

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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## The Great Giveaway or the Best Investment Ever

The Government of Israel, in spite of intensive lobbying by the Minister of Industry and Trade, is lowering the investment grant from 38% to 34%, in 1996, and to 30% in 1997

The four-year-old economic boom, the annual growth of the GDP by 5-6.5%, the drop of unemployment to 6.2%, and the prospect of an overall peace settlement in the region have not been overlooked by the international big business community. The Investment Authority has received a record number of requests from

foreign corporations for Approved Enterprise Status. Some of the better known names include multi-nationals Nestle, Wire and Cable, Motorola and Volkswagen.

The Law for the Encouragement of Capital Investments (1959) specifies numerous tax and financial benefits to investment programs qualifying for the status of an Approved Enterprise. The law's objectives include the bringing of capital to Israel, the encouragement of economic initiative and investments of local and foreign capital to develop Israel's economic productive capacity, the improvement of the balance of payments by increasing exports, the absorption of immigration and the creation of sources of employment.

Tax on income is limited to 25% and under certain conditions tax holidays are implemented. Besides taxation benefits there are financial benefits.

An Approved Enterprise is entitled to a Government of Israel grant covering investments in capital facilities, located in priority areas within Israel where the creation of employment is desirable. The 38% investment grant calculated as a percentage of the fixed assets for which an Approved Enterprise status was granted was a powerful incentive.

Officials in reviewing the 37-year-old law concluded that the objective reasons for investing in Israel have changed so drastically that a small reduction in the financial benefits offered to investors was justified.

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### Keeping in Touch

The political economic and social happenings that took place in Israel in 1995 ranged from the sublime to the tragic. The slaying of Yitzhak Rabin overshadowed three key developments in this country: the redeployment of Israel's armed forces from the Palestinian communities, the "opening of the world to Israel" and the strong performance of the economy.

The continuous stress on research and development is bearing fruit as new industries start to produce and foreign multi-nationals focus on Israel as a natural location for activities aimed at this market as well as a pathway to the whole region.

In 1995 feedback from the contacts with our international readers has come from various parts of the world. The contacts were from Japan, England, Bombay, Switzerland, USA, Canada, Uruguay and most recently from Amman from the private office of His Majesty the King..I am looking forward to continuing our existing contacts and establishing new ones in the New Year.

Looking ahead to 1996 the great challenge of Israel's society is the resolving of political differences between individuals and groups and the maintaining of the rule of law and democratic way of life. To all of you I wish a Successful and Peaceful New Year and let us continue to keep in touch!

Joseph Morgenstern

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### *The Past 30 Years*

Following the Six-Day War, though an international investment conference was convened in Jerusalem, foreign investment in Israel was disappointingly small. Industry continued to develop at a slow pace and in keeping with defense and domestic needs. In the years that followed, industrial Research and Development mushroomed. Fifty per cent of its cost of more than \$2 billion, was provided by the Government of Israel and by bi-national R&D funds. The effect of the R&D was to become the underpinning of Israel's high-technology sector and a catalyst for economic growth.

Companies, among them Elscint, Scitex, Elron and Elbit, since 1972 sold shares on the US stock markets. By investing in Israeli shares foreign investors began to be alerted to the potential of a high-growth economy. 1984 was a record year as Israeli companies sold \$500 million worth of securities, many of them initial public offerings. Since the signing and the partial implementation of the Oslo 2 Agreement interest in investing in and doing business with Israel has soared. After some early impressive successes in Israel, Intel filed a \$1.6 billion investment plan for a manufacturing plant at Kiryat Gat, a development town in southern Israel. Intel's business plan calls for the creation of 1,500 jobs and annual export sales of \$1.0 billion. Intel has succeeded with its previous two investments in Israel; one in a Research & Development facility and the other in a plant which produces the fastest chips in the world. Intel's decision to invest \$1.6 billion in Israel was initially well received by the public and officialdom. However, the size of the Government of Israel investment grant -- \$608 million of the total investment -- stirred up a small storm. The debate which followed raised the question whether the generous terms of the Law could be reduced without hurting future investment. Critics viewed the \$608 million grant to Intel as an excessively high \$400,000 outlay for each new job created. Supporters of retaining the grant were sure that a change would diminish investment.

Prime Minister Shimon Peres assured a high-level executive of Volkswagen visiting Israel in December that, regardless of any future change in the level of grants, the 38% grant for the Volkswagen project previously approved by Prime Minister Yitzhak Rabin would be honored. Volkswagen and Israel Chemicals are to build jointly a \$750 million magnesium plant at the Dead Sea. The total magnesium production will be purchased by Volkswagen.

