the peace process is re-launched (a big “if” indeed). In this event, the already existing networks of Mediterranean cooperation and the role of civil society may be crucial for the consolidation of peace. Thus, no one should expect miracles from the Barcelona process for the time being, according to the supporters of this policy option, but it is important to bear in mind the potential benefits of the EMP in the long run. Of course the mainstay of EU-Israel relations from this policy perspective would remain the bilateral association agreement signed in 1995 with all its limitations (basically an FTA plus agreement).¹ This policy option is discarded by the author for the reasons mentioned below.

¹ For an analysis of the agreement see Ahiram and Tovias (1995) and Hirsch (1996).

Option 2: Factor in the next EU enlargement and apply for EEA membership

The second policy option emphasises the failure of the EMP in terms of its declared goals, independently of the fact that the EMP has not much to offer to Israel. As this author has proved in several published papers, its economic component cannot in any substantial way attain its own declared objectives, namely the stabilisation and growth of the Mediterranean Arab economies, and therefore the EMP is bound to fail. The main reason is that it does not lead to real economic integration of MNMCs in the European hub, as does, e.g. integration in the European Economic Area or in the EU. Tariff-free trade for industrial products and MEDA funds of about €billion per year as recipes for structural economic and administrative reforms do not seem to be good ones when applied to oil-producing or agriculturally-based economies. As explained elsewhere,² only membership in the EU or the EEA can work, albeit in the long run, as a really effective anchor for wide-ranging reforms, economic integration and economic modernisation. In this respect a mere institutionalisation of the EMP would not be helpful (as suggested by Xenakis and Chrysoschoou, 2001, p. 119). On the contrary, the EMP focuses too much on form and procedure and too little on content. In terms of Israeli-EU bilateral relations, the 1995 association agreement barely takes care of “second-generation” issues related to the development of the EU’s Single Market (phasing out of technical, administrative and fiscal barriers to trade). An ancillary agreement on government procurement signed between the EU and Israel in 1997 remains very unsatisfactory. The same applies to separate negotiations for the improvement of the agreement in the domain of services and of agricultural goods, important items in Israel’s balance of trade with the EU, with which Israel has had a tremendous deficit for many years.³ Apart from the fairly nice success of Israel’s incorporation in the 4th, 5th and 6th Research and Framework Programmes, the “special status” that Israel was supposed to be given according to the 1994 Essen Council has not materialised.

Meanwhile the EU does not stand still. This is a second point that would be emphasised by this policy school. For instance, the EU has finished the negotiations for the admission of ten new members in Southern and Eastern Europe by the end of 2002, making it possible that actual entry be as soon as May 2004. What are the main economic and political implications for Israel?

- 1) Focusing on trade, the entry of the most developed countries in Eastern Europe (such as Hungary and the Czech Republic) into the EU is of particular relevance for industries in Israel as this author has shown in previous research.⁴ For Eastern Mediterranean countries, including Israel, the entry of Cyprus is also relevant in terms of potential trade diversion.
- 2) Israel’s trade dependence in relation to the EU will increase as has happened with every past enlargement, although only slightly. Potential EU trade sanctions or anti-dumping investigations on Israel will bite more than before.
- 3) The incorporation of Cyprus means that Blue Europe is extended further in the Mediterranean towards the Eastern Mediterranean. This means concretely that Israeli boats fishing in Cyprus’ exclusive economic zone waters, consisting of 200 nautical miles for all the area to the south of the Island, will have to respect EU regulations. Negotiations for the right to fish in those waters will have to be conducted by Israel with Brussels rather than with Nicosia.

² Tovias (2001).

³ Total trade between the EU and Israel reached €26 billion in 2000. Israel’s trade deficit increased from €3.5 billion in 1990 to €7 billion in 2000.

⁴ See Tovias and Dafni (2000).

- 4) The EU will be involved much more than before in the prevention and combat of environmental hazards arising in the Eastern Mediterranean. Israel will find it has to cooperate and deal directly with the EU in transnational environmental issues involving Cyprus' waters and marine coast. The recent catastrophe of the *Prestige*, the oil tanker that broke up along the coast of Spain, is only an illustration of what is at stake in economic terms.
- 5) With an even larger single market, the EU will become even more attractive to direct investors than before. This is relevant for Israel insofar as the EMP is based on a "hub and spoke" system, which tends to draw FDI to the "hub". This will be even more so with Enlargement. As indicated above, the "hub-and-spoke" system will not unravel any time soon, because the current political situation precludes any contemplation even in the medium run of FTAs between Israel and Arab countries belonging to the EMP.

