



YOSSI ZELIGER / FLASH 90



All smiles at the Trusteer data security company in Tel Aviv after IBM announced the acquisition of the company, August 15



Brains for sale

Do start-up exits leave behind 'scorched earth'?

WE ISRAELIS do not know how to engage in civilized debate. But don't get me wrong; we are world champions when it comes to arguing. Sergeants mouth off to generals; janitors tell CEOs how to market; and undergrads tell professors why they're all wet.

Dutch sociologist Geert Hofstede states on his website "The Hofstede Center" that "Israel is at the very low end of [the power distance cultural] dimension compared to other countries. With an egalitarian mindset, the Israelis believe in independence, equal rights, accessible superiors and that management facilitates and empowers. Power is decentralized and managers count on the experience of their team members."

This is a key element of start-up-nation culture.

But debate – when you let your foes complete their sentences, listen carefully to what they say, and then respond civilly and thoughtfully without shouting? Non-existent. Here are a few of the less offensive insults used by Knesset Members that former MK Colette Avital (Labor) tried (unsuccessfully) to have banned: "Blood sucker," "swamp fly," "gut ripper and eye gouger," "lunatic," "madman," "murderer," "Nazi," and "thug."

This is why I chose a controversial topic, namely, the sale of Israel's brains at bargain prices, to illustrate how a debate could and should be conducted. I will use the rules of debate as they appear in the Oxford Union, the gold standard, to some extent implemented in Britain's Parliament and refined over 182 years, to argue civilly with myself.

The Chairman: Here is the motion: This House deplores the widespread sale of Israeli brains at rock-bottom or zero prices. Who will speak for the motion?

Speaker for: I will, sir; first, some background.

"Boy for sale. He's going cheap. Only seven guineas," sings Mr. Bumble in the musical, "Oliver Twist."

"Brains for sale" might well be the Israeli version. There is evidence that Israel's top export is not Dead Sea potash or hi-tech software, or even future natural gas, but rather its brains. And the question is, are those brains going cheap, far too cheap, like Oliver?

Israel's brains are sold in two ways. One, a growing number of foreign multinationals are setting up R&D centers in Israel and are harvesting an impressive number of international patents from the creativity of

Israeli developers; and two, after a lull, exits – acquisition of Israeli start-ups by foreign firms – are again booming. Rather than grow to global proportions, Israeli start-ups and their brains are mostly sold, leaving behind what former Rafael Advanced Defense Systems CEO **Giora Shalgi** calls “scorched earth.” A handful of entrepreneurs become immensely rich, but few others (except the government’s tax coffers) benefit at all.

Mr. Chairman, honorable House, in 2011, Prof. Eytan Sheshinski headed a committee that recommended increasing state royalties on natural gas exports. Last June, Finance Minister Yair Lapid established a second Sheshinski Committee, this time to examine royalties on other resources, such as potash and bromine.

Mr. Chairman, we urgently need a third such committee – to study the wholesale and wasteful squandering of Israeli brains, by far Israel’s most important resource. The evidence is alarming.

MULTINATIONAL COMPANIES have been flocking to Israel to plug into the enormous creativity of Israeli engineers and inventors. Over 30,000 people are employed by foreign R&D centers located in Israel. The latest is Apple, which is building its first R&D center in the world outside California in Herzliya. Why? Because they can thus harvest an unending torrent of Israeli inventions. Their shareholders will grow wealthy as a result. Israelis will not.

Mr. Chairman, according to a recently completed study led by **Dr. Daphne Getz**, at the Technion-Israel Institute of Technology’s **S. Neaman Institute**, “In the past decade, the rate of transfer of Israeli intellectual property, know-how and technology into the hands of foreign R&D centers [in Israel] has substantially increased.”

Getz and her colleagues measured “distinct inventions” (avoiding the double counting of patents for one invention filed in many countries) by using Patent Cooperation Treaty data, in which patents filed in one country are simultaneously registered in dozens of others. They show that out of close to 4,000 distinct Israeli inventions annually, over 1,000 belong to foreign R&D centers sited in Israel. That

number has doubled in the past decade.

Local engineers earn good wages in these foreign R&D centers; but the foreign multinationals reap the profits and job

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opportunities their creative brains generate. Two companies alone, IBM and Intel, each patented nearly 1,000 distinct Israeli inventions in the decade 2001-2010. Can you imagine, sir, the magnitude of the exports, income and wealth those Israeli inventions, sold cheap like *Oliver Twist*, could have brought had they been implemented at home, in Israel?

The same study also shows “an increasing trend of obtaining Israeli intellectual property by means of acquisition of Israeli start-ups.”

According to IVC Research Center, 10 Israeli start-ups have been sold so far this year for \$100 million or more each. Topping the list of such exits are WAZE (bought by Google for \$1 billion) and Trusteer (bought by IBM for \$900 million).

Often, claims **Shalgi**, start-up exits leave behind “scorched earth,” when the acquiring company chooses to make the start-ups’ products elsewhere, rather than build Israel’s industry and boost employment here. As a result, David Rosenberg, writing in the business daily *The Marker*, notes, “Start-up Nation isn’t creating many jobs, it’s not profiting local investors and it’s not generating much added value. What it does produce is essentially shipped abroad every time a company is sold. Technology is supposed to be Israel’s business, but we have yet to turn it into one.”

