

**One Moment Please ...
Could We Talk Now
About the Advantages Israel Of-
fers to an American Company
As They Think Globally**

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Dear Friend:

You might think it is quite unusual for me to be suggesting that you give serious consideration to opening a facility in Israel ... particularly at a time when there are two conflicts taking place in Gaza and Lebanon.

But, I think it is important for you, as you consider your company's future global expansion plans, that you have before you the future opportunities Israel offers your company. I am sure that you will agree that global expansion requires long-term thinking, revenue projections, markets of tomorrow, future funding, etc. I will try to give you the incentives that are available to your company now and in the immediate future.

Keep in mind, as we talk, that business is being conducted by many American, Israeli and foreign companies in Israel. Manufacturers are shipping their products abroad from Israel as in the past.

Most U.S. companies have located in the center of Israel ... a considerable distance from Haifa ... free from the rockets fired out by Hezbollah. No American company's facilities have been hit by any missiles launched by the Hezbollah in the recent attacks.

Let me try to answer the questions asked of me that might be asked about Israel's future business opportunities ... despite the conflict that exists. Let me suggest that, regardless of United Nations pressures which may be applied to Israel or Hezbollah call for a cessation of war, there will be future opportunities to do business profitably in Israel and possibly in Lebanon.

The past strong Israeli economy should indicate to you that, despite the conflicts in which Israel is engaged, it is to the benefit of your company to be current on the benefits of doing business in Israel.

Let's talk.

Prospect: What is Warren Buffet saying at this time about his recent investment in Israel?

You: Mr. Warren Buffett recently made a \$4 billion investment in Iscar (a successful Israeli company) and acquired control of 80% of the company. It is interesting to note that "Iscar's main manufacturing plant and company headquarters are located in the Tefen Industrial Zone in the Galilee, which is within range of Katushya rockets fired from South Lebanon." The company is continuing to operate.

Globes reported that Mr. Buffett: "has also undertaken to invest \$150 million over the coming years in plant and machinery for Iscar factories in Israel and overseas."

Globes reported that sources "add that Buffett will base his decisions on a long-term perspective and that he will therefore not be influenced by specific events, however difficult they may be."

Prospect: What's the status of the Hewlett-Packard company's announcement that it will buy an Israeli company named Mercury Interactive Corporation for \$4.5 billion? The deal is expected to close in the fourth quarter of this year.

You: It is interesting to note, according to Globes, that HP's acquisition of Mercury is the largest cash transaction in the Israeli high-tech industry history.

Prospect: How has Fitch Ratings recently reported on Israel's future economy?

You: Their report stated that Fitch extended a high rating for Israel's economy as of July 14, 2006.

Prospect: Are the Ben Gurion Airport and the Ashdod Seaport fully operating?

You: The Bank of Israel has announced that the Ben Gurion Airport and Ashdod Seaport are fully operating and handling all exports and imports at this time.

Further, the Bank of Israel has reported that the financial markets in Israel continue to operate normally including the clearing of foreign currency, the capital market and the stock exchange.

Prospect: What has the Bank of Israel Governor Stanley Fischer reported on the present economy?

You: [The Jerusalem Post](#) quoted Fischer as stating that foreign investors need to know that Israel's economy keeps working despite the violence. "Fischer gave his assurances that the mechanisms were in place to guarantee the economy would continue to grow despite the security situation."

Prospect: [How is Standard & Poor evaluating the Israeli economy?](#)

You: "Standard & Poor's analyst Konrad Reuss stated on July 16, 2006, ['The Israeli economy and the strength it has shown on the fiscal side is a soft cushion for the situation the country is currently in.'](#)"

Prospect: [How does D&B evaluate the present situation?](#)

You: It has been reported, "On July 24, 2006 D&B worldwide extended Israel's high credit rating and its 4.5% growth forecast. The General Manager of Israel's Dun & Bradstreet Reuven Kuvent confirmed, on July 17, 2006, ['The Israeli economy is strong and it has one of the highest growth rates in the world, so we don't expect the period of the conflict to substantially harm annual growth rates. . . . the present conflict is taking place during one of the best periods ever in the history of the Israeli economy. . . It is therefore more capable of absorbing the repercussions.'](#)"

Prospect: [What credit rating did Dun & Bradstreet announce for Israel on July 24, 2006?](#)

You: It has been reported that D&B kept it's credit rating for trade with Israeli companies, as well as a 4.5% growth forecast. D&B didn't recommend that businesses with exposure to Israel monitor the credit rating. [The report stated that D&B sees no change in the Israeli market and recommends continuing to do business with Israeli companies using documentary credit.](#)

Globes reported: "Last week, D&B Israel, which is not owned by D&B Corp., predicted that [there was no risk to Israel's economic stability at this stage, and that the damage would amount to a slight reduction in growth at the most.](#)"

Prospect: [What are some of the recent American acquisitions that we should examine to give us insights into the benefits that Israel offers foreign investors?](#)

You: Actually, foreign investment in Israel has reached a new high of [\\$11.3 billion](#). January-May, 2006, saw an increase of 9% in foreign investment over the whole of 2005.