If the assumption is that policies in the EU, and external policies in particular, are driven by particular coalitions of countries, one easily reaches the conclusion that the Barcelona process will lose steam, all other things being equal. The reason seems simple: the addition of Cyprus, which is interested in maintaining good EU relations with other Mediterranean Non-Member Countries, cannot compensate for the lack of interest of the other negotiating candidate countries regarding Mediterranean-related issues. Most experts consulted predict that in view of these Central and Northern European countries' foreign policies, Russia, Ukraine and South Eastern Europe will become more than now the focus of the enlarged EU's external relations and more attention will be given to the European continent, in comparison to the current situation.

This general outlook must be qualified in the case of Israeli-EU relations after the enlargement, which in the view of this author, look promising. Poland, Hungary, the Czech Republic, Cyprus and some Baltic countries feel certain cultural and historical affinities with Israel. Israel is also regarded as a powerhouse in R & D and a country therefore, with which it makes sense to cooperate. For these reasons, it is likely that the enlargement will favour a strengthening of institutional relations between the EU and Israel. More generally, the applicants will be among those siding with those EU member countries that are more receptive to Israel's contention that it should be treated by the EU as an EFTA-like country.

Thus, according to this policy option, given these new inputs in EU policy-making and the recognition by the EU that Israel deserves a "special status" (following what was already decided in 1994 at the Essen European Council) because of its high economic development, Israel should apply for entry into the European Economic Area, which provides for inclusion in the EU's Single Market for EFTA countries that do not want to be full members of the EU, such as Norway or Iceland. It implies, in short, full economic integration without political integration in the EU. This model of relations could suit both sides. As explained in Emerson et al. (2002, p. 34), it has worked well for eight years now and according to its original intentions. Because the Arab-Israeli conflict is still not solved and might remain unsolved for a long time, it stands to reason that many EU member states would reject an Israeli application for membership in the EU (see option 3 below). In contrast, access to the Single Market is practically devoid of political significance. For Israel, economic anchorage in the EU seems of primordial importance. In the short and medium run, Israel would not be willing to rely on EU membership for its own security, something sharply in contrast with the position adopted by Cyprus. In fact, at this stage of national development, many Israelis would oppose entry in a supranational club. Even the EEA formula might be considered too much for some, since it would imply freedom of movement of manpower between Israel and other members of the EEA. On the other hand, Israeli lawmakers could be sympathetic to the

idea of both participating in the EU's decision-shaping process (the formula adopted in the EEA) and adjusting to the *acquis communautaire* in the domain of trade in goods, services and capital, because in fact the effort to be made would in many instances be minimal. Current legislation is quite close to the EU's in many sectors and domains. Israel has generally adopted European standards, which are easier to understand than those of the US and in any case the latter often converge with European standards. The reform effort to be done by the Israeli legislature would be worthwhile since more than 40% of Israel's trade in goods and services is with the EU and will be even more so after the coming enlargement. For instance, issues as mutual recognition of professional competence and diplomas are key for the development of an Israeli economy increasingly based on the export of high-tech services.