Considerably smaller yet substantial investments from Tower Semiconductor and Orbit, previously announced, will benefit from the long-standing 38% grant.

Israel's newly won recognition by its neighbors may help Israeli-based enterprises to turn trade with many of the Arab Middle Eastern nations into a reality. Israel's favorable trade agreements with the European Union and with the United States are additional points favoring investing in Israel.

The attraction of Israel to foreign investors has acquired a new meaning as the Middle East emerges as a trading bloc. We believe that the case for investing in Israel is so strong that lowering the investment grant should not deter new investors. Over many years, the now revised 38% investment grant may have been one of Israel's best long-term investments. However, its continuation under present conditions might have transformed a great investment into the great giveaway.

### **Phone by Internet**

Herzliya based Vocaltech's "Internet-Phone" software enables calls to be made via the Internet at the price of a local call. This technology advances Internet beyond the present communication of stored information level to real time one-to-one discussion. The caller keys in the addressee's name on the computer and speaks into the computer microphone. The words are translated into sounds which pass through the service supplier to the addressee's computer, where they are changed into words which can be heard on his computer. Vocaltech's efforts at improving its software have paid off, resulting in its achieving almost perfect sound quality. Vocaltech has concluded agreements with Motorola and Crystal Semiconductors, the biggest supplier of sound card chips, and is now marketing its Internet Wave whereby worldwide radio can be heard on Internet.

Vocaltech's equity is 30% held by the Polaris Capital Reserve, Mofet Israel Technology Fund Ltd., Discount Investments and PEC. The company's product drew attention when it recently presented itself at the Evergreen and Robertson, Stephens Technology Conference, in Tel Aviv. The Israel High-Tech and Investment Report was present. The quality of the voice at the Tel Aviv receiving end, when connected to other parts of the world, was of surprisingly good quality.

No one has mentioned a public offering but the company has unofficially been valued at

\$100-\$150 million. As to the timing - Vocaltech could presently obtain an extremely high valuation. Wall Street has seen enormous upward pressure on the price of shares of companies whose activities are connected to Internet.

The meteoric rise of Netscape's shares after last summer's initial public offering has not been lost in the minds of the investing public.

However, should the present conditions on Wall Street change and software companies lose their appeal then Vocaltech could lose much of its gloss.

### **Israel and US Hi-tech Benefit from Loan Guarantees**

The multi-national companies' strategists are now aware that Israel is able, year by year, with the aid of the US administration's guarantees, to recruit \$2.0 billion from the US banking system. It is to these funds that their attention is attracted. Just as the US defense industry lobbies that the administration's annual \$1.8 billion grant to Israel for the procurement of US-manufactured equipment is maintained, it is quite plausible that there will be, with the help of a US high-tech lobby, an attempt to continue the annual guarantees, for many years to come.

The stratagem whereby the government provides Intel with an investment grant with a ten-year spread in fact represents an assurance that it will be a member in the new hi-tech lobby.

The upshot: Israel obtains guarantees from the US administration to recruit new funds on the Wall Street money market, to be used as grants to US firms investing in Israel. The administration's guarantees to the Israeli Treasury, for which Israel pays the administration a commission, is also generating an additional profit for US bankers, who grant Israel risk-free credit.

The principal is twice repaid by Israel to the United States: firstly to US industry in the form of grants, and secondly to the Wall Street bankers.

### **Selling and Financing Medical Instruments for China**

Rehovot Science Park's Mennen Medical, which has concluded \$10 million worth of sales of medical equipment to China's hospitals in the past two years, is now installing \$8 million of the most up-to-date medical instruments in hospitals in China. According to Mennen's deputy General Manager, the purchase is being made under the terms of a buyer's 10-year credit arrangement financed by Bank Hapoalim through the Treasury's long-term financing reserve.

guaranteed by the Israel Foreign Trade Risks Insurance Company. The credit line was extended by the Israeli Bank to the Bank of China.

### **A new Technology Leads to Novel Cardiac Stent**

The Cardiac Catheretization Department at Shaarey Zedek, Jerusalem, was set up three years ago when Dr. Yoram Almagor returned from overseas to establish the department.

The physician was trained as a cardiologist at the National Institutes of Health in Bethesda, Maryland, and then served as cardiologist in Milan.

This year his department carried out 800 intervention procedures

#### *More applications for the Stent*

Until recently only one type of surgical stent was developed in Israel. It was developed, produced and marketed by InStent Ltd. (IHTIR 11/95).

The company employs a patented process using technologically advanced materials that allow the stent to be configured as a coil which retains its configured form after inserted into the blood vessel. These stents are made for cardiac, esophagus and general vascular surgical applications.

