December 2005

Incentives for Industrial R&D in Israel

Dear Colleagues,

The Israeli hi-tech industry is recognized as one of the world's foremost technology centers, marked by the innovative entrepreneurship and significant breakthrough achievements of local technology companies. A major factor in the success of this sector is the clear government policy of leadership, support and encouragement of industrial R&D of the Office of the Chief Scientist (OCS) at the Israeli Ministry of Industry, Trade & Labor.

The role of the OCS is to assist in the development of new technologies in Israel, as a mean of fostering the Israeli economy, encouraging technological entrepreneurship, leveraging Israel's science-skilled resources, supporting high added value R&D, enhancing the knowledge base of Israeli hi-tech industries and promoting cooperation in R&D both nationally and internationally.

The policy of the OCS is to invest extensive resources in advancing and supporting the dynamic needs of the Israeli hi-tech industry. As a result of this commitment, several significant achievements have been reached over the last year – bringing R&D legislation, up to date in line with the age of globalization, the establishment of a dedicated biotechnology incubator, the signing of new bilateral R&D agreements, and the launching of new support programs for traditional industries and for R&D centers in universities.

A variety of ongoing support programs developed and offered by the OCS have played a major role in enabling Israel to become a key center for hi-tech entrepreneurship. This brochure highlights the OCS's local and international support programs, which I am certain you will find useful.

Sincerely,
Dr. Eli Opper
The Chief Scientist

Incentives for Industrial R&D in Israel

Highlights of OCS Support Progr

Local Programs

Pre Seed-Seed

Magneton
- Promotes technology transfer from academic institutions to industry via mutual cooperation between a company and an academic research program.
- Grants are up to 66% of the approved budget.
- No royalty payments.

Noffar
- Designed to support applied academic research in biotechnology & nanotechnology in order to promote the transfer of technology to the industry.
- Grants are up to 90% of the approved budget.
- No royalty payments.

Tnufa
- Encourages and supports technological entrepreneurship and innovation at pre-seed stage.
- Assists individual inventors and startup companies during earliest stages of projects, including evaluation of technological and economic potential of idea, preparation of patent proposal for submission to authorities, construction of prototype, preparation of business plan, establishing contact with the appropriate industry representatives as well as attracting investors.
- Grants of up to 85% of approved expenses for a maximum of US$50,000 for each project.

Technological Incubators
- Provides a framework and support for nascent companies to develop their innovative technological ideas and form new business ventures in order to attract private investors.
- The program is open to private investors to become owners of incubators and to invest in the nascent companies at an early stage, enabling a greater return on investment
- Recent establishment of new Bio-Technology Incubator, open to bio-tech and pharma projects, provides professional services larger funds and extended incubation term.
- The program supports activities of Young Entrepreneurs Organization, in secondary and high-schools
- Grants are up to 85% of approved budget.

Heznek – Government Seed Fund
- Encourages investments and increases the number of new startup companies.
- The Government and the investor invest matching funds in a seed company; The investor is given an option to purchase the government shares.
- Grants are up to 50% of the approved work program.

Competitive R&D

R&D Fund
- Approved R&D program must last at least one year, result in the development of a new product or a significant improvement to an existing product. The development may also lead to a new industrial process or a significant improvement in an existing industrial process.
- Grants are up to 50% of the total approved R&D expenditures. The annual budget of US$300 million is spent on about 1,000 projects being undertaken by 500 companies.
- Proposals are approved by the Research Committee and are awarded grants according to the terms and conditions set by the Committee.
- Grants are provided as a percentage (between 20% and 50% depending on the circumstances and the estimated potential of individual projects) of the estimated R&D expenditures approved by the Research Committee.
- The Beta-Site Stage (interim stage between R&D and marketing) is recognized as an important and integral part of the R&D project, with the aim of testing the product in "real-life" situations, by being operated by selected end-users who give technical feedback and suggestions for product modifications. Assistance for this stage is given as part of the R&D grant.
- When a government assisted R&D project results in a commercially successful product, the company is obligated to pay royalties, which will be used to fund future grants to encourage and support industrial R&D. In general, royalty payments are a specified percentage of the total annual revenues derived from the sale of a developed product. Reports and payments are made semiannually.

Support of Traditional Industry
- A new support program, launched in 2005, offers separate evaluation and discussion for projects from traditional industries.
- Private consultation offered to companies applying to the OCS for the first time.

RAMS

Pre Competitive R&D

Magnet consortium

- Supports the formation of consortia made up of industrial companies and academic institutions, in order to jointly develop generic, pre competitive technologies.
- Grants are up to 66% of the approved budget.
- No royalty payments.

Research Institutes

- Supports R&D programs carried out by Research Institutes according to criteria.
- Grants are up to 90% of approved budget.

