

# Israel's Most Important Source of Capital: California

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*Last Saturday between one and two thousand protesters marched on the Port of Oakland to blockade one of its busy marine terminals and prevent an Israeli ship from docking. After confronting a line of police guarding the waterfront the protesters declared victory; the Zim Lines vessel hovered offshore, afraid to dock, they said, and port workers wouldn't be unloading its cargo.*

One protester, looking beyond the line of police guarding the port, explained that the purpose of the action was to “impede the flow of capital.” Stopping one of Zim's ships—the company's vessels arrive in Oakland about four times a month, according to Zim's web site—was a small, but real economic blow against Israel.

But if it's a matter of stopping the flow of capital, the ports are a relatively small conduit of trade between California and Israel. For over 20 years California's technology industry has been channeling billions of dollars to finance the growth of Israeli tech firms. In that time, tech has become a key sector for Israel's economy. The flow of capital between California and Israel is digital, transmitted as currency and intellectual property. And this flow of capital occurs mostly through the decisions of a small number private equity firms and perhaps as few as a dozen large corporations. These flows of capital supporting Israel's economy are less susceptible to social movement pressure.

The amount of support of for Israel's economy originating from Silicon Valley's private equity firms is especially large. In 2001, during the first year of the Second Intifada, Sequoia Capital Partners, a private equity company headquartered in Menlo Park, raised \$150 million to invest in Israeli technology companies. This was Sequoia's second Israel-focused venture capital fund. Last year Sequoia raised its fifth Israel-dedicated fund, totaling [\\$215 million](#). Since 1999 Sequoia Capital has injected over \$789 million into Israel's software and electronics industries. Much of this money managed by Sequoia Capital was contributed by California investors, including major tax-exempt institutions like the J. Paul Getty Trust, and the Gordon and Betty Moore Foundation.

Accel Venture Partners, another one of the giants of Silicon Valley private equity, set up its first Israel-focused investment vehicle in 2001. Joseph Shoendorf of Accel told the Haaretz newspaper in 2007 that Accel has invested over \$200 million in 20 Israeli companies. He added that many of Accel's investments in Israel are not the run-of-the-mill consumer apps and gadgets that are so popular in the Bay Area's tech scene. Although Israeli engineers produce plenty of that, [Shoendorf said](#), “the world's security situation is expected to get worse, and as a result, inventiveness will increase. The armies of the world are seeking solutions to a problem, and will encourage technological answers.” Last March, Accel

successfully raised [\\$475 million](#) for a fund that will burn a lot of its powder supporting Israeli tech companies.

You're starting to get the picture. Billions flow from California's Bay Area into Israel to support chip manufacturers, Internet startups, and telecommunications companies.

A lot of California's venture capital has been exported to Israel to fund military and cybersecurity startups. Israeli society, constantly mobilized for a counter-insurgency war and occupation, creates an environment in which the nation's hi-tech firms see their main role as contributing to the security of the Jewish state.

But the U.S. tech industry is also steeped in surveillance and weapons companies, and even the big consumer and enterprise brands like Google, Microsoft, and Cisco produce militarized software and hardware for use in the "homeland" and abroad. The contributions of Hewlett Packard in creating Israel's biometric tracking system to control the movements of Palestinians is well known. Hewlett Packard also maintains the [Israel Defense Ministry's server farms](#), a job IBM previously held. What makes the California-Israel economic connection powerful, however, isn't so much the nature of the technologies being traded, and the capabilities they provide the Israeli state and military, but more so the sheer economic value of these transactions.

According to the Organization for Economic Cooperation and Development (OECD) Israel received \$1.846 billion in direct investment from U.S. investors in 2012, the most recent year for which statistics are available. This is about two thirds of the total military aid the U.S. government provided Israel the same year.

U.S. investors have built up large positions in Israel's economy, mostly through ownership of stock in Israeli corporations. In 2012 U.S. investors held a \$19.7 billion stake in Israel's economy, more than double the interest owned by all European countries combined. And corporations registered in the Cayman Islands, a tax shelter where thousands of American investors establish offshore funds, owned another \$8.6 billion of Israel's economy. For example, the Sequoia Capital Partners venture firm of Menlo Park raised \$215 million last August to invest entirely in Israel. The legal place of incorporation for this fund? The Cayman Islands.

California investors own and manage stakes in Israeli companies like Mellanox Technologies, Ltd.. In 2002 Silicon Valley venture capital firms and several U.S. tech companies provided Mellanox with \$64 million in funding. The American investors included three Menlo Park private equity firms, Sequoia Venture Partners, U.S. Venture Partners, and Bessemer Venture Partners, as well as technology giants IBM and Intel. Using this capital, Mellanox, headquartered in Yokneam, Israel, grew from a small company into a transnational technology giant valued today at \$1.8 billion. It's a key supplier of hardware to Hewlett Packard, IBM, and Intel. It's main office in Yokneam looks like any other tech campus you can see in San Mateo County off the 101 Highway with gleaming glass mid-rise buildings tucked among trees and grass.

Yokneam is in the heart of Israel's Silicon Wadi ("wadi" being a dry stream bed in Arabic, meaning "valley" in colloquial Hebrew). Prior to 1948 Yokneam was called Qira, the site of a Palestinian village and farms, but the area was "depopulated" and occupied by Israeli forces, and later settled and transformed into one of Israel's most affluent cities.