A new type of stent is in the development stage at a startup at the Tel Aviv-based Atidim Science Based Industries Park. The company is Medinol Ltd. This company has a stent technology alliance agreement with American Boston Scientific. One of the developers is the Jerusalem based physician Dr. Almagor, who since 1987 has been practicing stent-assisted balloon angioplasty. The use of stents is a technological answer covering various situations," Dr. Almagor told the Israel High Tech and Investment Report. "To meet the needs I turn to a number of stent suppliers including Johnson & Johnson, Cooke, A.V. Stent, Victor and Wall Stent made by the Swiss Schneider. I also use the J & J stent coated with heperin as part of a multi-center study to determine the advantages of introducing a medicine with the instent," said Dr. Almagor. The new stent s have proved satisfactory in initial pilot studies on approximately 50 patients, in Italy and the Netherlands. "Next month further clinical tests will be performed at the two most experienced catheretization labs in Europe," he said. The NIR stent is a mesh stent, supporting the artery wall without any recoil, and is claimed to provide adequate cover for the wall of the blood vessel.

### Yitzhak Rabin's Economic Achievements

The first three years of the late Prime Minister Rabin's leadership resulted in a strong economy. Some of the economic achievements during his three years as Prime Minister include the growth of the Israel economy by 20%, and a real increase in the civilian standard of living by 25%. The GDP per capita of \$17,000 places Israel among the 20 richest countries of the world. One of the large Swiss banks is predicting that Israel's economy will be among the world's most successful economies in the year 2000. It is cited for the remarkable success in absorbing immigration and its large investments in high tech, communications and education.

### GIS Package for Delphi

In 1994, TIMC, an Israeli software house, specializing in geographical infosystems (GIS), developed the Enigma Plus, a geographical information system. Now it is developing a software component that will integrate into the Borland Delphi rapid application development (RAD) system, to facilitate a fast, efficient and smart development cycle. The new module will be an "add-on" system to Delphi, offering full geographical relevancy of the information, including spatial representation tools and analysis. At a recent Tennessee trade show, TIMC and Delphi demonstrated the first system, and announced their future collaboration in marketing these systems. The company estimates that GIS systems will represent a \$4 billion market by 1999, and TIMC's GIS engine will enable developers to tap this market more effectively and rapidly, by utilizing RAD tools for the Windows NT and Windows 95 environment.

### An Agenda for the New Prime Minister Mr. Shimon Peres

It is not too difficult to assess a key problem facing the economy: a rising current accounts deficit in the balance of payments. In 1993 the deficit was \$1.4 billion; in 1994 it doubled to \$2.8 billion; and in 1995 it may reach \$4.5 billion. No-one can estimate where the deficit will be by the end of 1996. Israel's imports are rising at an unusually high rate, while exports are rising, albeit more slowly.

Prime Minister Peres has previously shown ability to lead the economy. He will likely turn to the Minister of Finance and point out that the 1996 budget expenditures are too high. Having stated the problem clearly, Mr. Peres could ask the Minister of Finance to cut NIS 1.2 billion off

the budget equaling, 0.5% of the GDP. In order to make this request palatable Mr. Peres could easily turn to the Bank of Israel Governor, Professor Jacob Frankel, and suggest that, in return for a cut in the budget, Frankel agree to a cut in interest rates. To summarize, Mr. Peres may look for the following:

- a NIS 1.2 billion cut in the budget;
- a reduction of 1.5% in the interest rates spread over two months (a 0.5% cut was announced on December 25)
- move ahead on the privatization program by quick sales of Bank Hapoalim and Bank Leumi;
- a sale of publicly owned land, so that a buyer of an apartment or a home will own the land as well, and not have the Israel Lands Authority as a partner. This move could bring in billions of shekels to the Treasury;
- steps to improve competition within Israel's economy, by bringing in private competition with Bezeq and the Israel Electric Corporation.

### Research Answers Universal Compression for Online Video

Video and audio compression bottlenecks may soon be a thing of the past through the utilization of unique compression concepts, developed by Dr. Ilan Sadeh, head of the communications engineering department at the Holon Technical Center. These new algorithms are different from the Lempel-Ziv algorithm, widely used over the past two decades. The new concepts benefit from a substantial improvement of compression ratio, achieved by relinquishing a negligible reduction in quality, not detectable by the human eye.

The new technology has been presented at several Internet and technical conferences. Dr. Sadeh and his team continue researching it for potential commercial applications in multimedia video on-demand over standard communication lines.

