RESTRICTED
BOP/103
11 March 1970
Limited Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

Original: English

ISRAELI IMPORT RESTRICTIONS AND PRIOR DEPOSIT

Basic Document for the Consultation and Discussion[1]

1. Legal and administrative basis of the import restrictions

The Import, Export and Customs Powers (Defence) Ordinance 1939 and the Defence Regulations (Finance) provide the legal basis for the control and regulation by the Government of Israel of the commercial and financial aspects of the country's foreign trade.

Certain imports, as mentioned in Section 2 below, are free from licensing control under the Free Imports Order. The "Authorized Importer Order", under which persons desiring to engage in import trade were required to register and to obtain a certificate permitting them to do so, has now been modified. Today, the only requirement from prospective importers is their registration as such and the obtention of an "importer number". Foreign currency for free import is granted by authorized dealers without prior confirmation by the "Competent Authority" of the Ministry of Finance.

Import licences, where necessary, are issued by the "Competent Authorities" who are officials designated by the Ministers of Commerce and Industry, Agriculture, Transport, Health, Labour, Posts and Finance.

Every licence issued by the "Competent Authorities" is countersigned by the Foreign Exchange Division of the Ministry of Finance.

2. Methods used in restricting imports

Imports into Israel may be classified into three categories, the main features of which are described as follows:

(a) Free imports

(1) Goods in this category do not require import licences;

(2) foreign currency is freely allocated by banks;

(3) conditions of payment are usually on a c.a.d. basis at f.o.b. quotations except when otherwise specified by the Ministry of Finance.

[1] Text supplied by the Israeli authorities.

(b) Automatically approved imports

(1) Under this régime import licences are usually issued without delay. No quantitative or other restrictions are applied. These licences are automatically countersigned by the Ministry of Finance;

(2) the aim of the licensing is to examine the effect of the imports on the Israel production of goods which have been liberalized. The licences serve as an additional source of information regarding the level of home demand.

(c) Restricted imports

Licences for imports of goods in this category are issued at the discretion of the "Competent Authorities". In the exercise of this discretion the following points are taken into consideration:

(1) The necessity to protect "infant industries"; these restrictions are gradually removed as the industries develop;

(2) the necessity to protect industries in development areas;

(3) the investigation of prices of commodities from alternative sources for control purposes;

(4) non-essential imports.

Full details of the types of product still remaining in the "Restricted" category are given in Annex I.

(d) Import deposit scheme

In the light of the deteriorating foreign exchange reserve situation an import deposit scheme was introduced on 11 January 1970. This measure aims at improving the balance of payments and at combatting inflationary pressures in the economy. (Full details concerning the import deposit scheme are appended in Annex VI.)

3. Treatment of imports from different sources

The foreign trade policy of Israel is based on the principle of non-discrimination. Customs rates are applied equally on all products irrespective of country of origin. The "Competent Authorities" do not interfere in the choice of the source of supply, except in the following special cases:

(a) Agricultural surpluses

Agricultural products available under surplus disposal schemes.

(b) Earmarked sources

Imports of goods covered by a loan agreement under which credit is extended specifically for the purchase of goods from a specific country of origin.

(c) Imports within the framework of bilateral agreements

During the year 1969 the bilateral agreements with Turkey, Greece and Poland lapsed and were not renewed. Trade with Greece and Turkey is now carried out in freely convertible currency. In 1970, the payments agreement with Yugoslavia was not renewed. Thus only four bilateral agreements now remain. Imports within the framework of bilateral agreements were consequently reduced by half and, based on 1969 figures, amounted to about 0.3 per cent of total imports, compared to 1.9 per cent in 1968. Details of imports within the framework of these agreements may be found in Annex II.

4. Groups of commodities affected by the various forms of restrictions

The three main groups of commodities are indicated in a separate column in the Israel Customs Tariff (English text) as follows:

F = Free imports
A = Automatically approved imports
R = Restricted imports

(a) Free imports

The list of products which fall under this category includes mainly raw materials and essential foodstuffs (see also paragraph 6 II(b)).

(b) Automatically approved imports

This paragraph comprises local production which has been liberalized, semi-manufactured and investment goods not produced in Israel and fiscal items.

(c) Restricted imports

Consist of certain types of spare parts and equipment, certain kinds of paper, foodstuffs, etc. (see Annex I for further details).

5. The use of State trading or Government monopolies in restricting imports

It is worth noting that State trading in Israel generally does not serve as a means of import restriction. Therefore it has no direct implications on the balance of payments.

Government imports are limited to a small number of basic essential foodstuffs of which sufficient quantities are bought to cover and to ensure the current local demand plus quantities required for maintenance of adequate stocks (the items are listed in Annex III).

