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## Threats to Israel:

### Terrorist Funding and Trade Boycotts

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Thank you, Mr. Chairman. It is an honor for me to be here with you today, and I thank you for the opportunity to testify about this important and timely topic.

The issue of European trade and other boycotts against Israel has been much in the news lately—and only partly because of the recent controversy over the British charity Oxfam, the Israeli company SodaStream, and the American actress and Super Bowl ad star Scarlett Johansson. Today, of course, that episode, and the larger issue it symbolizes, is entirely eclipsed by the tragic reports from Ukraine and from other hotspots around the globe. Yet anyone who cares about the U.S. national interest in the Middle East, and about the future of the U.S. alliance with Israel, should not lose sight of ongoing trends that could potentially threaten the economic underpinning of Israel’s security—and with it the possibility of a stable and secure peace between Israel and its neighbors.

Allow me to begin this discussion with some facts and figures. The boycott threat against Israel right now is much more potential than real. Israel’s economy continues to thrive, estimated to grow in the range of 3 percent annually this year and last, in large part because of its continuing ability to export and to attract foreign investment. This includes trade and investment to and from the European Union, which remains Israel’s single largest trading partner, with the U.S. close behind.

Israel’s total trade with each of those major partners is on the order of almost \$40 billion every year, equivalent in each instance to just over one third of Israel’s total exports. Overall, Israel’s exports account

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for nearly 40 percent of its GDP. This is in the context of an Israeli economy with total annual GDP of nearly \$300 billion, and a population of just over 8 million citizens.

Just to put this Israeli economy in global and U.S. perspective, it is worth noting that despite its relatively small size, the health of Israel's economy is also in our own economic interest. The hi-tech partnerships between leading Israeli and American companies in IT, telecom, cybersecurity, medicine, green tech, and other fields are increasingly well known. But it may surprise you to hear that over the last decade, Israel has been a larger market for U.S. exports than oil-rich Saudi Arabia. Or that at times during this decade, Israel was one of the top twenty foreign direct investors in the United States. Or that Israeli companies, products, and licensed technologies are directly responsible for tens of thousands of decent jobs for American workers right here at home.

As for current European policies, it is important to note that no European government supports any type of boycott against Israel. The EU continues to grant Israel "privileged neighbor" status, which confers certain economic, regulatory, and other benefits. Talks about a further upgrade have been delayed; but the EU has proposed that if the Israeli-Palestinian peace talks succeed, it will offer both sides significant economic advantages, including "special privileged partner" status for Israel. As the French ambassador to Israel recently wrote, this offer "still stands, despite the Israeli government's resounding silence."

When it comes to Israeli settlements or economic and other institutions beyond Israel's 1967 de facto borders, however, official European practice diverges, at least to some extent. The EU has advised members that they may require labels to identify products from those areas, which may then not be eligible for certain trade preferences (and may also be subject to voluntary consumer boycotts). The British government officially notifies its companies that they may face "reputational damage" from dealings with the occupied territories, though it opposes boycotts against Israel as a whole. Or, as German chancellor Angela Merkel put it on her visit to Israel last week: "We do not support the demands for a boycott. This is not an option for Germany. We have certain rules for labeling and we have to adhere to those rules, but we do not believe in boycotts."

More concretely, in the Horizon 2020 agreement between the EU and Israel signed late last year, the two sides reached a compromise deal that the EU would not fund research or related activities in Israeli settlements. This agreement has provided Israeli institutions with around \$1 billion in such funding over the past decade. Depending upon the exact interpretation and application of the new wording, it is expected to have very little practical effect in restricting any planned projects. Nevertheless, it represents official

EU—and also Israeli government—recognition of a distinction between economic cooperation inside versus outside the old 1967 Green Line de facto border.

At the level of the private sector or of certain quasi-government economic entities, however, some institutions in several European countries have recently moved to limit their dealings with selected Israeli business partners—not just with Israeli settlements. This is particularly evident in some of the smaller European countries, in Scandinavia or the Netherlands. For example, in January, the large Norwegian sovereign wealth fund announced a blacklist of two Israeli firms because of their alleged involvement in “the construction of settlements in East Jerusalem.” A major Dutch pension fund, PGGM, divested from five leading Israeli banks on similar grounds, shortly after the Dutch water mogul Vitens stopped dealing with Israel’s national water company, Mekorot.

But on closer examination, most of these moves turn out to be either mere restatements of longstanding practices or steps with very minor real-world impact—and usually both. Other cases follow this pattern. Germany’s Deutsche Bank, Sweden’s Nordea Bank, and Denmark’s Danske Bank have each put certain Israeli financial holdings under review or restriction lately; but only in the most narrowly limited sense, for specific small clients or for prospective accounts.

Moreover, these steps have been offset by other, more positive new decisions. For example, the largest Dutch pension fund, ABP, decided after review to maintain its exposure in Israel. A high British court decided that a boycott of Israel’s Ahava (Love) beauty products is not supported by international law, whether or not they are produced in the West Bank. Tourism from northern Europe to Israel is down significantly, but increased tourism from other countries more than makes up the difference. And while Irish diplomats privately rail against Israeli occupation, the Irish firm Covidien recently paid nearly a billion dollars to acquire the Israeli cutting-edge medical innovator Given Imaging.

Alongside such still minor economic fluctuations are some even more minor symbolic measures. Some British unions, academic institutes, or individual celebrities like the scientist Stephen Hawking or the rock star Roger Waters have declared boycotts against various Israeli institutions or events. Some organizations in other European countries have followed suit. The latest announcement, just last weekend, came from the Norwegian YMCA, which proclaimed its own boycott against Israel.