### Trade with the European Union

In 1994, Israel exports to the EU totaled \$4.9 billion, while EU imports stood at \$12.7 billion, creating an Israeli trade deficit with the EU of \$7.8 billion.

During the first nine months of 1995, Israeli exports to the EU amounted to \$4.5 billion, with EU exports to Israel of \$10.7 billion; thus bringing Israel's trade deficit with the EU to \$6.2 billion, as compared to a \$5.5 billion trade deficit



during the same period last year. Israel's trade deficit with the EU is larger than its trade deficit with the rest of the world.

### Trade Agreements

On November 20, in the presence of EU foreign ministers, the Foreign Minister and the then Acting Prime Minister Shimon Peres, Israel and the European Union signed a new trade treaty. This Agreement replaces the 1975 Agreement, and includes a number of new components, which will strengthen ties between Israel and the EU. The treaty's purpose, as defined in its text, is to provide a framework for political dialogue, and to promote economic relations between the EU and Israel.

The Agreement, defined as a "Treaty of Association, establishes an association between Israel and the EU, based on the principle of reciprocity giving expression to the network of special relations between Israel and the EU. Further, Israel has been accepted as a full member of the EU's Fourth Framework R & D program.

The R&D Agreement, initialed on October 31, 1995, determines that Israel can participate in the EU's R&D committee (although without voting privileges).

Israel is one of only two countries, the other being Switzerland, which are not EU members but can participate in EU R&D projects.

The Agreement allows Israeli firms to participate in EU R&D tenders.

With regard to industrial products, the Agreement forbids customs duties from being imposed on imports and exports between Israel and the EU.

beyond the sphere of general trade, the Agreement also includes possibilities for phased freedom of movement in financial services, and for cooperation in many other areas.

There will be no restrictions between the parties on the movement of capital nor will there be any discrimination on the basis of nationality, place of residence, or the place where the funds are to be invested.

Vis-a-vis competition, the two parties will forbid the creation of cartels and other associations that prevent the existence of competition. In addition, the parties will allow full accountability in all matters relating to public assistance, in order to ensure that the rules of fair competition are upheld.

The parties have agreed on appropriate protections for the right of intellectual, industrial and commercial property, and on the

enforcement of these protections.

Agreement was reached on scientific and technological cooperation. Separate agreements will set forth the details of arrangements in this sphere.

Economic cooperation will take place in sectors involving economic growth of the parties and on employment.

Cooperation will be attained through regular economic dialogue between the parties that will encompass all spheres of economic policy.

The primary spheres of economic cooperation: Regional and industrial cooperation; agriculture; standards; financial services; duties/customs; environment; energy; information infrastructure; tourism; approximation of laws; transportation; war on drugs and money laundering.

In accordance with Israel's request, the Agreement also includes new areas of cooperation in culture, education and audio-visual promotion.

### Investment will Reach More than \$1 Billion in 1995

Real foreign investment, not including investments in the capital markets, will reach more than \$1 billion in 1995, according to the Finance Ministry.

This compares with real foreign investment of \$600 million in 1994, \$300 million in 1993 and \$100 million annually in earlier years.

### Silicom's New Network Interface

Silicom, a subsidiary of the RAD Bynet Group, has commenced marketing its latest modem and PCMCIA network interface card that supports both 100 MB/sec and 10 MB/sec data rates.

The card can interface Novell Netware, Windows NT or UNIX based ethernet systems, and can switch automatically to the network speed suitable for available communications conditions, couple laptop computers from remote network points and also serve a server on a central location.

Silicom has also produced a network interface that integrates 14.4 or 28.8 kb/sec modems, to enable subscribers to log into the network directly or via remote phone link.

### Nice Systems to Sydney's Futures Exchange

Tel Aviv's Nice systems has signed an agreement to install its NiceLog system - - a computer telephone integrated system - - for recording the activity of the Sydney Futures Exchange in Sydney, Australia. The Sydney

exchange has 600 traders. The NiceLog system will be used as an archival tool for the exchanges' financial transactions.

### **The Worldwide Semiconductor Industry**

Today's semiconductor industry, which produces the micro circuitry used in all modern electronics products, has grown to global proportions since pioneering scientists at Bell Telephone Laboratories invented the first transistor 40 years ago.

The costs of competing in the worldwide semiconductor and equipment markets are high, but so are the rewards. Despite the periodic downturns, international demand for semiconductor devices continues to increase. The world market is expected to exceed \$110 billion by 1995, according to forecasts by the Semiconductor Industry Association. According to Dataquest, a market research firm, the market for semiconductor integrated circuits will grow at a compound annual rate of 17.1% through 1999. The key industry participants are agreed that the growth of the semiconductor market is connected to advances in the technology, which result in the use of integrated circuits in a growing number of end-uses as well as an increase in semiconductor content within products and systems, and is due to a rapid growth in semiconductor-using industries, mainly the personal computer industry and the office automation and telecommunication industries.