Sales on the local market are unrestricted. The Government is ready to transfer the import of these goods to private firms on condition that they meet certain requirements in regard to the size of stocks and their storage.

6. Measures taken in 1968 and 1969 in relaxing restrictions

The following measures designed further to liberalize imports have been taken by the Government:

I. Tariff reductions

(a) The tariff concessions granted during the Kennedy Round are being implemented according to schedule.

(b) On 1 October 1968, a 15 per cent reduction of the customs rates of nearly 400 items came into effect, followed on 1 January 1969 by a further reduction of 10 to 30 per cent of the existing duty on 600 products. These reductions applied to items on which the customs rates exceeded 35 per cent.

(c) The Ministerial Committee for Economic Affairs approved in August 1969 the recommendations of the Industrial Advisory Committee concerning the further liberalization of imports. The new policy is designed to further facilitate the access of imported goods while ensuring a fair level of protection for the local industry. This general level of protection will average not more than 35 per cent. The transition from the existing high customs rates to the proposed lower rates will be implemented in equal annual stages, on 1 January of each of the years 1970 to 1975. It is intended to implement further tariff reductions during the period 1975-1980.

(d) The first stage of the policy outlined in paragraph (c) above was implemented on 1 January 1970 when customs rates were reduced on a large number of locally produced items.

II. Relaxation of non-tariff barriers

(a) Liberalization

Up to 1 January 1969, liberalized imports appeared on positive lists. From that day, all imports were liberalized except those mentioned in the negative list. This list is periodically revised with the ultimate aim of its eventual total abolishment (see Annex I).

(b) Free list

During the year 1969 the policy of transferring items from the "Automatic" to the "Free List" was continued.

7. Effects of trade restrictions and general policy in applying restrictions for balance-of-payments considerations[1]

The trend of continuing growth in economic activity was continued in 1969 for the third consecutive year, following the period of slow-down in 1964-1966. However, the rate of growth somewhat diminished compared to that of 1968. Gross National Product reached I£ 15.9 billion, which constituted a 12.3 per cent rise over the 1968 level of I£ 14.2 billion (1968 Gross National Product was 13.8 per cent higher than that of 1967).

Total investment in 1969 rose by 24 per cent, reaching I£ 3.7 billion, compared to I£ 3 billion in 1968. Investment in industry amounted to I£ 2.3 billion, representing some 60 per cent of the figure for total investment.

The accelerated economic activity was reflected in the labour market, which in 1969 absorbed some 40,000 employees more than in 1968. The increased size of the labour force was brought about mainly by the absorption of new immigrants and the elimination of unemployment. Labour demand has begun expressing itself in pressure for higher wages.

The intensity of economic activity has in general resulted in higher income levels. Increased income has, in turn, generated more private consumption. In 1969, consumption grew by 11.5 per cent, which was identical to the growth rate of 1968.

The growth in investment and consumption in 1969 was parallelled by a rise of $110 million in exports of goods and services, representing an increase of 9 per cent over 1968. (Exports of goods alone increased by 14 per cent.) At the same time, there was a considerable increase in imports of goods and services, which, in 1969, grew by 16.2 per cent to $2.1 billion. (Imports of goods alone increased by 20 per cent.) This followed the substantial increase recorded in 1968 when imports of goods and services rose by 28 per cent and imports of goods alone rose by 40 per cent.

The main factors underlying the rapid increase in imports were the increased rate of investment and private consumption and the growing defence needs. The result was a deficit in the current account of $930 million. This deficit is 30 per cent larger than the 1968 deficit of $720 million.

---

[1] See also Annexes IV and V.

In 1969, exports covered only 57 per cent of imports, compared with 67 per cent in 1968. A major part of the deficit was covered by unilateral transfers and international assistance. However, these sources were insufficient to cover the entire gap which had to be financed in part by borrowing on the world capital markets. This fact should be viewed in light of the stiff credit terms at present appertaining in the world market. The external debt grew to about $2.2 billion, and debt service on this reached $420 million in 1969.

It was also necessary to draw upon the country's foreign monetary reserves. In 1969, $250 million of these reserves were used to cover the deficit, following upon the $50 million drain on the reserves which occurred in 1968. At the end of 1969, total reserves stood at $410 million, compared with $660 million at the end of the preceding year, and $700 million at the end of 1967. The present level of reserves is sufficient to cover only two-three months of imports, and this is considered as a critical level bearing in mind the country's special defence and economic problems.

In view of the worsening balance-of-payments situation the Government has found it necessary to take certain measures aimed at restraining the rate of growth of imports. Nevertheless, Israel will make every effort to carry on its policy of continuously liberalizing her foreign trade.

Long-term Government policy aims at the closing of the trade gap by means of increased exports rather than by the administrative restriction of imports. But, this policy can only be successfully implemented if Israel can be assured of unimpeded access to her most important markets.

