

# A GOLDEN AGE: STRENGTHENING THE UK-ISRAEL BILATERAL RELATIONSHIP

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**Economic, tech and security ties between Israel and Britain are stronger than ever. A Labour government can strengthen them further**

At a recent panel event at the Israeli Embassy in London, Ambassador Tzipi Hotovely told a prestigious gathering that the contemporary era represents a “golden age” of Anglo-Israeli relations. A senior UK official concurred, commenting in June 2023 that the bilateral relationship is “the best it’s ever been”. Although differences of opinion naturally remain – and will require tactful diplomatic handling under the current Israeli government – on matters of trade and security the relationship has never been closer.

## THE MUTUAL BENEFITS OF INCREASED TRADE

According to the World Bank, the UK is Israel’s largest European trade partner, worth £7.2bn in 2022 – up from £5bn in 2019, the last year before the outbreak of the Covid-19 pandemic. The past decade has also seen a significant increase in direct Israeli investment into the UK, supporting over 15,000 British jobs. Capital investment, too, has risen. It is financing projects like infrastructure firm Helios Energy Investments’ £205m commitment, focused initially on solar renewable energy projects, and latterly on waste-to-energy facilities. REE Automotive, meanwhile, has committed £68.9m to establishing an “Engineering Centre of Excellence” in the UK, including an engineering centre in Nuneaton and an integration centre in Coventry.

The bilateral venture capital market has also continued to grow, with 2021 its strongest year in the past decade. As a result, there has been substantial investment in sectors such as IT, financial services, consumer products, services and health. The UK also continues to be a hugely profitable import market for Israeli goods, with medicinal and pharmaceutical products comfortably the country’s leading export into the UK. Teva Pharmaceuticals remains the NHS’s biggest supplier of medicines – with one in five prescriptions estimated to be provided by the Israeli company. As BICOM [reported](#) in 2020, based on the NHS’s total drugs bill and the amount of generics Teva provides, Teva estimates that it contributes more than £2.9bn of savings per year to the British public. The UK benefits significantly from exports to Israel, too, with mechanical power generators its most successful export.

## TOWARDS A NEW FTA: POST-BREXIT OPPORTUNITIES

The agreement reached in April 2023 between the UK Civil Aviation Authority and its Israeli counterpart is expected to further reduce administrative barriers to trade. It is also to be hoped that negotiations over the much-mooted free trade agreement between the two countries will soon be finalised, the second round of negotiations having concluded in May 2023.

In a post-Brexit context, a free trade deal stands to be hugely beneficial to the UK. Despite the market uncertainty caused by the current coalition’s judicial reform programme, Israel continues to have a growing economy, with its service sector alone growing by 45 percent over the last 10 years. This sector must be a target for bilateral development. Both the Israeli and British economies are dominated by services: in 2020, services accounted for 80 percent of the UK’s economic activity and 78 percent of

Israel's, while 81 percent of UK workers, and 82 percent of Israel's, are employed in the services sector. Despite this, only 36 percent of UK-Israel trade is services-based.

## TECHNOLOGY AND INNOVATION

There is a healthy precedent for Britain to lead the way in international engagement with Israel's tech scene. Since its establishment in 2011, the [UK Israel Tech Hub](#) which operates under the auspices of the British Embassy in Tel Aviv, has played a key role in facilitating and expanding joint tech projects, with a particular focus in three areas: healthcare; clean growth, including energy, smart mobility, agritech, advanced analytics, automation, and advanced-manufacturing technology; and fintech and cyber.

At almost five percent of GDP, Israel is the global leader in R&D expenditure as a proportion of national income. The UK is looking to extend its collaboration with, and emulate, this vibrant culture. The UK-Israel Eureka bilateral collaborative R&D initiative, for example, offers UK companies a share of £2m in grants for projects focused on industrial research and development with Israel. The 2030 roadmap for Israel-UK bilateral relations [signed](#) in March 2023 by both governments, meanwhile, provides for £20m for joint technology and innovation projects. In her speech to last year's LFI annual lunch, the shadow chancellor of the exchequer, Rachel Reeves, [praised](#) Israel's success in producing AI start-ups – second only in the world to the US and China – and pledged that, through the Industrial Strategy Council, a Labour government will “work with Israeli partners to review best practice in policy-making to support the development of data and AI-driven health solutions, and explore the lessons the UK can learn from Israel's success”.

The UK and Israel also continue to mutually benefit from shared research amongst their respective world-class universities and research institutes. In the medical sphere, recent innovative collaboration includes a partnership between Queen's University Belfast and Tel Aviv University researching algorithms for diagnosis and management of age-related macular degeneration, and a partnership between the University of Cambridge and Technion Israel Institute of Technology researching using a breath test to diagnose Parkinson's disease.