Today, the semiconductor industry has a dramatic impact not only on the end-product industries that use semiconductors, but on national cultures and economies around the world, with strong international markets and industries in the U.S., Japan, Europe and, more recently, Asian countries including Korea, Taiwan and the People's Republic of China.

#### *Growing Demand for Semiconductors*

The semiconductor industry has been characterized by cycles of growth and retrenchment. But since there is no foreseeable replacement for semiconductor chips, each cycle has been progressive; the market bottoms have risen steadily.

### **Israel's Tower Semiconductor Reaches for the Big Time**

The company is an independent "foundry" manufacturer of semiconductor integrated circuits on silicon wafers. Its major customers include National Semi-Conductor, Hewlett-Packard, among others. It manufactures

proprietary IC designs of its customers. In the third quarter of 1995 the company's sales were \$26 million on which it earned \$5.7 million. It is a public company since the end of 1994 year with its shares listed under the NASDAQ symbol TSEMF. Since it became a public company its shares have traded as low as \$10 and as high as \$36. Recently they have been traded at \$24.

### **Israel and Germany to Cooperate in Industrial Technology**

The steering committee of the Bi-national Israel German Council has chosen telecommunication, air pollution and alternative methods for producing energy as the key topics for seminars. The activities of the Council will be supervised by the office of the Chief Scientist of Israel's Ministry of Industry and Trade and his counterpart at Germany's Daimler-Benz. The Bi-national Council was established in July by the then Foreign Ministers Shimon Peres and Klaus Kinkel. At that time there was a DM 400,000 allocation for this activity on a 50/50 basis between Israel and Germany.

"It is a modest budget to start with but remember that Germany is sending DM 50 million yearly in support of German-Israel joint research and development projects. The concept behind the new project is to bring together small and medium-sized industries, to work together. The Governments will bring them together. Germany is very much interested in joint projects developing environmental technologies," Dr. Gunter Markus, scientific counselor at the German Embassy in Tel Aviv, told the Israel High-Tech and Investment Report.

### **Salt Layers may be Unsafe as Toxic Waste Storage Sites.**

A recent Weizmann Institute study questions the safety of using massive salt deposits as storage sites for toxic and nuclear waste. The assumption has existed for years that all salt layers deeply buried in the earth are nearly impenetrable and safe for storing dangerous waste materials. This study proves the above assumption to be wrong with the conclusion that poisonous products that could be stored in such layers might escape into the soil and contaminate ground water used for agriculture or domestic purposes. The existence of a 10,000-year-old salt layer that is highly conducive to the flow of liquids, and heavily saturated with water, has been revealed. It was found at a depth of 80 feet along the western coast of the Dead Sea, about 1,000 feet inland. Three research wells were drilled in the area, one

of which struck a 7-meter-deep salt layer. The researchers, Drs. Ronen and Berkowitz, found that ground water had been seeping into this layer and absorbing some of its salt. Further testing indicated that individual salt crystals are as conducive to the flow of liquids, as is sand. The Dead Sea is in the northern part of the Syrian-African Rift, an area covered by a sequence of lakes throughout the Rift's history. The salt layer under study was formed about 10,000 years ago.

### **Comfuture's Roadsigns Save Dutch and German Lives**

The Israeli company, Comfuture, has designed special mobile electronic roadsigns which, after passing the most stringent German Road authority control tests, have been approved for use on road systems in Germany, England and the Netherlands. Tests, run by the Dutch Transportation Ministry in cooperation with the Dutch Police, indicated that Comfuture's mobile electronic roadsigns have helped to save lives. According to statistics, every month two fatal accidents had been caused by drivers maintaining their speed despite strong police enforcement to restrict speed and warning signs adjacent to road works. The tests also showed that, using Comfuture's electronic signs, 95.6% of the drivers slowed down immediately. The Ministry has placed a \$500,000 order for these signs.

### **Rapid Growth in Public and Institutional Holdings of Shekel-linked Assets.**

The growth in the weight of shekel non-linked assets has gradually occurred over the past two years. At the end of September 1995 these assets totaled NIS 87 billion (approx. \$29 billion), and represented 18% of the portfolio of financial assets of Israel's public. This is in contrast to 16% at the end of 1994 and only 10% at the end of 1992, according to figures provided by the Monitoring Department of the Bank of Israel. The move into shekel-denominated non-linked assets originates from the down-turn in yields in the stock market and in dollar assets. The policy of turning back inflation to desired lower levels was accomplished by a positive real rate of interest for short-term investments. These rates were either very low or negative in the five-year period ending in the last quarter of 1994. The public as well as institutional investors such as pension- and mutual-funds turned to short-term deposits with the banks. Other avenues of investment such as Short Term Loans of up to one-year duration and government debentures of

the Gilon and Shachar types, for two years and longer, began to assume a greater part of the investment portfolio mix, and now represent approximately 12%.

