



STATE OF ISRAEL
MINISTRY OF FINANCE

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DEPARTMENT

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Press Release

**Competitive Advantage Program presented by the minister of finance at the
Conference of the High Tech Industry Association (HTIA, formerly IVA)**

**The Ministry of Finance and the Ministry of Industry, Trade and
Labor have formulated a Comprehensive Program for Promoting
High Tech Industries**

**Minister of Finance, Dr. Yuval Steinitz: “We can be ambitious and announce
that we want to see the establishment of an ‘Israeli Nokia’ in the near future”**

This morning, at the Conference of the High Tech Industry Association (HTIA), held in Jerusalem, Minister of Finance, **Dr. Yuval Steinitz**, presented the Competitive Advantage Program to promote high tech industries in Israel. The program is the product of a concerted joint effort by an inter-ministerial team headed by the director general of the Ministry of Finance, **Haim Shani**. **Prof. Eugene Kandel** – head of the National Economic Council in the prime minister’s office, **Sharon Kedmi** – director general of the Ministry of Industry, Trade and Labor, **Dr. Eli Opper** – chief scientist, **Prof. Manuel Trajtenberg** – chairman of the Planning and Budgeting Committee, and representatives of the Ministry of Finance took part in formulating the program, during which they also consulted with experts from the private sector and NGOs.

Minister of Finance **Dr. Yuval Steinitz** commented on the new program: “High tech industries are one of the main growth engines of the Israeli economy and they embody substantive advantages of it. They utilize the human capital of which we are so proud, and they manage to come up with technological inventions and then translate them into world leading commercial products. However, we are concerned about a slowdown in the most dominant industries in Israeli exports, which are also a growth engine for the Israeli economy. So, we have decided to formulate an integrative program to contend with the entire chain of production – from the academic concept, through the commercialization, to turning startup companies into large companies. We can allow ourselves to be ambitious and to announce that we want to see the establishment of an “Israeli Nokia” in the near future.



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Minister of Industry, Trade and Labor, **Benjamin (Fuad) Ben-Eliezer**, said that “The chief scientist of the Ministry of Industry, Trade and Labor has many plans for assisting high tech companies at all stages. These plans contribute a great deal to the development of those companies, but we have identified several problems experienced by the companies in this field. I believe that we must continue to operate the existing programs, which are good in general, and we must also examine and operate new programs, as devised by the team.”

The inter-ministerial team conducted a comprehensive examination of the state of the high tech industries, charted their strong and weak points and formulated a holistic program designed to maximize the Competitive advantage in those industries, so that they continue to be the growth engines of the Israeli economy.

Among the industries' strong points identified by the team are the existing human capital and research on the cutting edge of global science, the presence of foreign companies that are conducting R&D in Israel and well-developed security R&D systems. Israel also has a well-developed entrepreneurial culture that contributes greatly to developing the industry.

However, the team also found signs of erosion in these industries. They found a drop in the scope of investments in venture capital by local and foreign investors, along with a narrowing of the gap by emerging nations, which are increasing their investment in R&D. There is also a concern that the industry's potential will not be realized, due, among other things, to a lack of focus for the government funding for R&D. Additionally, there is a decline in the number of people earning degrees in engineering and sciences, and an increase in the number of Israeli students abroad, particularly those studying toward graduate degrees.

The team also addressed issues such as ties between academe and industry, sources of funding for industry and the scant development of large companies in the economy, on the assumption that large companies provide great added value.

According to the director general of the Ministry of Finance, **Haim Shani**, who headed the team, “high tech industries constitute about 40% of Israeli exports and in recent years they have constituted one of the main growth engines in the Israeli economy. However, the team identified a significant risk to the continued growth of the industry in Israel along with a concomitant increase in competition by other countries. As a result, we have set ourselves the goal of identifying the main obstacles in the field and creating an immediately applicable plan of action, without waiting



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until the industry finds itself in a crisis situation, when we would have to act under pressure. I believe that the program addresses all stages of the industry's lifecycle and utilizes a broad range of tools, and that it will help to maintain the relative advantage of the high tech industries so that they will continue to constitute the growth engine of the Israeli economy, while adding more jobs to the industry."

Sharon Kedmi, the director general of the Ministry of Industry, Trade and Labor, said, "One of the team's most important conclusions was to decide on an entity to integrate all R&D. I have no doubt that that will enhance the quality of the Israeli R&D and lead to increased efficiency in all ways."