To enter the EEA, Israel would have first to become an EFTA member. For more than a decade, Israel has had a well-functioning FTA agreement with EFTA, which should facilitate such a step. Of the present EFTA members, this author thinks that Switzerland (actually not an EEA member), Iceland and Liechtenstein would be quite receptive to the idea as a way to re-equilibrate the EU-EFTA relationship. Norway, which is the dominant non-EU partner in the EEA, might be cooler to such a proposal. One should not forget that Israel, with a population of 6.5 million people, is demographically larger than the present EEA (less than 5 million people). Norway might also be cooler to Israel's membership for political reasons as long as there is no prospect of peace or a revival of the Norway-led Oslo Process (!). On the other hand, Norway might be interested in having EEA membership beefed up by accession of a non-problematic country in economic terms to re-equilibrate EU-EEA relations and to somewhat counteract Norway's perception of increasing marginalisation. When acceding to the EEA, Israel would probably be called upon by the EU to contribute to the Financial Mechanism (and thus contribute to the EU's Structural Funds), particularly after the coming Enlargement, and Norway might be attracted by this new kind of EEA burden-sharing.⁵ This is not the case now in the context of the EMP. However in view of the advantages that accession to the Internal Market would have for Israel, this is a small price to pay for. In fact Israel would be better in Norway's and Iceland's company than, as now, among MNMCs (i.e. all the Arab Mediterranean Countries). The EEA formula might be even more attractive for Israel than for Norway, because at present the former does not have a pressing need to be associated with EU policies that have been adopted after the 1992 EEA agreement was signed and that have been incorporated in the Maastricht, Amsterdam and Nice Treaties. For instance there is no obvious advantage for Israel to be part of the Schengen Agreement, but rather the contrary. Because of security needs, Israel will be eager to maintain tough border controls even after peace treaties are signed (an aspiration which reminds us of the position of the British government). In another domain, and after a lengthy academic debate, most Israeli experts concur that an adoption of the euro (whether on a unilateral basis, on a currency board basis or as part of an EU membership package) is not in Israel's interest in view of its geographical trade patterns (an important share of trade being done with the \$ area) and financial links with the United States (in terms of investment and aid flows). This contrasts sharply with the position of Norway, Iceland and Liechtenstein. To this must be added the risk of (hopefully-receding) asymmetric shocks, mainly of political origins (such as war, boycotts and so on). A third example is the CFSP, which is progressively being implemented using QMV in the Council of Ministers, and that will be even more so after enlargement, a situation with which Israel would have some difficulty for obvious reasons (mainly

⁵ This contrasts, e.g., with the case of Russia and other Eastern European countries that have been mentioned as potential EEA members. And given its demographic weight, Russia's participation among non-EU EEA members would scare the latter much more than Israel's.

geopolitical ones) but also for less obvious ones (e.g. the existence of a large Jewish Diaspora outside Israel and Europe). And as for any of the smaller EU member or candidate countries, many in Israel would fear that in the future the EU's foreign policies would be determined in the capitals of the three or five largest EU member countries.

Of course, this author is aware that (Israel's) participation in "decision-shaping" would not amount to much, particularly in an enlarged EU (Emerson et al., 2002, pp. 29-31), but certainly this "much" would be a quantum change in relation to the present status of no influence whatsoever. And according to Emerson et al. (2002), "decision-shaping" on Single Market issues has been working fairly smoothly. To give a sense of what is at stake here, Israel has been associated fully with the now-ending 5th R & D Framework Programme, to which it has contributed funds and human resources. From discussions held with the relevant actors, this author can say it is a well respected associate with above-average input in decision-shaping. And as Emerson et al. (2002) explain (p. 31), much indirect influence is obtained by full participation of civil society actors of EEA states in European-wide networks. Israel is already participating in some of them but would gain much in expanding to new domains where it is not yet represented, thereby better preparing the ground for EEA membership.

One of the main advantages of the EEA formula for Israel in relation to membership (see next option) is the possibility to maintain all the FTA agreements it has been signing for more than a decade and in particular the 1985 FTA agreement with the US.⁶ This author is certainly aware of some of the limitations in the margin of maneuver that non-EU members of the EEA have in their trade policy. Curzon (1997, p. 199) states, for instance, quite emphatically that the latter would not be free to negotiate on services or capital movements with third countries. Concerning the negotiation of mutual recognition agreements with third countries on certification and tests, the EEA Treaty states clearly that EFTA countries must conform to the format used by the EU in previous negotiations with third countries. In a trade war between the EC and the US, Norway would almost certainly align itself with the EC, but it would put Norway in a terrible position. And the EC cannot count on the backing of Norway automatically in WTO negotiations or when its DSM (Dispute-Settlement Mechanism) is invoked or activated by a non EEA-member country, such as the US. For instance, in the banana dispute, Norway could remain aloof and of course was not included among the countries against which the US retaliated. To illustrate this point further, it appears that Norway will probably align itself with the US and against the EC when fishing issues are raised in the Doha Round.