## LEARNING FROM ISRAEL

Israeli innovation could also assist the UK in dealing with two of the most pressing challenges of the 21<sup>st</sup> century: healthcare and the environment.

Israel's universal insurance system provides full healthcare coverage, while it is ranked sixth in the world for healthcare innovation, to the UK's 10th, and at a smaller outlay in GDP – 8.3 percent to 10.3 percent. It also achieves this performance with a comparatively small number of doctors: 3.19 per 1,000 people – similar to the UK but low compared with the 3.5 per 1,000 OECD average.

As the shadow secretary of state for health, Wes Streeting, [recognised](#) on a visit to Israel last year, Israeli innovation is also particularly targeted at those areas of healthcare – increased treatment in the home, preventative medicine, digital healthcare – which are especially relevant to the challenges faced by the UK. Some 1,200 Israeli companies operate in the medical innovation field, aided by supportive systems like the [Haifa Digital](#) health startup ecosystem, the [Mosaic Project](#) and the ARC [Centre for Digital Innovation](#) at Sheba Medical Centre.

On the environment, with the UK lagging well behind its own water desalination ambitions, it could benefit from the experience of Israel, a world leader in the field. Israel produces 85 percent of its drinkable water from the Mediterranean Sea, and Israeli-owned IDE Americas [provides](#) the technology for the desalination plant in Carlsbad, close to San Diego, which produces nearly 54m gallons of water a day. Mashav, the Agency for International Development Cooperation in the Israeli Ministry of Foreign

Affairs, has also worked with fellow water-scarce nations, especially in Africa, to share best Israeli practice in maximising agricultural production and minimising the associated effects of poverty amid such water scarcity.

## SHARED SECURITY CONCERNS AND COLLABORATION

The UK and Israel share a number of security concerns, most notably the Iranian regime and its proxies. The regime's threat to Israel is well known, while in November 2022, Ken McCallum, the director of MI5, revealed that, over the course of the year, the security services had foiled 10 direct Iranian plots to kidnap or kill British citizens or others – including [Iranian dissidents](#) – based in the UK.

In this context, in July 2023, Israel and the UK held their inaugural bilateral strategic dialogue in Jerusalem, led by both the Israeli and British national security advisers, Tzachi Hanegbi and Sir Tim Barrow. The dialogue is a reflection of the deepening security ties between London and Jerusalem, a partnership also reflected in the 2030 roadmap. The roadmap, which declares that “for both the UK and Israel, this is one of the most important defence and security relationships”, provides for enhanced cooperation in bilateral defence, counter-terrorism, and the combatting of Iran's nuclear ambitions and its destabilising regional and international activity. Both nations will also look to expand collaboration in the increasingly crucial cyber sphere, including with an annual high-level dialogue on cyber security and resilience.

## TOWARDS AN EVEN STRONGER BOND

Recent trends in the bilateral relationship are hugely positive, to the significant economic, cultural and scientific benefit of both nations. It is in both countries' interest to develop the friendship and dialogue, deepening and securing what is already being achieved and exploring further areas for mutually advantageous collaboration. With this in mind, there are a number of steps a new Labour government could take during its first term in office to further strengthen Britain's bilateral relations with Israel.

First, presuming the free trade agreement is signed, a Labour government should vigorously pursue its adoption and implementation. With its undoubted benefits to the UK, this should be a bipartisan issue.

Second, a Labour government should also look to build on Hanegbi and Barrow's dialogue with a commitment to enhancing bilateral military ties, perhaps in the form of further cyber cooperation or joint training exercises between the IAF and RAF.

Third, the relationship could also be strengthened were the UK to consider increasing its influence in the Eastern Mediterranean and Gulf. This adds to the UK's force projection by working even closer with allies like Israel and Cyprus. We also encourage the UK to be part of the solution to help Europe diversify its energy sources away from Russia and to support their allies in the East Med gas forum and back the growing alliance between Israel, Greece and Cyprus.

Fourth, the Foreign, Commonwealth and Development Office could consider the increased impact which would result from greater collaboration with the Mashav. The FCDO could, for example, utilise its existing relationship to bring the benefits of Israeli tech and help expand both countries' humanitarian footprint in the developing world.

Finally, the FCDO could also deepen its understanding of current Israeli realities and concerns by hosting more visiting Israelis and facilitating custom-built trips for Brits – an exercise in which BICOM is well versed and experienced – to visit Israel.

## **ABOUT THE AUTHOR**

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