Aaron Mankovski, chairman of the High Tech Industry Association (HTIA), said, "The program that was presented today by the minister of finance and the director general of the ministry is a comprehensive program that covers many topics, so it is designed to achieve an overall systemic solution rather than solving specific problems. The government and the association both believe that this is the right way to promote Israeli high tech industry." Mankovski further stated that "The professional teams of the Ministry of Finance, the Ministry of Industry, Trade and Labor and the prime minister's office have implemented in-depth preparatory work in cooperation and consultation with industry entities in general and with the High Tech Industry Association in particular. The program touches on issues that have a very good chance of recharging the Israeli high tech industry so that it will be able to maintain its global lead, and help it to attain even greater accomplishments. I view the program as a good basis for continuing activities to promote the industry. I believe that the mechanism on which the program is based enables the rapid and comprehensive implementation of legislation and regulations and will lead to its operation in the near future. One of the significant advantages of the program is the fact that it is composed of separate and independent segments, which enables the immediate implementation of some parts without the need for the legislation and application of other parts, after the legislation process in the Knesset."

Main Recommendations:

- **Growing and establishing large companies in the economy**
- **Focusing and prioritizing government R&D**
- **Strengthening ties between academe and industry**
- **Adjusting the programs of the chief scientist at the Ministry of Industry, Trade and Labor**
- **Promoting joint R&D between the civilian and military sectors**
- **Expanding into additional branches of technology**

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- **Finding additional sources of financing for industry**
- **Strengthening education of science and technology in high schools**
- **Bringing additional population groups (Ultra-Orthodox and Arabs) into the industry**
- **Brain gain**

Details of the program segments:

Growing and establishing large companies in the economy

The number of large high tech companies in Israel has not changed much in the last 15 years, in contrast to the considerable growth among all the companies in the industry. As a result, there is a significant loss of added value to the Israeli economy. The goal is to create conditions that will encourage entrepreneurs and managers to grow companies over time on the assumption that additional industry and a great deal of knowledge develops around those companies. The team examined a number of tax incentives with the aim of encouraging the acquisition of, or investment in, high tech companies in a manner that will encourage the growth and establishment of large companies in the economy:

1. The goal is to encourage the growth of large or medium-sized companies by means of the acquisition of small Israeli companies. The intention is to expand the operations of the acquiring companies by means of the synergy that will be created, and to encourage large companies to become even larger. As a result, the operations of acquired companies will be maintained (primarily their research and development activities) and there will be a greater chance that intellectual property of the acquired company will remain under Israeli ownership.

The team proposes that the cost of acquiring the target company's goodwill be amortized by the acquiring company over a period of 5 years.

2. The goal is to maintain and expand the operations of startup companies in Israel by encouraging the entrepreneurs to take the companies public on the Tel Aviv Stock Exchange (TASE). Many companies had to be sold at early stages and, as a result, there is a significant loss of added value to the Israeli economy. The team's proposal is that tax breaks be given in the sale of shares of a high tech R&D company which were obtained in an allocation after they are listed by someone who has held them for at least five years before their listing, provided that at the time of listing, at least one third of the nominal value of the listed shares is purchased by the public.



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Focusing and prioritizing the government R&D

The national investment in research and development in Israel as a percentage of the GDP is the highest in the world – 4.9% for 2008 (the national expenditure on civilian R&D in 2008, at current rates, is NIS 35.3 billion). However, there is currently no orderly R&D policy in Israel in any part of the research sequence.

Over the years, the government's policy for supporting R&D has been based on a principle of neutrality and has refrained from setting clear and consistent priorities for supporting research and development in fields in which Israel has a relative advantage. However, over the years, several focused programs with some prioritization have developed – but without a comprehensive view and without synchronization.

It is clear to the team that significant progress must be made in research and development in certain high tech fields, and there is a need to focus and target the R&D throughout all its stages. The team therefore recommends establishing a forum composed of representatives of the entities responsible for most of the government's R&D budgets, which, while continuously consulting with representatives from the industry, would recommend to the government fields for focusing the research, throughout the entire research sequence.

Aside from the decision about the fields on which to focus, the forum will meet regularly, even after deciding on the fields, in order to coordinate among the various entities that are responsible for the R&D budgets in Israel, and to monitor, control and evaluate implementation of the decision on the focal point.

Strengthening the ties between academe and industry

The efficient transfer of information from the universities to industry is extremely important, particularly in view of the impact that this process has on the scope of commercializing the knowledge, which in turn affects the degree of innovation in industry and the growth of the GDP.

In order to continue promoting the research from the basic stage to the stage at which it will be feasible for the industrial companies to invest and continue researching, the team recommends establishing a new track in the office of the chief scientist at the Ministry of Industry, Trade and Labor to support basic research with applicational potential in academe. From this track, grants will be provided to researchers along with a team of experts who will assist the researchers in advancing their research toward application, and they will serve as an additional aid for promoting the research and its introduction into industry.

Additionally, activities in the existing tracks operated by the chief scientist in the Ministry of Industry, Trade and Labor – Nofar and Magnetron – will be expanded, to broaden the transfer of knowledge from academe to industry.



