



Client Update

New Tender for Environmental and Sustainability Innovation Lab in Israel

February 2019

Dear Clients and Friends,

The Israeli Innovation Authority ("IIA") and Israel's Ministry of Environmental Protection and Ministry of Economy are calling **multinationals and Israeli corporations** to submit **bid proposals, to form and operate an Environmental and Sustainability Innovation Lab**, with **government support** under a **three year franchise**. **The deadline for submission of bid proposals is June 25, 2019.**

The Lab – will function as a platform for cooperation between the Lab's owner corporations and Israeli entrepreneurs and startups on environmental and sustainability projects. The Lab will enable the startups to carry out a POC and to adapt their products to the technological, regulatory and business requirements, by using unique technological and other resources to be provided by the Lab and its owner corporations with the support of the State of Israel.

- **Focus on environmental and sustainability technologies** – for example: clean energy production, preservation and storage; efficient energy use; optimization of manufacturing processes; treatment of contaminated resources (soil, water); advanced materials and materials analysis; monitoring and reduction of environmental nuisances (noise, odor); development and manufacturing of environment-friendly products (such as green building products); development of environmental services (waste management, water management, wastewater treatment); digitization and monitoring of pollution treatment processes; recycling.
- **Scouting** – the Lab will locate and invite entrepreneurs and startups to carry out technological and business POCs for a period of one year each. The IIA must approve the selected projects.
- **Support** – to assist in conducting the POCs, the Lab will provide the startups with: **(i)** access to unique technological infrastructure (development, testing, manufacturing), market understanding and marketing channels, knowledge and expertise – in particular such that are not currently available to Israeli entrepreneurs; **(ii)** technological and other professional mentoring and supervision by R&D and other personnel of the Lab or of its owner corporations; **(iii)** working space, if needed; and **(iv)** access to the support of the Ministry of Environmental Protection (e.g. access to data and information regarding environmental challenges, regulatory requirements and pollutant emissions and transfers



to the environment; regulatory advice and assistance in obtaining environmental permits and approvals).

- **Generating an Ecosystem** – the Lab will actively promote the creation of new projects in its field of interest (through meetups, hackathons, calls for proposals, and conferences), and will encourage Israel's environmental and sustainability innovation through cooperation with the industry, regulators, academia, and government agencies.
- **"Champion"** – the Lab will appoint a Lab director who will coordinate between the owner corporations and their relevant divisions, the startups and the relevant Israeli ecosystem.

Lab's legal structure – (i) must be an Israeli registered corporation; (ii) is a "Qualified Corporation", or is at least 30% owned (directly or indirectly) by at least one "Qualified Corporation"; (iii) NGOs and research institutions cannot be controlling shareholders in a Lab and cannot hold more than 33% of the Lab together.

Qualified Corporation – (i) Israeli or non-Israeli technological corporation; (ii) employing at least 100 employees; (iii) with at least NIS 100M sales last year; and (iv) holding unique technological infrastructure, knowledge or expertise in the field of environmental protection, in Israel or outside of Israel, including such that are currently not available to Israeli entrepreneurs.

Preference will be given to – (i) joint proposals of groups comprised of **Qualified Corporation** and **Manufacturing-Industry Corporation**,¹ or a bidder that is both a Qualified Corporation and a Manufacturing-Industry Corporation; (ii) Lab that will provide solutions for **Process Manufacturing Industries**² with high environmental impact potential in proximity to populated areas; and (iii) Lab that will form a **strategic partnership with an academic institution** specializing in engineering and environmental issues, that will enable cooperation between relevant players within the ecosystem as well as dominating the field of energy and environment.

Government funding – will be granted for the following costs:

- **Lab's formation and infrastructure** – 33% of the costs (50% in Labs in the periphery); up to NIS 2M or NIS 4M funding (if the Lab accepts at least 2 or 4 projects, respectively).
- **Lab's operational costs** – 50% of the annual operating costs, up to NIS 500K funding per year.
- **Each POC costs** – 85% of the approved POC budget, up to NIS 850K funding.

Repayment of IIA Support – no repayment obligation for IIA funding of the Lab's infrastructures and operating costs. The IIA funding for the projects with the startups (plus LIBOR interest) shall be repaid **by the project companies** (not by the Lab) through royalties on future revenues, if any.

¹ Manufacturing-Industry Corporation – a "Qualified Corporation" engaged in physical or chemical transformation of materials or components into new products through use of machines.

² Process Manufacturing Industry – industry engaged in physical or chemical transformation of materials or components into new products through automation.



Rights in the Developed Know-how – notwithstanding the restrictions under the Israeli Innovation Law, the Lab and its shareholders could receive (subject to the IIA's approval) joint ownership or a non-exclusive license in the knowhow that will be developed with the project companies in the Lab. Other than that, the startups (but not the Lab) will be subject to applicable restrictions under the Innovation Law.

The Tender and the Bid Proposals

- **Franchise** – the current tender is for the franchise of one Lab. The franchise period is three years.
- **Qualified applicants are encouraged to apply jointly** – with partners with complementary abilities and expertise.
- **Selection** – the franchisee will be selected by a special committee through a competitive bidding process. The selection criteria include: (i) the experience of the bidder and its shareholders; (ii) the expected added value of the bidder and its shareholders to the project companies; (iii) the bidder's business plan; and (iv) general impression of the bidder.
- **Bid proposals** – must meet detailed legal and business prerequisites and conditions. Bid proposals must be submitted by the bidding Labs in Hebrew only. **Submission deadline is June 25, 2019, 14:00.**

The Call for Bids (in the meantime, in Hebrew) can be found [here](#).

HFN has extensive experience in advising on IIA programs, on environment and industrial manufacturing regulation, as well as on innovation matters as part of its [Government Incentives practice](#) and its [Industrial Manufacturing](#) and [Environment](#) practices. HFN represented several winning corporations in the recent tenders of the IIA, including in the last Innovation Labs tender.

Yours sincerely,

Herzog Fox & Neeman

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