These gestures often rate front-page coverage in the Israeli press, as do countermoves by other celebrities or pro-Israel organizations. Their economic or even psychological impact, however, is very limited. Nev-

ertheless, if such symbolic sanctions gain momentum, especially in the absence of a countervailing campaign, they could conceivably do real economic damage, while increasing Israel's sense of isolation.

In that case, I believe, based on Israeli reactions to date, that the policy implications for the Israeli government would be very mixed. Those Israeli cabinet ministers who advocate a more flexible policy on the peace process, such as Yair Lapid and Tzipi Livni, have recently pointed to the threat of boycotts, and the economic benefits of peace, as an extra incentive for Israel to push that process forward. Others, such as Naftali Bennett and Moshe Yaalon, say that Israel must resist boycotts or even talk about boycotts, and focus on security or national rights instead.

Prime Minister Binyamin Netanyahu appears to be taking a middle ground, most recently asserting, I believe with some reason, that Israel's intrinsic hi-tech economic prowess and global value added would insulate it against politically motivated boycotts. His visit to Silicon Valley this week is in line with this overall approach. This will probably play well here in the United States, but I have my doubts about future European reactions.

Allow me therefore to conclude with some personal observations from two weeks of recent discussions with European officials and experts about this issue. A few weeks ago, I had the privilege of testifying about these issues to the full French Senate Foreign Relations and National Defense Committee, in Paris. I was asked many questions about boycotts and sanctions against Israel, in the context of Israeli settlement activity in the West Bank.

I will take the liberty of referencing a few points from those exchanges that are directly relevant to today's hearing, and then note the reactions I encountered—which were fairly typical of those in other European capitals.

On the issue of boycotts, I pointed out that Palestinian Authority president Mahmoud Abbas himself said, on the occasion of the Nelson Mandela memorial service in South Africa—and in Arabic, to the TV channel Al-Arabiya—that he does not support a boycott against Israel. Rather, he asserted, he is seeking to negotiate with Israel. I observed that this is both remarkable and paradoxical to witness, even as in Europe one finds movements promoting just such a boycott.

Asked about the precise Palestinian position, I explained that while the Palestinians do not officially support boycotts against Israel, they do support boycotts against products from the Israeli settlements. This

may be understandable, yet in a certain sense it does not promote peace. In a state of peace, it will be necessary to live together. Instead, this tactic could lead to a condition of fear, of anxiety, and of resistance to compromise. That does not serve the interests of the Palestinians themselves.

So in Europe, I argued, the movement that supports a boycott against Israel is illogical and absurd. One should rather encourage the two parties to reach out to each other. Unfortunately, some Palestinian officials are exploiting this issue with the same kind of double-talk some use about other aspects of the peace process. While Abbas says he opposes anti-Israel boycotts, Hanan Ashrawi, a prominent member of the Palestine Liberation Organization executive committee, published an op-ed in an Israeli newspaper just a few weeks ago with this headline: “The Boycott Is Our Palestinian Nonviolent Resistance.”

What was the French Senate committee’s reaction to this message? I believe their reactions differed. Among the most vocal participants in this exchange, for example, was one senator who identified himself as the president of the Franco-Palestinian Friendship Society. But he was quite cordial and thoughtful in discussing the problem; and many of his colleagues voiced interest and appreciation for a different and more balanced perspective on this issue.

In practice, French government policy clearly opposes trade or other boycotts against Israel. And in my subsequent conversation with one of President Francois Hollande’s senior advisors, I found much common ground on the general principle that pressure on just one side of the Israeli-Palestinian conflict would be counterproductive. The Palestinian Authority has much room for improvement in its own positions and behavior. It should not be encouraged to think that outside pressure on Israel would relieve it of the need to compromise, for the sake both of peace and of its own political aspirations.

At the same time, one should note an obscure recent statement by the EU ambassador to Israel, Lars Faaborg-Andersen, which is worth quoting in some detail:

If the talks are wrecked as a result of an Israeli settlement announcement, then the blame will be put squarely on Israel’s doorstep.... Israel will find itself increasingly isolated, not necessarily because of any decisions taken at a government level, but because of decisions taken by a myriad of private economic actors, be it companies, be it pension funds, be it consumers who will be choosing other products on the supermarket shelves.

I believe this is a roughly accurate reflection of prevailing European policy and sentiment, especially in the speaker’s Nordic home environment. The economic implications would be quite serious, though still probably manageable, if official sanctions were applied. That appears highly unlikely, the more so since an

EU consensus would be required. Yet the prospect of growing unofficial economic reprisals against Israel, in case of a breakdown in the peace process, is a real one.

What can the United States do to address this problem, and nip it in the bud? First of all, I greatly appreciate the contribution of today's hearing in raising awareness about the problem. Second, there is probably much that could be done in the realm of reasoned discussion with our European allies and counterparts, in both public diplomacy and private persuasion. The State Department has tried to clarify Secretary John Kerry's earlier comments by noting that the United States opposes boycotts against Israel, and further such statements would be very welcome. Third, legislative or legal remedies may be available as well. As a possible analogy, I believe U.S. law penalizes attempts to comply with the nominal Arab boycott against Israel—which is by now largely ineffective as a result. And U.S. law and policy impose costs on third parties who may attempt to evade sanctions against Iran, or to violate other international commercial codes or agreements.

In sum, so far, the issue of European trade or other boycotts against Israel is a threat much more potential than real. But as an unofficial movement, and even as an official response limited to Israeli settlements, it is gradually gaining strength in some quarters—and could surge in the event that the current peace talks deadlock or disband. That is why this hearing today, and your continuing attention to the issue, is of so much value to the U.S. national interest in Israel's security, in economic partnership with Israel, and ultimately in Israeli-Palestinian peace.