Generic R&D

- Encourages companies investing heavily in R&D to invest a significant percentage of funds in long-term generic R&D.
- Grants are up to 50% of the approved budget.
- No royalty payments.

R&D Centers in Universities

- Aims to create and develop technological infrastructure for industry use.
- Established "Russell Berrie Institute for Nanotechnology" at the Technion.
- Support is offered in cooperation with the Telem Forum, the Ministry of Finance, the Planning and Budget Committee of the Council for Higher Education (VATAT) and the Ministry of Defense.

Other

Users association

- An association of industrial companies involved in the dissemination & assimilation of generic advanced technology and the sharing, or utilizing of, a common technology.
- Grants are up to 66% of the approved budget.
- No royalty payments.

Multinationals

Matimop

- Promotes and assists participation of Israeli companies in international bilateral or multilateral cooperation programs for industrial R&D.
- Promotes joint industrial development of advanced technologies.
- Maintains updated database of projects in range of advanced technologies and database of profiles of Israeli industrial companies seeking international cooperation.

Europe's R&D Framework Agreement – ISERD

- Israel is the only non-European country fully associated with the EU's Framework Program for Research and Development. The Framework Program is the main facilitator for research funding in Europe, bringing together industries and academic research.
- The program offers Israeli companies and research organizations an opportunity to participate in jointly implemented projects with European counterparts and thus become better integrated into European business and scientific communities.
- ISERD – The Israeli Directorate for EU FP6, operating through the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor, is Israel's official National Contact Point (NCP) with the EU, for all FP activities.
- ISERD aims to promote joint Israeli-EU R&D ventures within the FPs.
- Grants to industrial R&D are 50% of the full cost and overheads; grants to universities are 100% of the additional costs and 20% of overheads

Eureka

- A Europe-wide network for the promotion of collaborative market-driven R&D projects in virtually all fields of advanced civilian technology.
- The projects enjoy access to national funding sources – Israeli companies participating in the program are entitled to receive R&D grants from the OCS.
- Matimop acts as the Israeli national project coordinator (NPC) for Eureka.

The Global Enterprise R&D Cooperation Framework

- The program attracts prominent multinationals to forge investment cooperation deals in Israeli startups. The program is flexible by tailoring each agreement to the requirements of the multinationals.
- Government support provides opportunity for Israeli startups to gain access to multinational corporations, while international high-tech giants in turn gain access to innovative technologies.
- Partnerships between Israeli government and worldwide

high-tech giants can potentially propel R&D projects directly into global market. The first strategic cooperation agreement was signed with Alcatel in November 2004. IBM, Oracle and Microsoft followed a few months later.
- The program taps into the independent world power of multinational corporations with at least US$1 billion in annual sales.
- This cooperation format offers a host of advantages for both parties – Israeli startups targeting a multinational as a client benefit by involving their future partner in the development stages and thereby boosting their chances of success, while the cooperation with multinationals also opens established export markets for the Israeli company. In addition, via the Israeli Government, multinationals gain a channel to a significant number of Israeli startups.

Bi-nationals

Bi-national Funds

- The program enables the participation in joint R&D projects with foreign counterparts.
- Grants are up to 50% of R&D expenses of each company from each state.

Fund Name	Countries
BIRD	Israel - USA (www.birdf.com)
BRITECH	Israel - UK (www.britech.org)
CIIRDF	Israel - Canada (www.ciirdf.ca)
KORIL-RDF	Israel - Korea (www.koril-rdf.or.kr)
SIIRD	Israel - Singapore (www.siirdf.com)
VISTECH	Israel - Victoria/Australia

U.S.-Israel Bi-national Research and Development - (BIRD)

- The BIRD Foundation was established by the U.S. and Israeli governments in 1977 to generate mutually beneficial cooperation between the U.S. private sectors and Israeli high tech industries, including startups and established organizations. The mission behind the Foundation is to stimulate, promote and support industrial R&D of mutual benefit to the U.S. and Israel.
- Activities include matchmaking services between Israeli and American companies in the field of R&D. BIRD takes no equity in the joint projects and all services are free of charge.
- BIRD provides funding covering up to 50 % of project development and product commercialization costs. Financial support and request for repayment only on the basis of actual revenues generated.
- BIRD's investment ranges from US$500,000 to US$1,000,000 over 2-3 years for full scale projects.