However, the increasing importance of regionalized preference areas and the probability of the imminent emergence of a single giant European trading block places this policy in jeopardy.

If in the future Israel finds that she is unable to guarantee access to her vital markets she may well have no choice but to return to administrative import controls, a policy which is inimical both to the CONTRACTING PARTIES and to her own long-term developmental needs.

ANNEX I

Categories of Industrial Products whose Imports are still Subject to Restriction

(a) Products in regard to which it has been decided by the Public Advisory Council for the Protection of Local Industry to continue administrative protection either indefinitely (a-1) or for a limited period (a-2). Products falling under the latter category will automatically be subject to liberalized competitive imports on the termination of the defined period (see lists "a-1" and "a-2").

(b) Products which remain under administrative protection for security reasons; this category includes explosive material and weapons.

(c) Products which remain under administrative protection due to reasons of kashruth (Jewish dietary law). (See list "c".)

(d) Essential foodstuffs imported by the Government. (For further particulars see paragraph 5 above. Statistics of Government imports of essential foodstuffs are given in Annex III.)

(e) Products of newly established industries requiring protection in the light of the large initial basic investment required and the limited size of the local market. These products remain under administrative protection according to the decision taken by the Ministry of Commerce and Industry (see list "e").

(f) Products in regard to which the Public Committee has not as yet completed its examination. These products will be brought before the Public Committee for final consideration in the very near future. (See list "f".)

List "a-1"

Products which the Public Committee has decided to leave under Administrative Protection

BTN item	Product
84.21	Sprayers
84.24)	
84.25)	
84.26)	Machinery for agriculture
84.27)	
84.28)	
85.16	Signal lights

ANNEX I (Cont'd)

List "a-2"

Products whose Imports are to be Liberalized shortly

BTN item	Product	Date of liberalization
30.03 38.19-44.00	Medicaments - human	1.7.1970
16.04-2000	Canned fish	1.7.1970
39.02-1010	Low density, high pressure polyethylene	1.4.1970

List "c"

Products for which Administrative Protection will continue for reasons of Kashruth (Jewish Dietary Laws)

BTN item	Product
03.02	Smoked fish
04.03	Butter
04.04	Cheese
15.13	Margarine and its substitutes
16.01	Sausages and the like
16.02	Preserved meat and pickled meat
16.03	Meat extracts
ex 17.04) ex 18.05)	Halvah
19.03	Noodles and similar products
19.06	Pastry
19.08	Biscuits
19.08	Waffles
21.04	Mayonnaise
21.05	Soups
21.06	Baking powder
29.40	Enzymes - rennet

ANNEX I (Cont'd)

List "e"

Products under Administrative Protection According to the Decision of the Ministry of Commerce and Industry

BTN item	Product
56.01-56.04	Acrilan fibres and synthetic tops The administrative protection does not prevent import of the above products for purposes of re-export.
85.15	Transmission-reception radio equipment The Ministry determined that new products will enjoy administrative protection for three years from the start of production.
85.05	Electric hand-drilling machines Administrative protection will be given to the product for two years from the start of production at the local enterprise (that is, 1.9.1970). The enterprise is producing only part of the drilling machines in use in the country. Other types are allowed to be imported.
29.16	Citric acid
87.02-1020	Buses

ANNEX I (Cont'd)

List "f"

Products Still under Review

BTN item	Product
73.29	Cast chains, forged or made of stainless steel
87.06-73.29	Chains for tractors
73.40	Apparatus for drying hands
70.16-73.40	Road nails
73.40	Copper and aluminium clamps
90.16	Measuring tapes
84.22	Escalators
73.22	Tankers for bulk transport
73.40, 84.18 84.56, 84.59	Perforated metal sheets
39.01, 40.14 84.35	Paint cylinders for printing
27.10	Mineral turpentine
34.02, 38.13 38.19, 29.22 29.01, 19.31	Inhibitors
90.17	Veterinary equipment
90.17	Dental equipment
65.06	Protective helmets
39.07, 68.13	Protective clothing
44.03	Wooden telephone poles
48.01	Floating boards
90.20	Casettes and frames for X-rays
Chapter 90	Laboratory equipment
90.12	Microscopes
Chapter 48	Wood free paper over 55 grs. per m^2
Chapter 48	Kraft paper
Chapter 48	Paper containing wood
30.02	Medicaments - human
70.17	Laboratory glass instruments

ANNEX II

Imports within the Framework of Bilateral Payments Agreements 1968/69

($'000, c.i.f.)

