
EU-Israel Partnership: Future Economic Prospects in Light of the 2017 ‘White Paper’

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Summary: This article explores the implications each of the five alternative scenarios for the future of EU integration, suggested in the *White Paper on the Future of Europe: Reflections and Scenarios for the EU 27 by 2025*, published by EU Commission in March 2017, may have on the EU-Israel partnership and on the Israeli economy.

Keywords: Israel, EU, integration, association.

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1. Introduction

EU-Israel trade relations and political partnership date back to the early years of EEC establishment, in the 1950's.¹ Since 2000, an Association Agreement² in force between these partners forms a legal framework for their relations.

The EU is one of two Israel's major trade partners (the other is the United States). Geographic and cultural proximity reinforce this partnership. EU border (Cyprus) is only 300 KM from Israel. Out of 8.7 million citizens, more than 1 million Israelis hold an EU passport and many others are of European origin.

For Israel, a small economy surrounded by unfriendly neighbors, the huge EU market, encompassing more than 500 million citizens, is a desired trade

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¹ PARDO, Sharon, PETERS, Joel. *Israel and the European Union: A Documentary History*. Lexington Books, Lanham MD, 2012, 2014 reprinted.

² European Union – Israel Association Agreement, concluded in 1995, entered into force in 2000. [online]. Available at: http://eeas.europa.eu/archives/delegations/israel/documents/eu_israel/asso_agree_en.pdf

destination, offering Israeli industries opportunities to enjoy economies of scale advantages.³ The EU is particularly interested in research and development (R&D) collaboration, where Israel enjoys a comparative advantage.⁴ In total, trade between these two partners amounted in 2016 to more than 43 bn \$.⁵

Israel thus follows very closely recent developments in the EU, including its financial, refugees and political crises, acknowledging that any future change in the nature of the EU as a whole may bear substantial implications for the Israeli economy.

The White Paper on the Future of Europe: Reflections and Scenarios for the EU 27 by 2025, published by the European Commission in March 2017 (Hereby: ‘the White Paper’),⁶ suggests a scale of five integration formulas the EU27 may choose to aim at by 2025, in light of current crises and their implications for the EU.

The European intensive discourse⁷ on this White Paper naturally concentrates on the implications each scenario bears for the European Union, its member states and citizens.

This article depicts the implications each such choice may bear for the *Israeli economy*. After referring shortly to the circumstances underlining this White Paper, the following sections focus on the scenarios foreseen by this paper, describing their optional implications for the Israeli economy. Conclusion assesses what might be the best EU integration level choice from a trade partner’s (i.e. Israel’s) point of view, examining whether it correlates to the scenario the EU Commission perceives as serving best the European interests.

2. The EU at a Crossroads

Since 2008, the EU is struggling with an ongoing financial and economic crisis. Steps taken to pull out of the crisis forced a stricter monetary discipline on EU members. Their effect was particularly heavy on vulnerable member states such

³ MUNIN, Nellie. *The European Union and Israel: State of the Play*. The Israeli Ministry of Finance [Hebrew], 2003.

⁴ For information on Israeli participation in EU R&D programs see ISERD – Israel and Europe R&D Directorate, 2017. [online]. Available at: <http://www.iserd.org.il/>

⁵ The Israeli Central Bureau of Statistics. *Israel’s Foreign Trade According to Countries: EU*, 2017. [online]. Available at: http://www.cbs.gov.il/www/fr_trade/d4t2.pdf

⁶ European Commission. *The White Paper on the Future of Europe: Reflections and Scenarios for the EU 27 by 2025*, 2017. [online]. Available at: https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27_en

⁷ According to Juncker’s forward to the White Paper, *ibid* p. 3, since its publication the EU Commission initiated more than 2000 public events to discuss it.

as Greece, illuminating the huge interests gap between financially strong and weak member states.⁸ This gap, in turn, inflames an ongoing controversy between these two groups regarding the right way out of the financial crisis. The fact that hitherto, the financially strong member states succeed to dictate the way forward⁹ is a source of major frustration for financially weaker member states.¹⁰

The refugees' crisis hit the EU in 2015, on top of the economic and political vulnerability caused by the financial crisis.

Due to severe political crises in some Middle Eastern countries, growing numbers of refugees started fleeing to different EU countries, most of them illegally, through the Mediterranean Sea or through land borders, without documentation or prior consent of the destination countries. Most of these unauthorized migrants are Muslims.¹¹

This huge wave of migrants includes many asylum seekers, but also economic migrants¹² and is suspected to also include hostile agents of extreme Muslim groups, disguised as refugees. Experts assess that this group is relatively small,¹³ but their exact number is unknown. The EU assessed that 1.2 million refugees entered it in 2015.¹⁴ In 2016 the numbers decreased substantially, but still, over

⁸ MUNIN, Nellie. From Financial Deficit to Democratic Deficit? *Journal of Multidisciplinary Studies, St. Tomas University, Florida*, 2014, vol. 6 no. 1, p. 5; MUNIN, Nellie. European Monetary Union's Single Banking Supervision Mechanism: Another Brick in the Wall? *IUP Journal of International Relations*, 2016, vol. X no. 4, p. 7.

⁹ See an example to one legal aspect of this controversy: HAMULAK, Ondrej, KOPAL, David., KERIMAE, Tanel. Walking a Tightrope – Looking Back on Risky Position of German Federal Constitutional Court in OMT Preliminary Question. *European Studies*, 2016, vol. 3, pp. 115-141.