Another advantage of the EEA formula, as seen from Israel, is the ever-existing possibility, if need be, of withdrawing from the EEA after one year's notice. This is important for a country subjected to a very idiosyncratic geopolitical environment. On the other hand, EU membership is a "Catholic marriage", i.e. a no-divorce contract. Finally, when comparing the Swiss model of relations with the EU (i.e. multiplying sector-specific agreements) to EEA membership, the former procures, quite paradoxically, a less strong sovereign position for Switzerland than the EEA states, "since it has no equivalent to the EFTA Surveillance Authority and Court" (Emerson et al. , 2002, p. 110).

This leads us to what might be perceived by many in Israel as the main hidden advantage of the EEA formula over the third option below (EU membership): not having to pose the question of Israel's identity. This is important not only for the usual suspects, but quite

⁶ Obviously for Israel, EU membership would become relatively speaking more attractive, should the EU and the US conclude in the future their own FTA.

paradoxically for some in the Peace camp and the secular left in Israel, who still believe that in spite of past failures, the idea of a New Middle East and the development of a Mediterranean identity could still make a comeback. Thus for them Israel should leave the door open.

Another key advantage for many in Israel of the EEA formula over the more daring one of membership is that it does not imply solving first the Israeli-Arab conflict in all its aspects, nor procuring full equality for Arab Israeli citizens (or the suppression of the Law of Return for that matter), all quite controversial measures.

On the other hand, and this must be seen also as an advantage, EEA membership can be taken, after all, as a transitory or preparatory stage towards a possible prospect of membership, helping to develop trust between the EU and Israel. In this sense the EEA option would be compatible with the “visionary perspective of future membership”, which is so critical in being able to change things on the ground in the Middle East (see next option below). And because EEA membership would be less controversial for EU member states, objections by the latter to the option discussed here would be comparatively smaller. For instance, the “Preliminary Draft Constitutional Treaty” of 28 October 2002, presented by former French President and chairman of the group drafting a Constitution for Europe, Giscard d’Estaing, includes an article containing “provisions defining a privileged relationship between the Union and its neighbouring states”, while the centre right political group PPP of the European Parliament in its draft constitution (of about the same date), says as follows in Art. 116 (2): “With its neighbouring states, the Union may enter into special association agreements (‘European Partnerships’) which, in addition to an extension of part or all rules related to the common market, may also provide for the establishment of joint institutions or allow for associate participation or representatives of these states in the work of the Union institutions”. Sigmar Gabriel, the current Minister President of Lower Saxony, has suggested that the EU should offer Israel “full membership in the European economic region” (Gabriel, 2002). All these new European initiatives allow in the view of this author for the development of a special relationship between Israel and the EU taking the form of EEA membership. In a recent CEPS publication, Emerson (2002) concurs with this author that should Israel request accession to the EEA, “it could easily qualify...”. There do not seem to exist unsurmountable difficulties from the European side.

On the other hand, one of the main disadvantages of the EEA formula is the non-inclusion of free trade in agricultural products in view of Israel’s comparative advantage in the production of citrus fruit and other fruits and vegetables, as well as processed agricultural goods. However this must be qualified. First, agriculture represents nowadays a minute part of Israel’s GDP.⁷ Second, some Israeli agricultural subsectors (such as dairy products and cereals) are heavily protected and would oppose for this very reason EU and CAP membership, which would not be the case with respect to EEA membership. Moreover adoption of the *acquis* in phytosanitary and veterinary legislation should not present a big political or technical problem in view of the advanced nature of the agricultural sector in Israel.

Another hidden disadvantage of this policy option is the future of the EEA itself. Betting on EEA membership at a time when it risks becoming marginalised might be risky, in particular if some of its present members opt out either to revert to a “Swiss-type” of association or, on the contrary, to accede as full member to the EU.

⁷ While agricultural exports represent only 3% of current exports, more than 75% are destined to arrive in the EU. Slightly less than 50% of Israel’s agricultural production ends up in the EU.

Option 3: A complete revision of EU-Israel relations

This option is based on the following line of reasoning: Since its creation the EC has been Israel's main trading partner. This economic relationship only deepened with the successive enlargements of 1973, 1981 and 1986 and the conclusion of increasingly complex trade agreements (1970 and 1975). But if until the end of the 1980s, Israel could pursue the strategic aim of increasing its economic growth and welfare by economic integration with an emerging trading bloc, this has not been enough since 1989. The strategic changes that have been taking place since then both in Europe and in the Middle East call not only for economic but also political integration of Israel in the European Union, i.e. membership.

