GENERAL AGREEMENT

ON TARIFFS AND TRADE

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TRADE POLICY REVIEW MECHANISM

ISRAEL

MINUTES OF MEETING

Chairman: Ambassador C. Manhusen (Sweden)

I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman (Ambassador Manhusen), introducing the first review of Israel's trade policies and practices, welcomed the Israeli delegation headed by H.E. Ambassador Lamdan, members of the Council, and the discussants. Ambassador Ernesto Tironi and Mr. José Luís Perez Sanchez. As usual, the discussants would speak in their personal capacities.

2. The Chairman recalled the objective of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of Israel (C/RM/G/55) and the other by the GATT Secretariat (C/RM/S/55 and Corr.1). He reminded the Council of the procedures for conducting reviews, introduced in May 1993 (document L/7208).

3. Hong Kong and the United States had given advance notice in writing of points they wished to address during the meeting. These had been conveyed to the Israeli delegation and copies were available to Council members.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF ISRAEL

4. The representative of Israel noted that, after successfully launching its Economic Stabilization Programme in July 1985, which brought inflation down from an annual rate of over 400 per cent to around 16-20 per cent; after achieving full implementation of its FTA agreement with the EC on 1 January 1989 when all tariff duties on industrial imports to Israel were eliminated; after making substantial progress in opening up its market to U.S. products within the framework of the U.S.-Israel FTA agreement, which would be fully implemented on 1 January 1995; after all these significant economic decisions and developments, Israel had engaged in 1991 in a new far-reaching programme of market-oriented economic reforms aimed at enhancing its integration into the world economy, diversifying its export markets and improving its competitive position. The first signs of such reforms had already been observed in 1987-89: increased liberalization of foreign currency controls, as well as reductions of some m.f.n. tariff duties in order to minimize trade diversion which might have resulted from the implementation of Israel's FTA agreements.

5. In April 1991, the Government of Israel had decided unilaterally to open the Israeli market to competition from countries not covered by FTAs. As a result of the Trade Liberalization Programme implemented since 1991, tariffs had been imposed, initially at high levels, to replace discretionary licensing and quantitative restrictions and these tariffs were being gradually reduced, according to a pre-announced and legislated programme, to reach a final level of 8 to 12 per cent within 5-9 years, that is, between 1996 and the year 2000. This programme covered all industrial sectors.

6. The tariffication of licensing requirements and the consistent implementation of tariff reductions (with some minor exceptions from the original programme) had already had an initial impact and induced improvements in the competitiveness of Israeli products. Moreover, the changes of the political environment in the last few years, had created the possibility of new trade relations and opening of new markets, such as China, Russia and India, while exposing Israeli industry to increased competition. It should be noted that this liberalization policy had been implemented despite the external economic difficulties that Israel had to face. This increased openness would be further expanded to include the sensitive agricultural sector as a result of the Uruguay Round Agreement on Agriculture.

7. One of the greatest challenges facing Israel in this period had been the massive wave of new immigrants, mainly from the former Soviet Union. Since the beginning of 1989 Israel had absorbed 600,000 new immigrants, increasing Israel's population by more than 12 per cent. As a result, Israel had to generate accelerated expansion to provide for the immigrants needs, while preserving macroeconomic stability. The Government's strategy had been to help create the conditions necessary for sustainable economic growth. This had been implemented by refraining from direct government intervention in the economy, while simultaneously seeking to encourage increased economic efficiency and competition through the liberalization of the economy.

8. Israel had successfully absorbed the massive immigration through encouraging the private sector to take advantage of the new opportunities resulting from reduced government intervention. The economic reforms occurring in Israel had involved unilateral trade and foreign exchange liberalization; tax reform and lowering of the overall tax burden; reducing state subsidies, budget deficit reduction; deregulation and privatization. These policies were in line with the recommendations of GATT and the IMF, and had been implemented through Israel's democratic framework, ensuring legal recourse through the country's independent judiciary system.

9. Over the previous five years, the Israeli economy had grown at a strong pace. GDP had grown by 33 per cent and the business sector product by 40 per cent, while exports had grown by 30 per cent and public sector investment in the country's physical infrastructure amounted to US$9 billion. At the same time unemployment had initially risen to over 11 per cent in 1992 and had since fallen to

7.5 per cent in the second half of 1994, while inflation dropped from above 18 per cent, at the beginning of the 1990s, to below 10 per cent in 1992, although it had risen again to just over 14 per cent in 1994.

10. In part, the policies which had led to these successes had also heightened Israel's balance of trade deficit, which had risen from US$3.5 billion in 1990 to US$8.3 billion in 1994 as a result of a 65 per cent increase in the level of imports over this period. This had also led to current account deficits in the balance of payments, reaching over US$3.4 billion this year, which had required raising additional sources of external financing. Moreover, in response to the renewed inflationary pressures, which had already been mentioned, the Treasury and the Bank of Israel had been working to check inflation and bring it down to a low single digit level, which was essential to ensure stable economic growth and the maintaining of the profitability of the export sector. In the meantime, the central bank had been implementing a restrictive monetary policy by raising interest rates. This policy had led to an appreciation of the Israeli currency, which in the short term had negatively affected the competitiveness of exports.

11. Israel's future economic developments would depend on the growth in investment in areas that would enhance its industrial development, particularly in fields like research and development which would further strengthen its comparative advantage.