¹⁰ For the financial and economic aspect of this controversy see, e.g. RUBINI, Nouriel. Teaching PIIGS to fly. *Project Syndicate*, 2010. [online]. Available at http://relooney.fatcow.com/0_New_6765.pdf; KRUGMANN, Paul. *End This Depression Now*. New York, NY: W.W. Norton, 2012; HABERMAS, Jürgen. Democracy, Solidarity and the European Crisis. In: GROZELIER, Anne-Marie, HACKER, Bjoren, KOWALSKY, Wolfgang, MACHING, Jan, MEYER, Henning, UNGER, Brigitte (Eds.), *Roadmap to a Social Europe*. Social EuropeReport. 2013, pp. 4-13. [online]. Available at: http://www.abetterway.ie/download/pdf/roadmap_to_social_europe_sej_oct_2013.pdf#page=9

¹¹ The top three nationalities of entrants of the over one million Mediterranean Sea arrivals between January 2015 and March 2016 were Syrian (46.7%), Afghan (20.9%) and Iraqi (9.4%). From January 2017 to February 2018 the picture seems to have somewhat changed, as the top three nationalities of entrants were Syria (10.7%), Nigeria (10.2%), Guinea (7.7%), Côte d'Ivoire (7.5%), Morocco (6.5%): United Nations High Commissioner for Refugees. *Most Common Nationalities of Mediterranean Sea Arrivals from January 2017*. [online]. Available at: <http://data2.unhcr.org/en/situations/mediterranean>

¹² UNHCR VIEWPOINT. 'Refugee' or 'Migrant' – Which is Right? 2016. [online]. Available at: <http://www.unhcr.org/55df0e556.html>

¹³ REUTERS. *German Spy Agency Says ISIS Sending Fighters Disguised as Refugees*. 2016. [online]. Available at: <http://www.reuters.com/article/us-germany-security-idUSKCN0VE0XL>

¹⁴ EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 11.

350,000 refugees arrived by sea.¹⁵ The huge numbers of arriving refugees turned this crisis into the most severe refugees' crisis since World War II.¹⁶ These events became a major source of concern in the EU, implying the following threats:¹⁷

1. A potential security threat caused by extremists and terrorists disguised as refugees.¹⁸
2. A potential economic threat imposed by economic migrants, who may offer cheap labor, thus compete with EU laborers, already suffering high unemployment rates.¹⁹
3. A cultural threat of changing the social tissue of originally Christian communities in which these immigrants will settle, and in the long run – maybe even the overall Christian nature²⁰ of European society.²¹
4. Budget constraints caused by the need to handle the refugees and assimilate them into the society.²²

¹⁵ Respectively, a substantial decrease in asylum applications was recorded in 2016: EUROSTAT. *Asylum Quarterly Report*, 2017. [online]. Available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Asylum_quarterly_report. In 2017, arrivals by sea seem to have decreased again, as only 136,925 were registered by end September. THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES. *Operational Portal Refugees Situation*, 2017. [online]. Available at: <http://data2.unhcr.org/en/situations/mediterranean?page=1&view=grid&Type%255B%255D=3&Search=%2523monthly%2523>

¹⁶ BUSINESS STANDARD (BS). *Over 1 Million Arrivals in Europe by Sea: UNHCR*. 2015. [online]. Available at: http://www.business-standard.com/article/pti-stories/over-1-million-arrivals-in-europe-by-sea-unhcr-115123000668_1.html; EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 11.

¹⁷ See how these threats are reflected in the observations of local communities, in: SITEK, Bronislaw. *Migration – The Threat or The Chance of development for the City?* International and Comparative Law Review, 2011, vol. 11, no. 1, pp. 87-96, 95.

¹⁸ YEHEZKELI, Zvi., DERYI, David. *Allah Islam – Documentary on the Muslims in Europe*. 2012. [online]. Available at: <https://www.youtube.com/watch?v=hR7REARFFpQ>; YEHEZKELI Zvi., DERYI, David. *Confessions From ISIS*. 2017. [online]. Available at: <https://www.youtube.com/watch?v=DWKDRo6Q-ls> (chapter 1); <https://www.youtube.com/watch?v=ydahQXpd5DU> (chapter 2); https://www.youtube.com/watch?v=W4wcSa7__YQ (chapter 3); https://www.youtube.com/watch?v=41UoH_aDQRs (chapter 4); <https://www.youtube.com/watch?v=duzCYso47Qk> (chapter 5).

¹⁹ In 2015 3.8% of EU workers were foreign migrants: EUROSTAT. *Labor Market and Labor Force Survey (LFS) Statistics*. 2016. [online]. Available at: <http://ec.europa.eu/eurostat/statistics->

²⁰ WEILER, Joseph. *L'Europe Chrétienne: une Excursion*. Paris: Éditions du Cerf, 2007.

²¹ KONOPACKI, Stanislaw. Europe and its Problem with Identity in the Globalized World. *European Studies*, 2014, vol. 1, pp. 56-69.