Since the early 1990s, the EC has evolved into a real Single Market for goods, services, labour and capital and then into a Monetary Union since 1999. This quantum-change in the level of economic integration is bound to discriminate, whether intentionally or not, against whoever stays out of the area of integration. But this is particularly grave for countries in the EU's outside periphery and with strong economic links with it, such as Israel. Although free trade area relations between Israel and the EU have taken care of tariff discrimination in industrial goods (but not in agriculture), this is not the case for non-tariff barriers, which are much more significant nowadays than tariffs, particularly for a service-oriented economy such as Israel. Moreover, because of the above-mentioned "hub-and-spoke effect", all other things being equal, FDI tends to concentrate in the EU, not in Israel. This problem cannot be overcome even if Israel signs FTAs (as it has been doing for a while) with any peripheral non-member country with which the EU has also a preferential deal (such as the CEECs and EFTA countries or Turkey), because of the issue of origin rules.

Economically as well, Israel has become a post-industrialised country over the last decade, based on the development of high-tech sectors and services, very much like advanced EU countries. Demographically, large-scale immigration from the ex-Soviet Union has transformed Israel into a European-type society, much less culturally identified with Middle Eastern societies than it was only a decade ago.

All this could be taken care of, more or less, by integrating Israel into the EEA (as per policy option 2 above).

It is in the political realm, however, where there have been changes in the last decade equivalent to real earthquakes:

1. The Cold War is over, the Soviet Union has collapsed and Germany has been peacefully reunified.
2. Most of the neutral European countries, after some hesitations, have decided to join the EC, since 1992 known as the EU. EFTA has been rolled back and has little future. Neither does the EEA (see option 2).
3. All countries of Eastern Europe, three Baltic states and three Mediterranean countries (Turkey, Cyprus and Malta) are candidates for membership in the EU, with 10 of them expected to join as early as 2004. While all the 13 candidates dream of "returning to Europe", many of them are fiercely nationalistic, as much so as Israel.
4. Israel will have a common border with the EU after 2004 with the entry of Cyprus and the EU's center of gravity will move South and East, coming closer to Israel, increasing both its dependence on the EU as well as the latter's relevance.
5. The Middle East Peace Process (MEPP), which started after the Gulf War and was betting on the emergence of a New Middle East, has collapsed. The Oslo Process, based on

developing mutual trust and on integration and not separation, appears to have ignored deep-seated animosities and cultural disparities. The Palestinians are interested in independence, not in integration. Israel was interested in integration only to keep control over the territories a little longer. Even assuming that peace between the Israeli and Palestinian peoples is achieved, the idea of a New Middle East is not welcomed by Egypt, which fears rightly or wrongly, that Israel would become in such a setting the leading economy. Moreover, scientific and other empirical evidence shows that an economically-integrated Middle East cannot replace the economic ties of Israel, Turkey or Cyprus with the EU. For Israel it is better to be “the tail of the lion rather than the head of the fox”. The Southern Europeans understood this long ago.

6. The EMP launched in 1995, at the height of the Oslo Process and the Algerian crisis, was conceived by the EU with the economic needs of Arab countries in North Africa in mind and on the assumption of a New Middle East emerging with the help of Europe. Initially, in 1992, Spain and France were actually suggesting “only” a Euro-Maghreb Partnership, not an EMP. Not surprisingly, neither Turkey nor Cyprus saw in the Partnership an alternative to membership. In their view the latter is the real thing, the former a side-show.
7. This author thinks as well that the Partnership is badly conceived (see above) and that sooner or later it will derail, be suspended or transformed into something coming close to the failed Euro-Arab Dialogue of the 1970s (which included Gulf countries). Its main aim would be to promote a harmony of civilisations, a more modest project than the EMP which tried (using the wrong instruments) to transform economic and political structures of the Arab world in the image of the European model. Israel would have no role or place in this Dialogue apart from the fact that some of its main actors might find Israel’s participation unsuitable.
8. The next EU enlargement to the East, contemplated for 2004, favours Israel (as explained in policy option 2 above). Several new EU members will be among those favouring closer relations with Israel. They are also countries to which Israelis can relate easily. The EU will thus be much closer to Israel, not only geographically but, even more so, mentally.
9. The degree of involvement of the US in the Middle East is likely to diminish. High-ranking people in the US are suggesting withdrawal from Saudi Arabia and increasing its reliance on oil originating in other parts of the world.