Lots of Silicon Valley venture capital firms have set up offices in Israel. The location of choice for California investors seems to be Herzliya Pituach, a posh ocean side district of the city of Herliya. North of Tel Aviv, Herzliya is named after [Theodor Herzl](#), considered by many to be the intellectual father of Zionism. The Herzliya Pituach is one of the wealthiest spots in all of Israel, home to many of the nation's elite families. Bessemer Venture Partners' Israel office is located just a few blocks from the Marinali Marina yacht harbor, and a short drive from million dollar beachfront homes. Sequoia Venture Partners maintain an office on Ramat Yam in one of the high rise towers with views of the azure Mediterranean Sea.

The business links between Silicon Valley and Israel aren't apolitical. Many of California's venture capital investors and technology executives are staunch supporters of pro-Israel causes. They have established numerous nonprofit organizations to strengthen economic and political ties between California and Israel.

The California-Israel Chamber of Commerce, located in Sunnyvale in an office park filled with software firms, is funded by Silicon Valley investors, corporations and law firms including Intel, Paypal, Silicon Valley Bank, and Morrison Foerster. Executives from these companies sit on the Chamber's board of directors. Their ties to pro-Israel political groups are numerous.

Zvi Alon, a director of the California-Israel Chamber, runs a family foundation out of his Los Altos Hills home. Alongside a donation of \$9,900 in 2011 to the California-Israel Chamber, Alon also made donations worth \$36,000 to the Friends of Israeli Defense Forces. Alon is also credited as being a founder of [Israel21C](#), an "online news magazine offering the single most diverse and reliable source of news and information about 21st century Israel to be found anywhere."

Operating out of offices on Montgomery Street in downtown San Francisco, across the Street from Israel's consulate, Israel21C produces media promoting Israel's technology companies. Recent articles published by the group include "20 top tech inventions born of conflict," and a profile of the "maverick thinker" behind the creation of Israel's Iron Dome missile defense system. A [recent film](#) produced by the organization promotes Tel Aviv as a startup epicenter similar to San Francisco.

The General Consul of Israel in San Francisco, Andy David, is a board member of the California-Israel Chamber, as is the president of Silicon Valley Bank.

Nir Merry, another board member of the California-Israel Chamber, was born and partly raised in Israel in the Ma'agan Michael kibbutz. His father worked in a hidden underground ammunition factory making armaments used by Jewish commandoes in the battles that created the state of Israel. In a talk to students at the University of California, Santa Barabara, Merry elaborated on the links between Israel's technology companies and its military.

"I volunteered to become a commando. It's quite related to the topic of innovation," [said Merry](#). "Because to be a commando we have to be very innovative."

Silicon Valley's financial and technological assistance to Israel is by no means only a private sector effort. In March of 2014 Governor Jerry Brown signed [a memorandum of understanding](#) with Israeli Prime Minister Benjamin Netanyahu promising to promote economic links between California and Israel. The setting for the signing ceremony,

Mountain View's Computer History Museum, underscored the centrality of the tech industry in the agreement.

On the same trip Netanyahu visited Apple's Cupertino headquarters where he was ushered into the executive board room for a chat with the company's leaders. He also toured Stanford University.

Netanyahu's California appearance was designed to beat back the Palestinian solidarity movement's boycott, divest and sanction campaigners who, in recent years, have increased pressure on California's universities and other public institutions to divest from companies that do business with Israel. During the signing ceremony for the MOU that would give Israeli companies access to California's technology infrastructure, Netanyahu thanked Governor Brown for California's divestment from Iran. In 2012, California virtually barred [insurance companies](#) from owning Iranian assets. Earlier the state passed legislation requiring its pension funds to divest from Iranian companies. As a result of these laws, the state's teachers retirement fund CalSTRS even consults with the [American Israel Public Affairs Committee](#) regarding its investments.

Netanyahu also thanked Brown for the economic benefits that California's giant public employee pension funds, CalPERS and CalSTRS, provide to Israel. Both are major investors in Israel's economy.

The California-Israel MOU originated from California assembly member Bob Blumenfield's office. Blumenfield, the sponsor and author of several Iran sanctions bills, is now a city council member in Los Angeles. Blumenfield is a staunch ally of Israel, and has used his political offices, from Sacramento to the state's largest city, to strike back against the boycott, divest, sanction movement aimed against the Israeli military occupation of Palestine. Most recently Blumenfield organized LA's top elected officials, including mayor Eric Garcetti, to make a public statement in support of Israel.

"We stand with Israel against a Hamas regime that terrorizes Israelis from the skies and now, from beneath the ground," Blumenfield told the public.

Mayor Garcetti called Israel "our strongest ally in a tumultuous region."

Palestinian solidarity activists inside Israel's biggest economic and military partner, the United States, and inside one of its biggest investors, California, have struggled for years to build a boycott, divest and sanction movement. They've asked pension funds and universities to divest from companies that do business with the state of Israel, and they've asked academics and musicians to boycott Israel by canceling concerts and shunning conferences. They've had some success, but as California's continuing links to Israel show, their task is a difficult one.

Their struggle will continue long after Zim's ship pulls anchor and leaves Oakland's harbor. Supporters of Israel will be working to strengthen California's ties to their cause and prevent any economic protest movement from gaining traction. This coming October the California-Israel Chamber of Commerce will be hosting [an international business summit](#) at the Microsoft Campus in Mountain View where innovation and investment will be among the topics of discussion. And between now and then another six to eight Israeli vessels will probably also moor along Oakland's waterfront trading millions in goods.

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