²² Costs at EU level during 2016 are specified in: European Commission. *Refugee Crisis in Europe*. 2017. [online]. Available at: http://ec.europa.eu/echo/refugee-crisis_en. At the national level, see for example: DEARDEN, Lizzie. *Germany 'spent more than 20 bn Euro on refugees in 2016' as crisis outstrips states budgets*. Independent, 2017. [online]. Available at: <http://www.independent.co.uk/news/world/europe/germany-refugees-spend-20-billion-euros-2016-angela-merkel-crisis-budgets-middle-east-north-africa-a7623466.html>

These threats divide EU member states into two groups: one (led by economically strong members such as Germany and France) striving to offer a shelter to the refugees, while the other (led by some Central and Eastern European countries) refusing to take part in this effort.²³

These threats are perceived as major motivations for the UK's Brexit.²⁴

These threats should also be seen in the context of EU's global challenges, including its shrinking and aging population (expected to be the eldest in the world by 2030), its decreasing share in global GDP, players gaining weight in the global financial arena, competing with the Euro, the prospects that defense expenditure would double by 2045, the fall of employment rates,²⁵ which is expected to escalate as robots replace many human professions,²⁶ and other challenges imposed by globalization.²⁷

In 2015, the presidents of five leading EU institutions published the Five Presidents Report,²⁸ contending that the best way to pull out of the financial crisis would be by tightening EU integration, towards full fiscal, financial, and economic unions, hopefully followed by a political union.²⁹ In EU reality, the

²³ E.g. MORTIMER, Caroline. *Hungary Set to Reject EU Refugee Quotas in Referendum in Victory for Ruling Anti-Immigration Party*. Independent, 2016. [online]. Available at: <http://www.independent.co.uk/news/world/europe/hungary-eu-referendum-refugee-quota-migrant-crisis-xenophobia-border-control-racism-a7341276.html>; FREJ. Willa. *Here Are the European Countries that Want to Refuse Refugees*. Worldpost, 2017. [online]. Available at: http://www.huffingtonpost.com/entry/europe-refugees-not-welcome_us_55ef3dabe4b093be51bc8824. A recent poll by the UK's Royal Institute of International Affairs reflects that an average of 55% across 10 EU member states support stopping Muslim immigration to the EU: GOODWIN, Matthew., RAINES, Thomas, CUTTS, David. *What do Europeans Think about Muslim Immigration?* Chatham House, 2017. [online]. Available at: <https://www.chathamhouse.org/expert/comment/what-do-europeans-think-about-muslim-immigration>

²⁴ E.g. TILFORD, Simon. *Britain, Immigration and Brexit*. CER Bulletin, 2016. [online]. Available at: https://www.cer.org.uk/sites/default/files/bulletin_105_st_article1.pdf; THE MIGRATION OBSERVATORY. *Migration and Brexit*. 2018. [online]. Available at: <http://www.migrationobservatory.ox.ac.uk/projects/migration-and-brexite/>

²⁵ EUROPEAN COMMISSION, *the White Paper*, n. 6, pp. 8-10.

²⁶ E.g., VOA NEWS. *Will Robots Replace Human Drivers, Doctors and Other Workers?* 2017. [online]. Available at: <https://www.voanews.com/a/will-robots-replace-human-drivers-doctors-workers/3810706.html>; FORBES. *10 Million Self-Driving Cars Will Hit the Road by 2020*. 2017. [online]. Available at: <https://www.forbes.com/forbes/welcome/?toURL=https://www.forbes.com/sites/oliviergarret/2017/03/03/10-million-self-driving-cars-will-hit-the-road-by-2020-heres-how-to-profit/&refURL=https://www.google.co.il/&referrer=https://www.google.co.il/>

²⁷ PORTO, Manuel. *The Path Towards European Integration: the Challenge of Globalization*. *European Studies*, 2014, vol. 1, pp. 41-55.

²⁸ European Commission. *Completing Europe's Economic and Monetary Union*. 2015. [online]. Available at: https://ec.europa.eu/commission/sites/beta-political/files/5-presidents-report_en.pdf

²⁹ DE QUADROS. Fausto. *Europe after the economic crisis: towards a Political Union*. *European Studies*, 2015, vol. 2, pp. 226-231.

feasibility of this aim was questionable.³⁰ The escalation since then, described above, seems to have invoked second thoughts regarding this determinant position, or at least about the undemocratic way by which it was obtained. Criticism seems to have raised decision makers' awareness to the need for further and broader consultation at EU level. These circumstances gave birth to the White Paper, which has been published on the European Commission's website for the public's comments in March 2017.

3. The Five Scenarios for EU's Future

Unlike the Five Presidents Report, which has determined only one way forward, the White Paper opened a public discourse on the best way forward.³¹ Unlike the Five Presidents Report, that has foreseen the obtainment of a very high degree of market integration, close to a federation, by 2025, the White Paper suggested a scale of five different integration formulas at which EU member states and citizens may aim, alternatively and by mutual decision.

The White Paper stresses the necessity to decide the desired level of integration relatively quickly, to allow decision makers form 'a plan, a vision and a way forward to present to the people by the time we hold European Parliament elections in June 2019.'³²

3.1. Scenario 1: 'Carrying on'

*Scenario 1*³³ titled 'carrying on', is sub-titled '*the European Union is delivering its positive reform agenda*'. This scenario describes an EU that 'sticks to its course', but at the same time 'implementing and upgrading its current reform agenda'. If this scenario is what the Commission sees as 'status quo',³⁴ this description is thus inaccurate, since upgrades (if member states succeed to decide on them) would eventually boil down to further integration.

If this scenario works, by 2025 the EU 27 would attempt to strengthen the single market economically, to obtain more jobs and growth, particularly for

³⁰ MUNIN, Nellie. The 'Five Presidents Report': Dogs Bark but the Caravan Moves on? *European Politics and the Society*, 2016, vol. 17 no. 3, pp. 401-420.

³¹ Although this White Paper may be perceived as a rhetoric and political exercise by the Commission, where the result: choosing the highest degree of integration, is still aimed at: MATTHEE, Marielle, MUNIN, Nellie. *The Future of the EU: Rhetoric in Service of Commission's Agenda?* *Journal of Jurisprudence and Legal Practice*, Vol. 1, 2018, pp. 5-27.

³² EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 3.

³³ *Ibid*, p. 16.

³⁴ *Ibid*, p. 15.

youth, in the spirit of Bratislava declaration 2016³⁵ and to attract investments by stepping up investments in infrastructure (digital, transport and energy). Financial strength would improve by substantial improvement of the single currency (probably by continuing the implementation of the Five Presidents Report vision, which is nevertheless not explicitly mentioned in this scenario) and the functioning of the Euro area.

90% of all state aid measures will be in the hands of national, regional and local authorities. ‘The renationalization of development aid makes it harder to build comprehensive partnerships with African countries, limiting economic opportunities in a growing market and failing to tackle the root causes of migration.’³⁶

National authorities would share intelligence and deepen defense cooperation and even pool some military capabilities, enhancing financial solidarity for missions abroad. These steps imply enhancement towards a military union without saying so explicitly. The White Paper expresses a Commission’s anticipation that terrorist and other defense threats would facilitate such steps, that were avoided hitherto. Another aspect which complements this picture is reinforced cooperation on borders management (with active assistance of the European Border and Coast Guard), although it is stressed that it will stay fully under national responsibility, and progress towards a common asylum system.

In terms of external relations, the EU27 would speak in one voice, striving towards closer cooperation on foreign affairs. The EU will continue to conclude trade agreements based on the Bratislava Declaration’s balance of interests: ‘to ensure a robust trade policy that reaps the benefits of open markets while taking into account concerns of citizens,’ and manage to positively affect the global agenda on climate, financial stability and sustainable development.

3.2. Scenario 2: ‘Nothing but the single market’

The *second scenario*³⁷ is titled ‘*Nothing but the single market*’. If the former scenario is perceived as ‘status quo’, this one may fit into the description of ‘changing of scope and priorities’.³⁸ In essence, though, it implies withdrawal from EU’s current course into gradual re-centering on the single market only, due to the EU27 inability to reach agreement on many issues. This scenario implies that the single market for goods and capital will be strengthened. However, common

³⁵ COUNCIL OF THE EUROPEAN UNION. *Bratislava Declaration and Road Map*, 2016. [online]. Available at: <http://www.consilium.europa.eu/en/policies/future-eu/bratislava-declaration-and-roadmap/>

³⁶ EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 19.

³⁷ *Ibid*, p. 18.

³⁸ *Ibid*, p. 15.

action will be abandoned in many fields, of which the Commission deliberately chose to mention migration, security and defense, three issues now under deep controversies, as well as consumer, social and environmental standards, taxation (including fighting tax evasion),³⁹ the use of public subsidies, foreign policy. Consequently, standards would continue to differ, and cooperation in the Euro area would be limited.

Mobility of workers and the stability of the single currency would suffer, as well as the free movement of persons, due to intensified border checks. Crossing borders for business or tourism would become difficult due to regular checks (no single policy on migration, asylum, bilateral security coordination). For EU citizens, finding a job in another member state would be harder and the transfer of pension rights to another country would not be guaranteed. Businesses established in the EU would find it harder to relocate workers.

In the global arena, the EU would find it more difficult to agree the terms of trade agreements and would have less effect on issues such as climate change harnessing globalization, since it will not speak in one voice. Some foreign policy issues would increasingly be dealt with bilaterally.

3.3. Scenario 3: ‘Those who want more do more’

*The third scenario*⁴⁰ is titled ‘*those who want more do more*’. It focuses on enhanced cooperation, which already exists in the EU, legally⁴¹ and pragmatically.⁴²

It describes a process where the majority of member states continues in the path described in scenario 1: The EU 27 continue to strengthen the single market and pursue progressive trade agreements. They continue to strengthen the

³⁹ Despite severe difficulties to treat taxation (particularly direct taxation) at EU level, due to constant resistance of the member states, fearing to lose control over this important source of income, Commission’s suggestion to completely abandon EU treatment of this field seems to overlook the significant impact taxation seems to have on growth. See more on the link between the two in: BELLOVA, Jana. *Analysis of taxation and Economic Growth – Insights, Background and Findings*. International and Comparative Law Review, 2014, vol. 14, no. 1, pp. 69.

⁴⁰ EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 20.

⁴¹ Art. 20 Treaty on the European Union – TEU, Arts. 326-335 Treaty on the Functioning of the European Union – TFEU.

⁴² European Commission. *Enhanced Cooperation*. 2017. [online]. Available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:xy0015>; http://eur-lex.europa.eu/summary/glossary/enhanced_cooperation.html; CANTORE, Carlo Maria. We’re one, but we’re not the same: Enhanced Cooperation and the Tension between Unity and Asymmetry in the EU. *Perspectives on Federalism*, 2011, vol. 3, no. 3. [online]. Available at: http://on-federalism.eu/attachments/103_download.pdf; MUNIN, Nellie. Tax in Troubled Time: is it the Time for A Common Corporate Tax Base in the EU? *EC Tax Review*, 2011, no. 3, pp. 121-133.

economic and monetary union and continue to cooperate on issues such as migration, Schengen, security and foreign policies.

Simultaneously, groups of member states deepen cooperation in chosen domains. As examples for such domains it mentions defense (focusing on military coordination and joint equipment), border procedures and criminal enforcement internal security and justice, taxation, currency (where this is in fact already the state of affairs), transportation (liability and standards for cars) and social standards.