On the basis of the foregoing, the solution seen from Israel seems to be to apply for membership in the EU. Let the latter state if this is at all conceivable and under what conditions. This paper is not the place to find out what these conditions might be, since it deals with Israeli options and perspectives. In any case, the EU and Israel share the same basic political values. In fact, European values preceded the creation of the EC and they have drawn on many Jewish values, so the argument goes. Mr. Marco Panella, of the Italian Radical Party, has put it in graphic terms: Israel’s incorporation in the EU could infect all the Middle East with democratic values. The geographic argument that Israel is not in the European continent seems shallow in such a context. It shall not stand in the way because other countries that do not belong to the European continent (such as Cyprus) are being considered for membership. And the EU will have to deal in the future with other border cases, geographically-speaking (e.g. Armenia and Georgia).

Adjusting to the economic and political *acquis* should certainly not be more difficult for an economically-advanced democratic country such as Israel than for Turkey or Poland, not to speak of Bulgaria. Israel is a functioning market economy and fulfills most of the Copenhagen criteria (but would have to do undoubtedly more in this respect, something that a

resolution of the Israeli-Palestinian conflict would facilitate). All experts concur that Israel could have been an OECD member for years had it not been for political reasons. According to some unofficial sources, Israel is close to obtaining membership in the OECD. Israel would be a net donor in budgetary terms in an EU including the current 13 candidates. Israel's GDP per capita is larger than that of any of the latter.⁸ In an EU of 27 or 28 member states, Israel would represent the median level of income. Israel's GDP is larger than that of 11 of the 13 candidate countries. In contrast to their case, integrating Israel in the EU would not require pre-accession aid from the latter. Given their relative factor endowments, both the EU and Israel would undoubtedly benefit from Israel's incorporation in the EU's system of intra-industry trade.

Politically, Israel's membership in the EU would address Israel's sense of solitude and isolation, and also improve its security. Who would dare to attack an EU member country? Contrary to what some may think, the US would support membership, in the opinion of this author, as it has supported entry into the EU of other close allies such as Britain or Turkey. More generally one can argue easily that the prospect of EU membership would give Israel enough security to offer generous territorial and political concessions to the Palestinians. In fact an offer of membership by the EU to Israel would change the terms of reference for many. A prospect of membership would certainly support the camp of the peace-makers in Israel's polity.

For those worried about the future of Israel's democracy, EU membership is seen as an antidote. For those who fear encroachment of religious issues in Israeli politics, Israel's membership would be a big *deus ex machina*, since the country would have to introduce some legal reforms before accession to guarantee some separation of state and religion. The Law of Return would probably have to be revised, the Jewish Agency revamped and Zionism revisited.

For others (like Raymond Cohen from the Hebrew University), the main advantage of this option is that it brings a "new vision" for Israel, once peace with its neighbours is in the offing. Only a "vision" can galvanise reform efforts and a change for the better in the way Israeli Jews perceive "the other", including Israeli Arabs (an application of Monnet and Schuman ideas to Israel).

A "vision" such as this could change things on the ground. For Professor Oz Salzberger of Haifa University, the prospect of membership could break the ice in the difficult atmosphere of relations between Europe and Israel. And a "return to Europe" could be an up-lifting project, culturally-elevating, particularly because for Israel's Jewish population, it would be the return to a new Europe, not the one many of them had to abandon in haste in the middle of the last century. As Professor Dan Diner of the Hebrew University says, "Israel is from Europe", rather than in Europe.

Whereas the disadvantages of EU membership over EEA membership have been mentioned above in option 2, to the political advantages just cited one must add others as follows:

- 1) Participation in all EU decision-making institutions
- 2) Participation in the CAP
- 3) Participation in all European Community Programmes (e.g. in the domain of education, culture, environment, public health, statistics)

⁸ Israel's GDP and GDP per capita rose respectively by 65% and 35% between 1991 and 2000. Israel's GDP is larger than that of Ireland and twice that of Hungary or the Czech Republic.