Shekel yields from short-term deposits and government bonds are currently between 14% and 15%. We have believed and continue to believe that the trend of raising interest rates on a monthly basis by the Bank of Israel, which left rates unchanged at the end of November, was to be reversed by the year's end and in the early months of 1996. These expectations could be heightened by the expected cut, by up to \$500 million, in the Finance Ministry's budget leading to the further expectation that the rate of inflation will be lower over the next few months. We at Israel High Tech and Investment Report believe that this scenario is more than likely and will result in a sharp rise in the value of government non-linked bonds. Bond holders could reap the rewards of the current high yields on these bonds as well as a gain in the value of their capital. It is noticeable that the availability of the high yields in the bond market continues to dampen the enthusiasm of the professional investment community for shares.

### **Efforts at Lowering the Rate of Inflation are Visible**

The Central Bureau of Statistics (CBS) reported that the Consumer Price Index (CPI) for November 1995 had risen by 0.7% and was less than predictions which ranged from 0.8% to 1.0%. After 11 months of the year, the CPI at 6.7% appeared poised to finish 1995 under 8% which was the target of the Bank of Israel and the best one-year performance in 26 years. Prominent members of Israel's government, including Finance Minister Avraham Schochat and Minister of Industry and Trade Micha Harish, have been vocal opponents of Bank of Israel Governor Jacob Frankel's policy of maintaining relatively high rates of interest to reign in inflation. "The high rate of interest and its influence on the rate of exchange encourages a deficit in the balance of payments and is responsible for the growth in personal consumption as the public has been made to feel that imports are temporarily inexpensive," said Minister Harish in response to the announcement of the CPI.

### **The Shekel Rate of Exchange for the US Dollar Weakens**

In November there was a modest devaluation of the Israeli shekel in relation to the US dollar, and by the end of December the shekel weakened an



additional 5% against the American currency. However, a large devaluation of the local currency, i.e. 10% or more, in the first months of 1996, is not expected by participants in the Israeli capital market. A realistic rate of exchange over the next six months could be NIS 3.25 - NIS 3.35 to the US\$. While there may be a slight lowering of interest rates, the direction could be reversed when inflationary signs reappear," said Mr. Zohar, Bond Department dealer at the Union Bank of Israel.

#### **Editor's Comment on Savings Preferences**

In the early part of 1995 savers and investors were able to obtain yields of 18%, or more, from government bonds and treasury notes. It was clear then that those who invested their funds in shekel-denominated instruments were better off than linking them or investing them in dollars when interest rates for dollar deposits were well under 5%. Currently banks are offering yields of 13% or more for time deposits and government bonds offer yields of 13% - 15%. Since dollar deposits yield 5% - 5.75% for up to a year, conditions remain favorable for maintaining investments in shekels. The Bank of Israel has recently issued statistics which indicate that in the fall of 1995 investments by non-residents in bonds and shekel deposits totaled \$275 million, as compared with \$114 million in December 1994, a gain of 141%. This represents only 1.6% of the total \$17.2 billion portfolio of Israeli financial instruments in the hands of foreign investors.

#### **New Medical Filing System Developed by Outlook**

Doctors and staff of the Afula hospital in the northern Jezreel valley are well satisfied with their new computerized medical filing system. Developed by Outlook Systems and based on the Access Database, the new system operates in the Windows environment, easily integrating with Word word-processing systems and Excel spreadsheets, and shares data with other sources via ODBC interfaces. Another advantage is the large vocabulary of terms and phrases continuously used by the medical profession. The system can access the medical data available throughout the medical files. for inclusion in files, for prescriptions, or for the preparation of statistical studies, logistic and medical analyses, surgical reports, summaries, lab requests, etc. The files can also include text and information extracted directly from each patient's medical file either individually or by automatic attachments of field data.