If the use of enhanced cooperation becomes more and more common, it may gradually imply fragmentation of the ‘single market’ in the broad sense, due to different rules in different member states with regard to the issues under enhanced cooperation. Weaker countries may be left behind, as stronger countries would speed up towards enhanced integration. In the long run, this process may undermine the EU completely or change it substantially, leaving only strong countries in the race.

3.4. Scenario 4: ‘Doing less more efficiently’

*The fourth scenario*⁴³ is titled ‘*doing less more efficiently*’. Like scenario 2, it may also fit into the description of ‘changing of scope and priorities’.⁴⁴ It suggests that the EU would focus on certain priority areas, delivering more and faster in them, at the cost of returning other policy areas to national responsibility, or doing less at EU level. The Commission stresses that such a choice would serve as an opportunity for the EU27 ‘to better align promises, expectations and delivery’,⁴⁵ to prevent scandals emanating from expectation that the EU take care of issues it does not have power or tools to handle.

Like scenario 2, this scenario also implies some revert from the current stage of integration, at least in terms of scope of issues handled by the EU.

The issues on which Commission suggest to focus EU efforts according to this scenario include innovation (R&D, EU-wide projects to support decarbonization and digitation, establish a new European Telecoms Authority, deepen cooperation on hi-tech and space projects, complete regional energy hubs), trade (to be exclusively dealt at EU level), security, migration, the management of borders and defense. (In scenario 3, the Commission suggested to *abandon* EU treatment of the four latter issues).

This scenario further suggests to continue taking steps to consolidate the Euro area.

⁴³ EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 22.

⁴⁴ *Ibid*, p. 15.

⁴⁵ *Ibid*, p. 22.

It urges the development of ‘stronger tools... to directly implement and enforce collective decisions, as it does today in competition and banking supervision’.⁴⁶ Thus, if chosen the Commission may perceive it as a feasible interim stage, serving the long-term vision of enhanced integration (although it is not presented as such). Other anticipated developments reinforce this assumption: cooperation between police and judicial authorities, mentioned in the context of counter-terrorism acts, may yield further cooperation between these authorities in the future; ‘The European Border and Coast Guard fully takes over the management of external borders’⁴⁷ and a single asylum agency processes all asylum claims. Joint defense capacities will be established, towards the creation of a European Defense Union. Another suggestion is to establish a new European Counter-terrorism Agency. The EU will speak with one voice on all foreign policy issues.

While these integrative steps take place, this scenario foresees the abandonment of EU responsibility in other fields, such as: regional development, public health, parts of employment and social policy not directly related to the functioning of the single market, state aid control. In other areas, it suggests to determine only minimum standards at EU level: consumer protection, the environment, health and safety at work. The Commission justifies the choice of these fields as domains where the EU ‘is perceived as having more limited added value, or as being unable to deliver.’⁴⁸

3.5. Scenario 5: ‘Doing much more together’

All proposed scenarios seem to lead to *Scenario 5*,⁴⁹ titled ‘*doing much more together*’. The choice to present it as the last option seems to signalize that this is the scenario which the EU Commission favors most.

It foresees enhancement of cooperation between all member states, in all domains, including the Euro. Economic, financial and fiscal Union would be achieved. Decision making would be more rapid and enforcement would improve. Consequently, the single market would be strengthened through harmonization of standards and stronger enforcement. Since the EU would speak in one voice it will gain more international effect in matters such as trade (exclusively dealt by the EU), climate change, development and humanitarian issues. A European defense union will be created.⁵⁰ Cooperation on border

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Ibid, p. 24.

⁵⁰ For constitutional aspects of creating an ‘EU army’ see: DOLEŽAL, Radim. Common European Union Army Under the Constitutional Law of European Union. *European Studies*, 2016, vol. 3, pp. 223-238.

management, asylum policies and counter-terrorism matters will be systematic. Europe will develop a joint approach on migration and will increase investments in its neighborhood and beyond. Internally, it calls for completing the single market, creating a European ‘Silicon Valley’, fully integrated capital markets and greater coordination on fiscal, social and taxation matters.

4. Implications for Israel

4.1. Desired Level of Integration

In terms of trade, the highest level of market integration the EU can achieve is the best option for its trade partners, including Israel. Any enhancement in terms of integration level implies less trade barriers, a market which is more consolidated and uniform and thus easier to work with for its trade partners, who do not have to struggle with different tax laws and authorities, different rules, different currencies, different administrations and regulation. For its trade partners, a fully integrated EU market would imply a great saving of expenditure, time and effort.

From this aspect, Scenario 5 is the most preferable scenario for Israel, followed by scenario 1 that seems to strive towards the same end, only slower. Scenario 2, implying the abandonment of common action in fields such as security (where Israel has a comparative advantage) but also taxation, consumer standards (which may adversely affect Israeli consumers of imported EU goods and services), social standards and border management (which may adversely affect Israeli-European citizens enjoying such standards now, and Israeli firms operating in the EU, relying on such standards, which among other things facilitate relocation of their workers) and environmental standards (folding a potential for mutual collaboration due to geographic proximity) would be less favorable in Israeli eyes. Scenario 4, suggesting to set only minimum standards at EU level regarding consumer protection, the environment, health and safety at work, may raise similar – only more moderated – concerns for Israelis.

4.2. Negotiations and Conclusion of Trade Agreements

Full (or close to full) EU market integration also implies great savings in time and efforts regarding to negotiations on trade agreements with its trade partners. This is relevant for Israel, which is constantly negotiating with the EU to improve mutual trade terms in fields in which potential trade liberalization has not been

fully exhausted yet, such as agriculture, services⁵¹ etc. To that extent, scenario 1, explicitly describing a situation whereby ‘[t]he ratification process (of international trade agreements – N.M.) is lengthy and often delayed by discussions and disagreements in some national and regional Parliaments’,⁵² is less desirable from the Israeli point of view. A situation whereby ‘[t]he EU27 fails to conclude new trade agreements as Member States are unable to agree on common priorities or some block ratification’,⁵³ described in scenario 2, is even worse for Israel.