[Johnson & Johnson](#) acquired Israeli Colbar for \$159 million.

[Xerox](#) made it's first acquisition in Israel and paid [\\$40-50 million](#) for XMPie.

[Computer Associates](#), one of the world's largest software companies, plans to integrate XOsoft into its local R&D centers in Tel Hai and Yokneam.

[Shamrock Holdings](#), the private investment vehicle of the Disney family, acquired Galilee Footwear. Shamrock has multiple past investments in Israel which include Koor Industries Ltd., Tadiran Communications and Orad Ltd.

Prospect: [What is Bank Leumi's assessment of Israel's economic future?](#)

You: It was reported in *Globes* on July 23, 2006, as follows: "Bank Leumi has published its weekly review of the capital market together with its forecast and assessment for the future. As regards the Tel Aviv Stock Exchange (TASE), the bank notes that the war in the north is continuing and has even escalated slightly, [while the home front has remained stable as possible, and the international community continues to support the IDF's operations in Lebanon.](#)"

Prospect: [How does Shraga Brosh, President of the Manufacturers' Association of Israel, evaluate the future of Israel's economy?](#)

You: *Globes* reported: "[The recent security incidents won't affect industrial strength and growth in 2006.](#) Israeli industry, led by high-tech, is export oriented." Israel's industrial situation improved in January-April, 2006. [4,200 persons were hired.](#)

!!Brosh believes that the faster industrial growth indicates that the security incidents will not affect growth. He said, "The economy in general, and industry in particular, are strong enough to avoid being affected. They've gone through worse crises in the past, and know how to cope with and overcome them."

Prospect: What about the Tel Aviv Stock Exchange? Has there been a flight of foreign capital from Israel?

You: In a report dated July 13, 2006, *Globes* predicted: "The fighting in the north is expected to continue affecting trading on the TASE, but no flight of foreign investors or a mass sell-off of stocks have been seen yet. Some investment houses actually recommend their clients to buy Israeli stocks, because they believe that the plunge in prices has created a 'buying opportunity.'"

Prospect: What about Merrill Lynch?

You: In a report in *Financial Times* dated June 29, 2006, Merrill Lynch evaluated Israel's economic situation as follows: "As good as it gets. The economy is doing well."

Prospect: What did Bank Hapoalim report on Israel's economy recently?

You: Bank Hapoalim reported: "The capital market and foreign-currency market in Israel have exhibited a remarkable degree of stability. This can be attributed to very favorable fundamental economic indicators and in particular, to rapid growth, the balance-of-payments current account surplus and the good fiscal situation."

"The current growth rate trend in the economy exceeds 5%. Current growth features a large rise in labor productivity and therefore an only gradual decline in unemployment. Also notable is the increase in investments. We forecast a continued high rate of growth during the coming months, fueled mainly by private consumption."

Prospect: What is the attitude of President Bush concerning the conflict between Israel and Hezbollah?

You: President Bush has accepted Israel's defense position. Much depends on the position of President Bush in regard to the settlement of issues.

As of this writing, President Bush is seeking a total settlement which may or may not be acceptable to the Israelis, Hezbollah or the E.U.

President Bush has stated: "I've directed Secretary of State Rice to travel to the Middle East.... Secretary Rice will make it clear that resolving the crisis demands confronting the terrorist group that launched the attacks and the nations that support it."

It is fair to assume, I believe, that ... if there is a settlement of the Israel-Hezbollah controversy in a reasonable time ... America corporations will welcome answers to the questions I have raised in this memo. There is reason to believe that Israel will be as attractive to foreign investors in the future as it has been in the past.

We need to help keep Israel's interest in the various opportunities Israel offers to foreign investors. We need to spell out the many investment, R&D and tax incentives offered to companies from abroad. Fortunately, Israel has had a highly productive economy in 2005 which offers a soft landing to American companies.

We need to go beyond "walking the walk" and "put our shovel in the ground" to keep Israel's economy rolling ahead.

Thanks for listening.

Very truly yours,

Elmer

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