#### **The Equity Market in December**

Wall Street soared to a new record high when the Dow Jones broke the 5000 barrier, at the same time London was also reaching an all-time high. Among the major stock exchanges was Wall Street's 36.6% rise for the year which led all major stock markets. Emerging markets for the greater part have performed poorly in 1995. India, Philippines, Taiwan, Mexico and Russia have recorded, from the beginning of the year to end of November, drops of more than 24%. In Israel the General Share Index at the end of November was up 5.8% in nominal terms or 3.9% in US dollar terms. The Israeli market is still cheap and it is likely, as more international joint ventures are signed with Israeli companies, that the shares of many of the companies on the Tel Aviv Stock Exchange will grow in popularity and investment appeal. On December 25 the two-sided Mishtanim Index closed above 208, the highest level in 18 months when the market was bottoming out after a prolonged downward trend.

#### **AP Gold Provides Computers for Argentina**

AP Gold, an Israeli-based international leasing company specializing in high-tech equipment, will provide Mobicom, the Argentinean cellular phone company, with a complete network of computers valued at \$500,000 and communications equipment based on HP computers. Motti Sadeh, general manager of AP Gold, believes the equipment will support the network's command and control system, as well as remote access and control systems for remote sites. TTI Telecom, a subsidiary of Team Computers and the Spanish PD&C company of Barcelona, Spain, is developing the project.

#### **Solar Beam Produces a Better Superconductor**

In 212 BCE is said to have used concentrated sunlight to torch the Roman fleet besieging Syracuse. Now, Weizmann Institute researchers have revised this ancient method to produce a high-temperature superconductor for potential industrial applications. The team of scientists headed by Shimon Reich "cooked" ceramic material in a solar beam concentrated to 11,000 times the intensity of sunlight reaching the earth. This clean and fast method marks the first time a superconductor was produced using solar heat. Potential applications include the building of improved mechanical devices, such as frictionless ball bearings which will never need oiling and magnetic clutches with no direct contact between the clutch plates. Such parts would be separated



by a cushion of air and held in place by a magnetic field.

These uses could be expected because of the unique properties of the superconductor which carries a strong magnetic current making it possible to suspend magnets in midair. Prof. Reich has pointed out that fast melting and quenching is essential for producing improved superconductors. This is achieved with the solar method which allows the sunbeams to melt the material instantly.

### **Incubator Programs Hatch Good Enterprises**

Dr. Klara Vinokur immigrated four years ago after working as a physicist at the Georgian Academy of Sciences. At the Kiryat Weizmann Incubator for Technological Entrepreneurship She found employment as a senior researcher at Fabia Engineering Ltd., a company created in an incubator to develop her idea for making innovative liquid crystals -- important components of watches, computers and other electronic devices - 1,000 times faster than existing ones, and unique in possessing a memory. The company received the 1995 Excellence Award for an outstanding incubator project. The incubator program is a non-profit organization and, though it is only four years old, it is meeting its goal of helping immigrants and Israeli entrepreneurs to bring their ideas from the laboratory to the market place. Of the 149 projects "hatched" by the country's 28 incubators up to mid-1995, 70% are functioning independently as a result of private investment or profits from sales. In contrast, only 20% of high-tech start-ups worldwide generally survive the two-year milestone. The Kiryat Weizmann Incubator is backed by leading Israeli companies including Africa-Israel, Discount Investment, and PEC Israel Economic Corporation. The High-tech Entrepreneur Center at Har Hotzvim, Jerusalem, was founded by a number of industrial companies such as Intel, ECI, Teva, AVX, Clal Industries and the Israel Discount Bank. Here a start-up company Encotone Ltd., has developed a technology in the field of secure communications aimed at preventing the theft of telephone calls. A joint project, including ECI Telecom, has been successfully tested in an European country.

ECI Telecom has become convinced that there is a vast potential for the application of Encotone's technology in the wider field of telecommunications. As a result, ECI has decided to acquire 26% of Encotone.

### **Microsoft Aids Insurance Agents**

Microsoft Israel is offering an enhanced Office Environment, based on standard modules in Hebrew, and the New-X Kella-NTR insurance processing system, for consideration by insurance agents. The system can assist them in preparing, processing and following-up elementary and life insurance policies, overseas travel plans, loans and credit plans, etc. Excel spreadsheets, Powerpoint presentations and MS-Mail are used to communicate with customers and head offices.

### **Copaxone Marketing Deal**

Hoechst Marion Roussel, the Healthcare Division of Hoechst, has come to an agreement with Israel's Teva to commercialize Copaxone, an investigational product for the treatment of relapsing-remitting multiple sclerosis. Hoechst has agreed to pay Teva \$25 million, 40% of which is payable by the end of 1995. Together with a previous agreement with Marion Merrell Dow, it provides Teva with coverage of the worldwide market for its new drug as well as for other drugs being developed.