Britain-Israel Technology Foundation (BRITECH)

- The UK and Israeli Governments set up the British-Israel Industrial R&D Fund (BRITECH) in November 1999. The fund is managed and grants payments administered by a non-profit organization.
- Eligible companies for funding are firms operating and headquartered in the U.K and Israel. At least 30% of the R&D work must be carried out either in the U.K or Israel.
- BRITECH's support includes funding of up to 50% of the eligible R&D costs of joint projects. The grant-mechanism uses the rules of the existing industrial R&D support in each country. This would introduce asymmetric support for businesses, depending on need.
- Britech also engages in searches for business partners in Israel and the UK, for the purpose of collaboration in technology development projects.

Canada-Israel R&D Foundation (CIIRDF)

- The Canada-Israel Industrial Research & Development Foundation (CIIRDF) was established in 1994 to promote and support collaborative R&D between firms in both countries. Eligible companies for CIIRDF's funding are firms operating and headquartered in Canada and Israel.
- At least 30% of the R&D work must be carried out in either Canada or Israel. CIIRDF's support includes funding of up to 50% of the eligible R&D costs of joint projects up to a maximum of C$800,000. The Foundation also engages in searches for business partners in Canada and Israel, for the purpose of collaboration in technology development projects.
- The foundation's Head Office is located in Ottawa, Canada with an Israeli manager located in Tel Aviv. Both Governments contribute to CIIRDF C$1,000,000 per year, so that the foundation can fulfill its goals. This contribution has been renewed four times since the creation of CIIRDF, with the latest renewal extending to the year 2010.

Korea-Israel Industrial R&D Foundation (KORIL-RDF)

- The Korea-Israel Industrial R&D Foundation (KORIL-RDF) was jointly incorporated by the

Korean and Israeli governments in 2001 based on an agreement established in 1998. The objectives of KORIL-RDF are to advance Korea-Israel science and technology, business-to-business and overall economic and trade relations.

- The Foundation's aims are promoting, facilitating and supporting joint industrial R&D projects between Korean and Israeli companies, with the ultimate goal being the development of either a new product, technology or a strategic innovation of an existing product or technology that can be commercialized.
- The Foundation engages in searches for business partners in Korea and Israel, for the purposes of collaboration in technology development projects. Financial support for the joint R&D projects is divided into three categories - feasibility study; mini-project and full scale project. In the case of a full-scale project, support can reach a maximum of 50% of the allowed joint R&D expenditure, up to a ceiling of US$500,000.
- At least 30% of R&D work must be carried out in either Korea or Israel. The project schedules can range from a few weeks, in the case of a feasibility study; up to a maximum of three years in the case of a full-scale project.
- In the event that the end result is successfully commercialized, the Foundation is entitled to a repayment of up to 100% of the funding; however if no profit is realized than the funding is considered a grant.

Singapore-Israel Industrial R&D Foundation (SIIRD)

- SIIRD is a cooperation between the Singapore Economic Development Board (EDB) and the OCS in Israel, aimed to promote, facilitate and support joint Industrial Research and development projects between companies from Singapore and Israel, which would lead to successful commercialization.
- SIIRD funds joint R&D projects undertaken by companies from Singapore and Israel, up to 50% of eligible R&D project's costs. Grants can reach a ceiling of US$750,000 and not more than US$500,000 in one year.
- SIIRD organizes matchmaking opportunities between companies based in Singapore and Israel which are interested in R&D collaboration.
- Companies can apply online, providing SIIRD with information on their R&D partner Search Request, such as desired profile of the R&D partner and a brief description of the proposed R&D project. SIIRD's offices in Singapore and Israel will try to locate a suitable candidate and facilitate meetings between the interested parties. After exploratory meetings, these companies are invited to submit a joint project proposal.
- Joint R&D projects may include technology and knowledge applications, product development towards beta-site testing and innovative systems integration, near commercialization or new market creation.

Bi-Lateral R&D programs

- The Government of Israel through the OCS has signed agreements together with other governments to actively support and encourage industrial R&D cooperation between Israeli and overseas industries.
- International industrial R&D cooperation will usually include access to know-how and technologies that are not otherwise readily available to the participants as well as access to new markets and the needs of the captive market of each industry.
- Matimop operates several R&D agreements with Italy, Belgium, Ireland, Germany, Holland, Spain, Portugal, Finland, France, Sweden, India, Turkey, Hong Kong, China, Ontario (Canada) and Maryland (USA). For improved services, dedicated desks operate with France and Germany.
- The programs enable access to sources of national funding; Israeli companies taking part in the program are entitled to receive R&D grants from the OCS.

US-Israel Science & Technology Commission

- The US-Israel Science & Technology Commission creates an infrastructure for bi-national collaboration at the highest levels of government, academia and industry.
- The Commission acts for the removal of impediments and the development of a seamless work environment for conducting business and maximizing the contribution of science and technology to economic growth.
- The Commission focuses on Information Technology, Biotechnology, Harmonization of Standards and Regulations, Homeland Security and Nanotechnology.

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