Country	1968	1969
Bulgaria	1,958	1,502
Brazil	2,146	2,871
Hungary	5,596	4,720
Yugoslavia[1]	7,917	10,752
Portugal	2,663	3,000
Total	20,280	22,845
Total imports (gross)	1,088,923	1,319,294
Percentage of total imports	1.9%	1.7%

[1]This agreement has now lapsed.

ANNEX III

Government Imports

Commodity	1968		1969	
	Quantity (in tons)	Value ($'000)	Quantity (in tons)	Value ($'000)
Frozen meat	32,136	16,244	35,944	18,026
Skimmed milk powder	7,206	1,899	7,488	2,413
Butter	47	49	142	169
Eggs[1]	32,185	1,415	39,800	1,572
Wheat	346,506	22,815	364,459	26,857
Soyabeans	252,451	27,796	207,029	22,460
Edible fats	26,235	4,388	14,621	3,311
Sugar	89,250	5,445	69,823	5,896

[1] In thousands: imports due to a shortage on local market.

ANNEX IV

Israel Balance of Payments 1968/69 (Provisional)

	1968 (Revised)			1969 (Provisional)		
	Credit	Debit	Net	Credit	Debit	Net
A. Goods and services						
Goods[1] (exports f.o.b. imports c.i.f.)	597	1,024	-427	680	1,225	-545
Services	527	822	-295	535	920	-385
Transportation	196	128	+68	210	135	+75
Travel	96	52	+44	85	70	+15
Insurances	70	73	-3	75	80	-5
Investment income	65	135	-70	55	145	-90
Government	33	366	-333	30	410	-380
Other services	67	68	-1	80	80	-
Total goods + services	1,124	1,846	-722	1,215	2,145	-930
B. Transfer payments (net credit)						
Institutional remittances			+161			+170
Personal restitutions from Germany			+143			+135
Personal remittances			+134			+170
Total transfer payments			+438			+475
C. Capital movements long and medium term						
Development bonds	182	103	+79	185	110	+75
US loans	58	24	+34	60	25	+35
IBRD loans	5	5	0	10	5	+5
Other loans	216	109	+107	215	120	+95
Investments	61	53	+8	90	50	+40
Total capital movements	522	294	+228	560	310	+250
D. Short-term capital movements: errors and omissions			+56			+205
Thereof: changes in reserves			+52			+230

[1] Net of returned exports and imports.

ANNEX V

Imports of Goods by Economic Destination

($ million, c.i.f.)

	1968 (revised)	1969 (provisional)
Total imports	1,024	1,225
Consumer goods	109	139
Non-durable	71	78
Food	36	42
Other	35	36
Durable	38	61
Production imports	700	802
For agriculture	51	50
For industry	515	586
Raw diamonds	162	195
Other	353	391
For building	15	19
Fuel	67	70
Spare parts	56	77
Investment goods	215	284
For agriculture	6	9
For industry	109	158
Transport	77	82
Ships and aircraft	46	32
Other	31	50
Other investment goods	22	35

ANNEX VI

Import Deposit Scheme

This measure is intended to absorb means of payment from the economy and thus bring about a lessening of demand for imports and an improvement in the balance of payments.

The following are the main elements of the scheme:

(a) The scheme covers all imported goods on which customs duty exceeding 30 per cent is paid.

(b) In order to obtain clearance of goods through the customs, importers will be required to make a deposit with the Treasury.

(c) The rate of deposit will be equal to 50 per cent of the value of the imported goods as defined by the Customs Ordinance.

(d) The deposit will be lodged with the Treasury for a period of six months from the time of deposit and will be repayable at the expiry of this period.

(e) The deposit will bear interest at the rate of 6 per cent per annum.

(f) The depositor's right to receive the deposit and interest is not transferable.

The following categories of imports are exempted from the obligations to pay the deposit:

(a) Postal packets for which the total deposit payable would not exceed IL 500.

(b) Goods imported by new immigrants, temporary residents or returning residents for personal use.

(c) Goods covered by a general import licence such as parcel-post consignments for private consumption, personal luggage, etc.

(d) Goods imported for war invalids provided such goods are approved by the Ministry of Defence.

(e) Motor vehicles for invalids as classified under heading 422 of the schedule to the Customs Tariff and Exemption Ordinance 1937.

Note: In order to ensure the effectiveness of the scheme, the banks have been requested by the Governor of the Bank of Israel not to extend credits for the purpose of financing import deposits. Furthermore, the money deposited will not be used to finance the Government budget.

Percentage of imports affected

It is estimated on the basis of the provisional 1969 figures that only some $200 million worth of goods (about 16 per cent of total imports) will be affected - mainly goods intended for direct use by the consumer.

The bulk of imports including plant and equipment, raw materials for industry (including raw diamonds) and Government imports remain unaffected by the scheme. These imports amounted in 1969 to some $1,000 million.

*

* *

2527