### **Peptor Ltd. Progresses with its Technology**

Peptor Ltd., based in Rehovot and less than three-years old, is developing a new technology which could reduce the time required to develop new drugs. Generally it takes about 10 years to develop and market a pharmaceutical drug but the company expects to cut this time considerably, by using computer models and magnetic resonance imaging to rapidly screen proteins (peptides) until a drug potential is discovered. Peptor's first attempt is to create a new anti-fungal peptide drug in cooperation with Xoma Corp. of Berkley, California. The group of scientists is headed by Dr. Yoram Carmon, former President of InterPharm Laboratories. The company is in the process of a private placement of up to a maximum of \$10 million, to be used to prepare drugs against gastro-intestinal diseases and fungal infections targeted for FDA trials by the end of 1997.

### **In Support of Small Businesses**

According to the Ministry of Industry & Trade, its annual program for the support of industries and businesses in developing towns has had a marked positive effect in reducing unemployment.

In all instances quoted by the Ministry, double digit unemployment has been cut by nearly 50%.

The total budget which the Ministry is trying to maintain for 1996 is NIS 275 million (about \$ 88 million).

### Settling of \$8M Suit Inspires Investor Confidence

Laser Industries, a pioneer in the development and marketing of carbon dioxide surgical lasers, after several years of restructuring, reported profitable operations on sales of \$36 million for nine months of 1995.

Analysts and investors following the fortunes of Israel's Laser Industries Ltd. will have been aware that the company has been found to have willfully infringed certain patents held by the American Surgical Laser Technologies Inc. As a result of the announcement that Laser has agreed to settle the outstanding patent litigation by paying SLT \$8.1 million, on December 7, the first day of trading after the announcement, the Laser shares advanced by more than 5% to \$10.62 a share in one of the more active sessions of share trading experienced by the company this year. Chairman Benjamin Givli was upbeat. "Now that this law suit has been resolved, we can focus on continuing our recent double-digit growth earnings for next year and beyond." Investors appeared to have agreed, at least initially, with this assessment.

### Arthur Low Laid to Rest

On Monday December 25 Arthur Low was buried at the Nahlat Yitzhak cemetery in Tel Aviv. The ceremony was attended by friends and members of the family. Low studied business and law in his native Canada before immigrating to Israel. He acquired broad managerial experience in Israel before joining Scitex in 1972. He was part of the management team which made the company one of Israel's first successes in high-tech and was instrumental in a consultant to high tech industries. Arthur was a good friend. Among his many activities he encouraged the publication of the Israel High-Tech & Investment Report. His name was first mentioned in IHTIR in 1985. He will be missed.

### Volkswagen and Dead Sea Works Embark on Venture

A festive dedication program on the shores of the Dead Sea on December 28 marked the beginning of the construction of a production line, part of a joint venture between Volkswagen and the Dead Sea Works. The total approved investment is \$750 million and is to be

completed in stages. The raw material of the Dead Sea used to date, to produce potash, will now be used to produce also metallic magnesium.

In the first stages annual production will be 27,500 tons per year of sales of \$130 million are projected. The metallic magnesium market worldwide is 300,000 tons.

The second stage is scheduled to begin in 1996 and to be completed in 1999. It calls for doubling of the production to 55,000 tons.

After completion of the second stage, annual sales are expected to reach \$250 million.

300 new jobs are being created with 1,000 others to be directly involved providing shop work and various services needed by the plant. In the second stage a further 350 jobs will be created.

As part of the joint venture project a magnesium research institute will be established at Ben Gurion University. As a result Israel will become the world center for the development of various magnesium technologies. The research center, budgetted at DM 50 million (approx. \$35 million) will be financed completely by Volkswagen.

### Laser to Laser Hair

A little more than twenty years ago, Prof. Isaac Kaplan, with engineer Uzi Sharon, developed in Israel the world's first carbon dioxide laser. The Professor envisaged numerous applications for the laser, including plastic surgery. Laser Industries Ltd. was formed to produce the lasers. Since then the use of lasers in medicine has become widespread, and the technology is now seeking new applications. We are aware, that dental clinics in the U.S.A. advertise the advantage of laser dentistry, we are not surprised to hear that Israel's Laser Industries Ltd. will be producing, probably in 1996, a laser for hair removal. To get into this field Laser Industries entered into a joint venture agreement with "Classy Lady" in the U.S.A. The main asset is a broad patent covering laser hair removal technologies to develop a hair removal laser system based on an American invention. Laser Industries management to bring the company into the U.S. hair removal market which is estimated to exceed \$1 billion. It is known that two other American laser industry companies: Thermolase (Amex:TLZ), and Palomar Medical Technologies (NASDAQ, PMTI), are also entering this field.