That phrase deserves to be repeated, and emphasized, Mr. Chairman. “Technology is supposed to be Israel’s business, but we have yet to turn it into one.” This scandalous waste must be halted at once.



Speaker against: The motion before this House is utterly unfounded. I will prove why this is so.

WAZE (a navigation application now being integrated into Google) turned down a bid from Facebook because the latter wanted to transfer the WAZE operations to its California headquarters. Google has agreed to leave WAZE in place, in Israel, for at least three years.

Sir, you mention Trusteer. IBM will use it to construct a global center for data security in Israel. In 2012, half of Israel’s exports were hi-tech and of that half, fully one-fifth (i.e. 10 percent of total exports) were generated by Intel plants. Does anyone doubt that the creativity of Israeli development engineers employed by Intel, who created the Pentium, Centrino and Ivy Bridge microprocessors, paved the way for Intel’s fabrication plants in Jerusalem and Kiryat Gat? Intel says it employs 8,542 local workers directly, and another 17,000 indirectly (through its purchases).

Benny Landa’s start-up, Indigo (high-end digital color printers) was acquired by HP in 2001 for a total investment of \$882 million. It is now a division of HP based in Nes Ziona



The granddaddy of all exits – Iscar founder Stef Wertheimer, left, shows US billionaire investor Warren Buffett around the plant in the Tefen industrial zone in northern Israel

global markets, making Iscar an American company, hence able to sell anywhere, rather than an Israeli company, limited by politics? As the MasterCard ad says, “Priceless.”

Israel is not selling its brains; it is selling its inventive capability in an intelligent and sustainable manner

The Chairman: Rebuttal by the speaker for.

Speaker for: My honorable colleague proves my point. There are indeed good exits; not all exits are bad. But the good exits he cites leave jobs, factories, production and exports in Israel, not scorched earth. Let Israel shape policies that encourage, indeed require, such good exits, in the same way that foreign countries require Israel to buy “offset” goods domestically when Israel exports defense goods. Let Israel use the inventions of its homebred inventors to build local industry, not factories in Shenzhen.

The Chairman: Rebuttal by the speaker against.

Speaker against: Ask any entrepreneur, inventor or engineer what they seek from government. The answer is always the same. “Just keep government out of my hair!” History and experience both show that all efforts to manipulate, channel and control inventive energy end up diminishing or ruining it. No, Israel is not selling its brains; it is selling its inventive capability, in an intelligent and sustainable manner. The risk is not one of selling brains too cheaply. It is a much greater one – failing to maintain and strengthen unique human capital in the face of growing competition abroad. That, Mr. Chairman, is the real danger to be addressed.

The Chairman: The motion is: This House deplores the widespread sale of Israeli brains at rock-bottom or zero prices. The vote, by a show of hands: Those in favor of the motion? Against? And the result is... ■

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and controls 75 percent of the world market in high-quality digital printers.

Landa moved to Israel in 1977. There is no one more Zionist than he is. By selling his start-up to HP, he gained the marketing clout, financing and sales channels he needed to make Indigo a world leader, while keeping production here in Israel. Could he have done this without HP? It is doubtful. Indigo employs 3,000 workers in Israel directly, and another 9,000 indirectly.

But the granddaddy of all exits is that of Iscar, the start-up launched by Stef Wertheimer in his backyard in Nahariya some 60 years ago, and is now a world leader in cutting tools for the automotive industry. Wertheimer began by shaping the cutting tools used to build the National Water Carrier on a primitive lathe.

IN 2006, around 80 percent of Iscar’s shares were sold to US businessman Warren Buffett, head of Berkshire Hathaway, for \$4 billion. Buffett acquired the remaining 20 percent or so for another \$2 billion earlier this year. Iscar employs 2,500 people in Israel. Many are Israeli Arabs. When Iscar’s sales dropped 40 percent during the global crisis in 2009, not a single worker was laid off.

Buffett has promised that Iscar will remain in Israel; and when the Wizard of Omaha, as he is known, endorses Israel, all investors take careful note.

When Channel 10 news anchor Yaakov Elon interviewed Buffett in 2011, during a visit to Iscar and Israel, Buffett told him, “Iscar is special. I’ve never seen a manufacturing company like it in the world. It is like entering a hospital in terms of the care that is taken, the cleanliness. My partner and I have seen thousands of companies and have never seen such a combination of enormous achievement, power, talent and imagination as we saw at Iscar, a company that grew out of nothing to become a supplier to international companies... Danger of war? I knew where Iscar was; they didn’t move it after I bought it. This is a dangerous part of the world, but the whole world is dangerous, and it will become less dangerous as people do well in the world. And where else in the world have six or seven million people accomplished what Israel has accomplished?”

Now, Mr. Chairman, honorable House, how much is an endorsement from the Wizard like that one worth? Was Iscar’s sale to Berkshire Hathaway an exit? Or was it an entry into