- 4) Participation in all European agencies (e.g. in the domain of food safety, standardisation, etc.)
- 5) Participation in the EU's competition policies and prevention of the possibility of the EU applying anti-dumping duties on Israeli exports
- 6) Upgrading of Israel's debt ratings (as is happening with the new candidates), allowing for lower interest rates charged on bonds issued by the State of Israel or private firms in that country
- 7) Import of economic stability by joining the euro currency bloc, allowing again for lower interest rates on Israeli-issued debt⁹.

One of the unknowns is what the Arab world would say about Israel's integration in the EU. A priori one would be tempted to say that the reaction would be negative and even nightmarish for some ("again a European re-occupation of the Middle East"), but this is not a foregone conclusion according to different persons consulted. For instance, those countries that have come to terms with the existence of Israel and at the same time admit that it should not be part of the Arab world or the Middle East even in economic terms (e.g. because development levels are too different as well as labour and environmental standards) should see as an advantage the fact that Israel would be tied to the European bloc and would have to conform to some restraining supranational rules. Not only that. Some may see in such a step a relaxation of the overwhelming ties that bind Israel to the US, something perceived as an advantage from an Arab viewpoint. On top of that, the probable constitutional changes that Israel would have to implement in order to be a full EU member (see above) would be of a nature to seduce many Arabs, not only those who are citizens of the State of Israel.

This third radical option has been seriously considered by a number of intellectual and political figures in Europe and in Israel since the end of 2001, following an initiative of the Radical Party from Italy. The latter was able to mobilise over 40 MEPs who signed a Declaration in favour of the full participation of Israel in the EU. Members of this group organised later on a Conference at the EP in Brussels on 4-6 March 2002 on "Israel in the European Union". Personalities both from the EU and Israel were invited to the event: MEPs, Members of the Knesset, European and Israeli academics, journalists, artists and other members of the civil society, including the author of the paper. The conference was addressed by Mrs. Emma Bonino, MEP, formerly Commissioner at the European Commission who is among the initiators of the above-mentioned Declaration. Four members of the present Knesset participated in the meeting and supported the new initiative (Avital, Paritzky, Sandberg, Bronfman) as well as MEPs Ries, Panella, Dupuis, De Clercq, Cappato and Zimeray. Elie Wiesel, the Nobel Prize in Literature and the Israeli writer Amoz Oz supported the conference. The Israeli philosopher Yirmiahu Yovel, a world-renown expert on Spinoza, wrote an article supporting the idea in *Haaretz*, an Israeli daily newspaper. A similar position has been defended by Bronislaw Geremek, former Foreign Minister of Poland in the French newspaper *Le Monde* on 17 May 2002. Some officials at the German Foreign Ministry seem receptive to this idea or at least to the idea of Israel's membership in the EEA (see previous option above).

The probable line-up of the different political groups represented in the Knesset regarding Israel's EU membership would be as follows:

⁹ See *Jerusalem Post*, "The return of the dollarization idea", 23 November 2002.

The Labour Party, Meretz and Shinui would be favourable, the dominant argument being that membership would help Israel in becoming a truly secular modern state.

All Jewish Religious Parties would be against for the opposite reason.

The interesting cases are the parties created by Russia-originating migrants, the Arab-Israeli parties and the Likud.

From information collated from MK Bronfman (who currently appeals to only about 20% of the Russia-originating electorate), it appears that on this issue more than 80% of voters would favour Israel's membership in the EU mainly for cultural reasons. The case is interesting because on the one hand Russia-originating migrants have right-wing opinions in general on foreign policy issues but on the other hand, only deepening economic links with the EU (e.g. option 2, namely EEA membership) would not be enough for them. This part of the electorate feels European and wants to "return to Europe", rather than to "Zion".

Arab Israelis would be split down the middle between those striving to acquire full citizenship rights and dreaming of a secularised Israel (and including all Christian Arabs) and those voting for Islamic Parties. The first group would strongly support EU membership, seeing it as a way to transform Israel from a Jewish State to a State for all its citizens. The second group would be strongly against, since the EU is perceived as a Western, Christian club.