4.3. The Political Dimension and Trade

Scenario 5 (following the Five Presidents Report vision) seems to imply not only economic integration, but also full political integration.

EU-Israel association agreement subjects its trade provisions and benefits to political commitments, by providing for an ongoing political dialogue between the parties (Art. 3), and by subjecting the agreement to agreed political standards: democracy and human rights (Art. 2). In addition, according to Art. 31(1) of the Vienna Convention on the Law of Treaties,⁵⁴ any provision of the agreement should be interpreted in its context: this agreement is one in a series of association agreements the EU concluded with its Mediterranean neighbors, underlined by the Barcelona Process⁵⁵ vision of enhancing peace in the region through the use of a model similar to that of the EU. Since, according to this model economic collaboration in the region may enhance peace, to a great extent the EU subjects benefits potentially suggested by the agreement to political advancement in the region.

From the political aspect, the fact that the EU does not speak in one voice in international relations (scenarios 2, and to a certain extent 3) is sometimes an advantage for Israel, suffering EU measures imposed on it due to Palestinian or

⁵¹ HERMAN, Lior. *Two for Tango? European Union, Free Trade Areas in Services and Israel*, Hebrew University of Jerusalem, 2005. [online]. Available at: http://www.academia.edu/26319830/Two_for_Tango_European_Union_Free_Trade_Areas_in_Services_and_Israel

⁵² EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 17.

⁵³ *Ibid*, p. 19.

⁵⁴ United Nations. *Vienna Convention on the Law of Treaties*, 1969. [online]. Available at: <https://treaties.un.org/doc/publication/unts/volume%201155/volume-1155-i-18232-english.pdf>

⁵⁵ *The Barcelona Process or Euro-Mediterranean Partnership*. [online]. Available at: http://www.barcelona.com/barcelona_news/the_barcelona_process_or_euro_mediterranean_partnership. For Israel, the regional context has been quite frustrating due to its substantially unique economic profile compared to its neighbors and its political isolation in the region, that prevents most options for regional cooperation. See, e.g. TOVIAS, Alfred. *Israel and the Barcelona Process*. EUROMESCO, 2006. [online]. Available at: http://www.euromesco.net/index.php?option=com_content&view=article&id=135%3Apaper-3-israel-and-the-barcelona-process&catid=102%3Aprevious-papers&Itemid=102&lang=en

BDS Movement's⁵⁶ pressures.⁵⁷ As long as the EU does not speak in one voice in this regard, Israel can hope to persuade at least some of its member states to support its positions. This may turn out to be a much greater diplomatic and political challenge if the EU speaks in one voice (as suggested in scenarios 1, 4 and 5), necessitating persuasion of all EU member states.

4.4. The Euro

For Israel (as for the rest of the world), the Euro has established itself as an alternative to the US Dollar. It is a strong global 'player' in financial markets⁵⁸ and an investment currency. Thus, its strength and stability bare global implications, including implications for Israeli investments in it.

Improvement of the single currency's functioning may strengthen it, implying good news for Israeli investors in the Euro.

For Israeli traders and businesses, as well as for Israeli tourists to EU countries, the ability to use one currency in all EU countries facilitates trade and is thus preferable.

A strong Euro is preferred by Israeli exporters, who would get better consideration for their exports to the Eurozone countries, but not for Israeli importers and consumers of imports from Eurozone countries (including Israeli tourists in these countries), who would have to pay more for the same products or services.

All five scenarios seem to rely on the assumption that the Euro would continue to exist. Scenarios 5 and, to a lesser extent, scenarios 1 and 4 pay particular attention to its strength (thus being preferable for Israeli investors and exporters). Unlike them, scenario 2⁵⁹ explicitly implies a lower degree of market integration, which may adversely affect the Euro's strength. Scenario 3 foresees continuous strive towards the Euro's development and strengthening, allegedly not depending on enhanced cooperation in other fields. However, to the extent

⁵⁶ BDS – *Boycott, Divestment and Sanctions Movement*. 2018. [online]. Available at: <https://bds-movement.net/>

⁵⁷ E.g. HARPAZ Guy, RUBINSON Eyal. The Interface Between Trade, Law and Politics and the Erosion of Normative Power Europe: Comment on Brita. *European Law Review*, 2010, vol. 35, no. 4, pp. 551-571; PUCCIO Laura. Understanding EU Practice in Bilateral Free-Trade Agreements: Brita and Preferential Rules of Origin in International Law. *European Law Review*, 2011, vol. 36, no. 1, pp. 124-134; PARDO Sharon, ZEMER Lior. Bilateralism and the Politics of European Judicial Desire. *Columbia Journal of European Law*, 2011, vol. 17, no. 2, pp. 263-305; MUNIN, Nellie. EU Measures Towards Israeli Activities in the Occupied Territories and the BDS: A Diplomatic Achievement or a Pyrrhic Victory? *Journal of Multidisciplinary Studies, St. Tomas University, Florida*, 2015, vol. 7, no.3, pp. 19-38.

⁵⁸ EUROPEAN COMMISSION, *the White Paper*, n. 6, p. 8.

