Israeli Cyber Is Not Dead Yet

Recent draft regulations published by the Israeli Defense Export Controls Agency (DECA), propose to increase the supervision of exported Israeli cyber systems, by requiring Israeli companies which export cyber products and services with offensive capabilities to first apply for a permit from DECA, a process similar to when exporting weapons systems.

Since its publication, the long-awaited draft regulations have put the Israeli cyber sector on alert and many of its representatives have gone on the offensive by arguing that Israel should not be the pioneer in tightening supervision of the cyber sector, warning of the potential economic consequences for the Israeli economy.

Just how substantial is the cyber sector in Israel? In 2014, Israel exported $3 billion worth of cyber products and services and the expectation was that this number would increase by nearly 10% in 2015. Furthermore, there are some 300 active cyber companies in the Israeli market including notable names like Check Point (NASDAQ:CHKP) with over $1 billion in revenues from the first three quarters of 2015, Adallom (acquired by Google for upwards of $300 million) and CyberArk (NASDAQ:CYBR), which is reported currently to be negotiating its sale to Check Point. On 12 January 2016, the Financial Times ran an article citing that Israel had attracted 20% of the global private-sector investments in cyber (second only to the US) and laying out Israel's plans to further strengthen this market, including an initiative to erect a hub in southern Israel to allow cyber companies to work alongside military units and leading research teams.

Despite the unrest caused by the draft regulations, we at ERM think that the panic may be premature for two main reasons.

Firstly, the general public has three weeks to comment on the draft. This time should be spent wisely by the industry in order clearly to state its position to the Israeli Government, which for its part, has a great interest in the future of the Israeli cyber industry. Assuming that the end-result is indeed sensible, the proposed regulations would still allow the vast majority of well-advised companies, regardless of size, to continue with their businesses.

Secondly, the draft regulations only applies to cyber products and services with offensive capabilities, which could indeed be viewed as weapons. Israel may be a pioneer in the field of regulating the export of such sensitive technologies, but it is widely expected by professionals that many leading jurisdictions will follow suit. Israeli cyber companies must be prepared for tomorrow's regulatory environment.

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