The Likud would also be split down the middle into two groups. One group containing secular, extremely nationalistic voters would be against, unless EU and NATO membership comes in one package. The other group containing moderate Likud leaders (such as MKs Shetreet, Eitan or Livni) would see EU membership as an historic opportunity to anchor Israel among the Western democracies. It is not clear for this author how a key personality such as Foreign Minister and former Prime Minister Nethaniahu would think in this respect. The latter has said on different occasions that Israel must be economically and politically integrated in the West. More recently, according to Israeli press releases, he asked Italian Prime Minister Berlusconi whether Israel might become a member of the EU, but later it was said that he referred to adoption by Israel of the euro. Prime Minister Sharon would in all likelihood instinctively oppose such a development.

Given what is indicated above and as for many other ideological and political issues in Israel, a decision for or against application for membership would depend on what the Likud or its leaders (e.g. Nethaniahu) would stand for.

Contrary to what others may believe, this author does not think that the fear of anti-Semitism in Europe would play a significantly negative role in any Israeli referendum on the issue. For once, young and middle-aged people including students, professionals or simply tourists know what the reality looks like in Europe. Holocaust survivors who are traditionally very dismissive about links with Europe have less weight year after year in the Israeli electorate for obvious reasons. A key issue in this respect as well as in others mentioned in this paper would be the positions adopted by the Jewish Diaspora. It can be safely be assumed that European Jews as well as a large share of American Jews would be enthusiastic.

3. Some general conclusions

Israel's present status in the EMP is clearly unsatisfactory, when seen from an Israeli perspective, and must be discarded sooner rather than later, not only because it does not add anything substantial to the bilateral association agreement, but because it subsumes Israel in a project with no future, for reasons that have nothing to do with Israel, but with the lack of sufficient appeal to Arab countries of a project limited to industrial free trade between the

latter and the EU, no panacea for oil-producing or agriculturally based economies. And with the coming enlargement of the EU to 25 countries, the EMP and the Barcelona Process will lose steam in any event and with it, no prospect of seeing the amounts of MEDA funds currently allocated to reforms in Mediterranean Arab countries being greatly increased. Moreover if the crisis in Irak is solved, the temptation of the EU could be to extend the Partnership to other Arab countries leading to overstretch, unless the aims of the project become more modest than now (e.g. prevent a clash of civilisations between Europe and the Arab world without trying anymore to reform the latter's political and economic structures). There is nothing very attractive from Israel's perspective if this dynamic prevails and that Israel argues this paper should look into other more interesting options from an economic and/or political viewpoint.

A second policy option gauges advantages and disadvantages for Israel of obtaining membership in the European Economic Area, i.e. full economic integration without political integration in the EU. Among the advantages are the unimpeded access to the Single Market, full participation of Israel's civil society actors in European-wide networks and in the shaping of decisions regarding the Single Market (including in the domains of high-tech and services, which are so important to Israel's economy nowadays). The EEA solution is also compatible with maintaining Israel's FTA with the US and with the vision of "The New Middle East", for the moment set aside and rather utopian, but which might make a comeback at some future stage. And EEA membership can also open the door to an even more daring "vision", namely EU membership. In sum, EEA membership can be taken as an interim measure, not even requiring the concomitant resolution of the Arab-Israeli conflict in all its aspects.

But why wait? Following the examples of the Central and Eastern European countries, as well as Cyprus and Malta, which have considered EEA membership as unsuitable, impractical, insufficiently inspiring and undemocratic on top of it, Israel could ask for EU membership, so as not to be left behind, even more so after Turkey seems also on the way to membership. This is a third policy option that therefore takes into consideration not only quantum political changes that have taken place in and around the EU, but also in the Middle East as well. It would bring a "new vision" for Israel, once peace with its neighbours is in the offing, allowing for a complete change of the present terms of reference. Moreover, Israel's membership in the EU would improve and strengthen the democratic features of Israel as well as its perceived security, something likely to facilitate painful territorial concessions to its neighbours and its geographical accommodation in the Eastern Mediterranean. Israel's participation in the CAP and in the EU's competition policies would also add to the economic benefits that simple EEA membership would yield. Of course, Israel would have to conform to the *acquis communautaire* and the Copenhagen criteria plus specific political conditions that the EU might want to impose before considering Israel for membership (e.g. respect for UN resolutions regarding the Israeli-Arab conflict and so on). But this is beyond the object of this paper, which deals only with Israeli, not EU perspectives.

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