⁵⁹ *Ibid*, p. 18.

such a scenario enhances EU fragmentation it may eventually adversely affect the Euro. These scenarios may thus be preferred by Israeli importers in terms of price, in the long run, if the fragmentation they may imply encourages Eurozone member states to revert to their own currencies. Withdrawals from the Euro may affect its strength, depending whether financially strong or weak countries decide to withdraw. Such withdrawals may further imply an extra administrative burden for Israeli traders, emanating from the need to work with a variety of currencies instead of one currency for many countries.

4.5. Trade in Goods

The EU-Israel association agreement establishes a functioning free trade area in goods between them. If higher growth is obtained in the EU, as foreseen particularly by scenarios 1, 2 and 5, it may give a substantial boost to this mutual trade in goods. In the other two scenarios, trade in goods may be expected to continue growing more modestly, or even decrease if traders' interest is diverted to other avenues of the economy (e.g. services). To the extent scenario 3 (enhanced cooperation) involves serious enhancement of integration in fields facilitating trade in goods, such as internal taxation or transportation, this may facilitate trade in goods with EU member states involved in these initiatives (maybe at the expense of EU member states that would not join them).

4.6. Trade in Services

The EU-Israel association agreement does not establish a free trade area in services between the parties, although trade in services accounts for more than 70% of their respective GDP. For many years, the EU refrained establishing a free trade area in services with Israel, justifying this position by other priorities and subjecting it to positive political developments in the Mediterranean region. The emergence of an initiative to establish a comprehensive international agreement on services that would complement WTO's General Agreement on Trade in Services (GATS) from 1995 – the TISA⁶⁰ – seemed to turn such a bilateral arrangement unnecessary. However, the failure to complete it re-focuses attention on bilateral arrangements. Scenarios 1,3 and 5 aiming at enhancing EU growth may imply advancement in this direction, towards a comprehensive bilateral agreement that would cover all, or most services sectors, including public services such as: aviation and maritime transport, telecommunication, water, transport and

⁶⁰ European Commission. Trade in Services Agreement (TISA). 2018. [online]. Available at: <http://ec.europa.eu/trade/policy/in-focus/tisa/>

energy infrastructure, as well as private services such as legal services, medical services, educational services, consulting, engineering. Such an agreement would abolish current barriers to trade in most or all services, allowing for free mutual flow of them between Israel and the EU.

Scenario 2, explicitly aiming at enhancing financial markets' integration, may open opportunities for further collaboration between the EU and Israel on financial services. Such collaboration could be facilitated if Israel approximates its financial regulation to that of the EU. However such a step may turn out to be counter-productive in terms of Israel's financial trade relations with other partners, such as the United States.

At the same time, scenario 2 explicitly implies for escalation in terms of personal mobility,⁶¹ which is crucial for smooth flow of services and service suppliers, particularly in GATS Modes 2 (consumption abroad) 3 (commercial presence) and 4 (presence of natural persons).⁶²

Scenario 4 suggests focusing on projects involving specific services sectors such as research expertise and consulting, particularly in decarbonization and digitation, telecoms, hi-tech, space, energy security, the management of borders and defense.

For Israel, holding a comparative advantage in many of these industries, choosing this scenario may imply an improvement compared to the current situation, but a choice of any scenario implying a more comprehensive approach towards the enhancement of all – or most – services sectors is nevertheless preferred, since it might trigger development of Israeli industries in other services sectors.

4.7. Research and Development

Research and development, as well as hi-tech industries and ventures in digital, transport, space and energy industries, in which Israel has a comparative advantage, are well known growth generators. Thus, EU's continuous strive towards enhancing growth and jobs (mentioned particularly in scenarios 1,3,5 with focus

⁶¹ Recently, human mobility in the EU is already under the risk of erosion due to the Brexit: STEHLIK, Vaclav. Brexit, EEA and the Free Movement of Workers: Structural Considerations on Flexibility. *International and Comparative Law Review*, 2016, vol. 16, no. 2, pp. 145-156. Such erosion may grow if the Brexit is followed by other EU member states.

⁶² The General Agreement on Trade in Services (GATS) is a World Trade Organization (WTO) agreement in force since 1995 (see full text at: www.wto.org). The EU and Israel are among its many signatories. In Art. 2 it defines four modes for supplying services globally. Mode 1 – cross border supply, does not involve crossing a border by service suppliers and thus would not be affected by such scenario, unlike the other three modes mentioned above.

on specific fields in scenario 4) is encouraging for these (and other) Israeli industries, as well as for Israeli researchers and entrepreneurs.

In 1996 Israel became the first non-European country to join the European Framework Programs. From the 4th Framework Program to the current Horizon 2020 Israel's participation continuously grows. Hitherto these programs financed 3120 projects Israel has been involved in (with the participation of 4700 Israeli researchers), valued at over 19 billion Euros.⁶³

Participation in such European research programs implies opportunities for Israeli researchers from academia, industry, the public sector and government to establish scientific and professional collaboration with European excellent colleagues as well as funding, networking, and exposure to European markets. Thus, this collaboration is inevitable for Israeli research and development.

The mutual interest Israel and the EU have in this collaboration seems to overpower political differences between them. Consequently, the EU encourages it, despite the political stagnation in the Mediterranean region and constant Palestinian and BDS's pressures.

4.8. Security and Defense

In terms of trade, security industries and broad know-how regarding anti-terrorism, border management and control form other fields of Israeli expertise, which may reinforce European efforts specified particularly in scenarios 1, 4 and 5.

Scenario 2, foreseeing revert to full national responsibility over these issues, may still suggest cooperation between Israeli experts and national authorities in different EU countries, as internal border controls strive to be more systematic, but such opportunities would be more sporadic and distributive in nature. Personal movement difficulties described by this scenario may turn the supply of this service (like other services) more difficult in administrative terms.