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Adjusting the programs of the chief scientist at the Ministry of Industry, Trade and Labor

- The technological incubators program operated by the chief scientist at the Ministry of Industry, Trade and Labor provides important support for companies in the early stages. In order to improve the effectiveness of the program, several updates will be implemented to its operating format, which will include a change in the method of repaying loans to the state by the incubator franchisees, creating incentives for excellence among them and revising the process of selecting the franchisees to operate the incubators.
- Additionally, in order to increase the certainty regarding the payments to the chief scientist in the event of the export of knowledge, a ceiling will be set for the company's maximum payment to the chief scientist, which will benefit a company that keeps its operations in Israel. The export abroad of knowledge that is supported by the chief scientist will also be enabled in the form of the sale of knowledge by license, which is not possible in the present format and constitutes a barrier for the companies when they want to obtain support in the chief scientist's programs.

Promoting joint R&D between the civilian and military sectors

Support in promoting R&D for military technologies with civilian applications through a program operated in a cooperative venture between the chief scientist of the Ministry of Industry, Trade and Labor, the defense system and the Ministry of Finance, while examining the focus on relevant fields.

Expanding to additional technological industries

Background: The global financial industry is the largest consumer of technology in the world and constitutes about 23% of the world's total annual expenditures on technology. This is a market of \$200 billion a year. Many Israeli companies are already supplying technological solutions to the global financial industry in the fields of data storage, security, communications, etc. Today, the financial industry relies more than ever on technological innovation, research and development, and the State of Israel, which is perceived around the world as a leader in the fields of information, technology and innovation, is not taking a significant part in this market.

The team suggests encouraging R&D activities by way of incentives for the establishment of financial R&D centers by new multinational financial corporations in Israel. The centers will research and develop advanced technologies for the global financial industry with the aid of chief scientist programs adapted to support R&D centers for global financial institutions located in Israel.

Finding additional sources of financing for industry

Financing for high tech industry in Israel is obtained mainly from the private sector and a significant number of companies are initially financed by angel investors or venture capital funds. The financing for venture capital funds (both foreign and



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Israeli) is based almost entirely on foreign capital. To date, the Israeli institutional investors (in contrast to foreign institutional investors) refrain almost completely from investing in venture capital funds.

1. Encouraging investment by Israeli institutional investors in venture capital funds:
In order to encourage Israeli institutional entities to invest in Israeli high tech industries, the state will undertake part of the risk inherent in the investment in venture capital funds that invest in Israel, while providing a safety net for the institutional investors at a rate to be determined. This will, of course, be implemented with the most minimal government involvement possible in the markets and with the intention of serving as a catalyst for the entrance of institutional investors into industry, even without the assistance in the future.
2. Encouraging investments in young seed-stage companies: Tax breaks will be given to investors in Israeli R&D companies in the early stages with the aim of increasing sources of financing for these companies, which constitute a significant part of Israeli industry, and which have trouble finding investors, because of the world credit crunch, among other things. Further to the bill submitted by MK **Robert Iliatov**, the team proposes permitting investment in the shares of a high tech R&D company in such a manner that the cost of the "entitling investment" in the shares of the "target company" will be allowed as a deductible expense against ordinary income, spread over 3 years, starting with the year of the investment. The benefit will be up to NIS 5 million in one company, with no restriction on the number of companies.

Strengthening education of science and technology

To take optimal advantage of the supply of experienced and educated manpower in the technological and scientific fields, and to strengthen the teaching system in the technological and vocational education system, the team recommends operating teacher training programs in technological education, which would include the following components:

1. A second-career program to retrain retirees from the information industry who are interested in teaching, including a teaching trial period while still working in the industry.
2. Integrating information industry employees into teaching, for a limited number of hours of educational activities in schools, in order to reinforce the teaching of technology and the sciences.

The main points of the program were formulated in cooperation with the Director General of the Ministry of Education, **Dr. Shimshon Shoshani**, and it will be accompanied by supervision and evaluation in accordance with measurable goals and objectives set by the Ministry of Education. In the first year, the plan will encompass about 200 participants in two tracks.



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Bringing additional population groups (Ultra-Orthodox and Arabs) into the industry

The rate of minority and ultra-orthodox employees in the high tech industries is relatively low. Among the proposed solutions, the team recommends adapting support tracks in the Ministry of Industry, Trade and Labor for subsidizing some of the costs of employees' salaries in high tech industry. Other possibilities are also being examined for encouraging the employment of people from other population groups in the framework of the chief scientist's support for high tech companies.

Brain Gain

Encouraging the return of Israeli scientists to academic institutions in Israel by means of tax breaks on future income that they will earn after their return to Israel, from the commercialization of the knowledge they "acquired" abroad. This can be accomplished by providing tax breaks on the income of the returning scientists from royalties on the sale of the knowledge.