Scenario 3, foreseeing a combination of common EU efforts and enhanced national efforts, may imply particular advantages to Israeli security and defense experts in the short and medium terms, allowing them to offer their services both at EU and national levels.

In global political terms, Israel has a security and defense interest in a stronger Europe, that has substantial weight in international security forums such as the UN security council⁶⁴ and NATO, and is capable of guaranteeing political

⁶³ ISERD. *20 Years of Israel-EU Cooperation*. 2018. [online]. Available at: <http://www.iserd.org.il/>

⁶⁴ See a recent example of the power of UN Security Council with regard to international criminal accusations in: LENTNER, Gabriel. The Role of the UN Security Council vis-à-vis the International Criminal Court-Resolution 1970 (2011) and its challenges to International Criminal Justice. *International and Comparative Law Review*, 2014, vol. 14, no. 2, pp. 7-23. This issue

stabilization of its Central and Eastern partners, as well as of neighbors such as Ukraine⁶⁵ and Balkan states, shielding them against possible Russian and other political threats.

4.9. Israel and the EEA Countries

The EEA (European Economic Area)⁶⁶ is an alliance between the EU and Norway, Iceland and Lichtenstein, three countries that committed themselves to automatic adoption of EU's economic law in order to enjoy the economic benefits of creating an economic area with EU countries, without joining the EU. Israel has a free trade area agreement with these countries.⁶⁷ The EEA countries have no say in the decision-making process taking place in the EU regarding its future design and functioning. Nevertheless, they will have to adjust their laws and practice to any change in EU's economic law emanating from the choice made by EU member states. Such adjustments may substantially change the nature of their economies, implying a respective, higher or lower degree of market integration between their economies and the EU market. Any such change may bear indirect implications for their trade relations with Israel. Thus, for example, if EU member states decide to opt for scenario 2 or 4, implying partial or complete withdrawal of EU responsibility from certain sectors, this would mean that EEA countries – like EU member states – would resume independent responsibility to regulate these sectors at the national level. Such changes may affect the terms of trade in these sectors between Israel and EEA countries, potentially undermining the synergy between EEA markets and the EU market in these sectors, that Israeli traders enjoyed before the change.

is of particular importance for Israel, where constant attempts are made as part of the Palestinian global campaign, to accuse Israeli soldiers and ex-soldiers for conducting war crimes in international tribunals.

⁶⁵ E.g. PETROV, Roman. EU Association Agreements with Ukraine, Moldova and Georgia: New Instruments of Integration without Membership. *European Studies*, 2015, vol. 2, pp. 29-38; FIALKOVSKA, Anastasiia. Basic Aspects of Approximation of Ukrainian Insolvency and Restructuring Law with European Union Legislation. *European Studies*, 2015, vol. 2, pp. 197-211; KIKHAIA, Iuliana. Approximation of the Ukraine Competition Law with the EU Law. *European Studies*, 2015, vol. 2, pp. 212-224.

⁶⁶ For details see: <http://www.efta.int/eea>

⁶⁷ Israel's free trade area agreement is with EFTA, including the EEA countries and Switzerland, which did not join the EEA. The full text of the agreement is available at: <http://www.efta.int/free-trade/free-trade-agreements/israel>

5. Conclusion

In September 13 2017, six months after the initiation of the White Paper and 2000 events for discussing the scenarios it suggests, the President of the European Commission, Jean Claude Juncker, in the State of the Union Address,⁶⁸ pulls the rabbit out of his hat, presenting his view or ‘scenario six’. Reiterating that ‘the future cannot remain a scenario, a sketch, an idea among others’ he strongly advocates for comprehensively strengthening integration, to include a stronger single market, a stronger economic and monetary union, a European minister of Economy and finance, a European intelligence unit and a European public prosecutor, a European defense union.

Although his message mentions the broad public discourse triggered by the White Paper, it does not refer at any point to any essential conclusions such discourse may have yielded.

Indeed, in the bottom line his message seems to ignore the opinion of many EU citizens, who may not like the fifth (and ‘sixth’) scenario, implying a gradually increasing sense of ‘democratic deficit’,⁶⁹ decreasing citizen’s access to decision making processes, combined with erosion of state authorities, discretion and unique comparative advantages.

Unlike many EU citizens sharing this feeling, trade partners such as Israel may find the scenarios aiming at enhanced European integration appealing in terms of trade, since their exporters, importers and firms established in the EU may reap the benefits of a full ‘single market’, including uniform rules, administrative measures and enforcement, while their negotiators may find it easier to negotiate with a large partner speaking in one voice.

The picture is less clear, however, from the political aspect. While Israel may profit from global and regional political stabilization, it sometimes suffers adverse effects caused by EU reaction to Palestinian and BDS political pressure. To that extent, variety of opinions and positions by different EU countries serves Israel better than a uniform position surrendering these pressures.

In the near future, the EU is expected to continue the political search for an agreed way forward. Israel, like other EU trade and strategic partners that have no say in this discourse, should observe this process with great interest, calculating carefully its strategy for any optional future development.

⁶⁸ JUNCKER, Jean-Claude. *State of the Union Address, 2017*. [online]. Available at: https://ec.europa.eu/commission/state-union-2017_en; http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm

⁶⁹ BIFALLI, Claudia. “Democratic Deficit” in the European Union –Supranational Bodies and Democratic Legitimacy. Ideas for a Reflection. *European Studies*, 2016, vol. 3, pp. 239-260.