12. Similarly, recent developments in the peace process were expected to offer new opportunities for massive investment in the region as a whole, spurred by new possibilities of co-operation in the Middle East. Three important issues were on the agenda in 1994: the agreement with the Palestinian Authority (the "Cairo Agreement"), the peace treaty with the Kingdom of Jordan and the beginning of improved relationships with Arab and Moslem countries. The economic protocol of the Cairo Agreement maintained the principle of free movement of goods and labour within a single customs territory, thus allowing several tens of thousands of inhabitants from the autonomous territories to work in Israel and opening the Israeli market to all products originating in the Autonomy, with some sensitive agricultural and poultry products only being allowed full access after a transitional period.

13. Following the peace treaty, Israel and Jordan were now in the process of negotiating a number of economic agreements to be concluded by May 1995: a trade agreement based on MFN principles as well as agreements on investment, labour, industrial co-operation and banking. In the field of tourism, relations had already developed at a rapid pace. Commercial relations with Egypt had also entered a more dynamic phase with official and industrial delegations having been exchanged with a clear purpose of enhancing the mutual relations between the two countries.

14. She said that the Arab boycott was still a significant issue. Despite several declarations against the boycott and the partial lifting of the secondary and tertiary boycott by some Arab countries, no move by the Arab League to end the boycott on direct trade with Israel was envisaged.

15. Despite the fact the Arab Boycott had yet to be fully dismantled, the growing relations between Israel and her neighbours had helped encourage third countries and multinationals, that previously refrained from developing ties with Israel, to do otherwise. As a result, there had been increasing interest from the international business sector to trade and co-operate with Israeli companies as well as to invest in Israel.

16. Relations with Arab countries were still at an early stage and their markets would not be significant outlets for Israeli goods. Fortunately, the political, economic and commercial relations with countries that had previously been severely limited, were entering now a new phase of development. In that context, Israel had signed MFN agreements the previous year with Russia, Ukraine, China and

now with India, and was also in the process of negotiating FTA agreements with Canada, Turkey, Poland, Hungary, the Czech Republic and Slovakia.

17. To conclude, Israel was fully committed to its obligations under the Uruguay Round. Israel regarded the successful completion of the Round as a highly significant event that would help expand international trade and, therefore, world output and income. Israel was in the process of ratifying the Agreement, as well as making the necessary legal amendments required. The Israeli authorities believed that through this agreement Israel would be able to continue to integrate its economy into the world market, while proceeding with economic reforms to enhance competition and efficiency.

18. She said that Israel perceived that the Uruguay Round Agreement and its implementation constituted a necessary and essential step to ensure the further and harmonious development of world trade and Israel was willing to be a full and active partner in that process.

III. STATEMENT BY THE FIRST DISCUSSANT

19. The first discussant, Ambassador Ernesto Tironi, highlighted three matters deserving further analysis. These included the considerable depth of the structural reforms undertaken by Israel in the past three years, the fact that these reforms did not have an adverse effect on the general economic performance of the economy, and the fact that the free trade agreements concluded by Israel with the European Community and the United States did not appear to have had a considerable impact on trade.

20. Under Israel's trade liberalization programme administrative restrictions had been replaced by tariffs, which were being gradually reduced over a period of five to nine years to 8 per cent for raw materials and 12 per cent for finished products. The entry into force of the Uruguay Round Agreement on Agriculture would have considerable impact on the Israeli economy.

21. Israel's 1991 programme could be considered as a structural adjustment plan of the kind proposed by the International Monetary Fund, which implied deregulation, the promotion of the private sector, reduction of taxes, elimination of subsidies, privatization and, in particular, trade liberalization. According to some views the implementation of such a programme should have resulted in a considerable increase in imports, slowdown of the domestic industry, a decline in GDP and an increase in unemployment. In the case of Israel, something different happened: imports rose reasonably, exports increased considerably, national production increased, especially industrial production, inflation declined, and unemployment also declined in spite of massive immigration. He sought Israel's views on why the structural adjustment policy had not adversely affected its economy.

22. His proposed possible explanations included that, in terms of economic opening, the reform had not yet had any effects because it was not substantial, that the transitional period might be long, that other compensatory measures might have been taken, that the Israeli market was already open due to its free trade agreements which covered three quarters of its trade, and that the restrictions eliminated under the programme had in fact already been reduced since 1978. Other possible explanations included that state-owned enterprises were still dominant, and that the evolution of the exchange rate might have excercized a compensatory effect. Overall, he noted that the results of the 1991 reform programme were still to be seen.

23. He also noted that the impact of the free trade agreements was mixed. The FTA agreement with the EC appeared to have benefitted more exports from the EC to Israel than Israeli exports to the EC. The share of imports from the EC in total Israeli imports had risen from 43 per cent in 1975 to 49 per cent in 1993, while Israeli exports to the EC as a share of total Israeli exports had declined from 45 per cent to 31 per cent. This had resulted in a trade deficit with the EC, reaching US$5 billion in 1993. He sought Israel's view on this question. He referred to certain possible explanations, including the fact that the agreement did not covered comprehensively the agricultural sector, that there were very complex rules of origin. He recalled that, when the GATT evaluated this agreement, a number of delegations had expressed concerns about the existence of strict rules of origin, which threatened to divert trade.

24. The free trade agreement with the United States was different, favouring Israel's exports to this market. Israeli exports to the United States as a share of total Israeli exports had increased from 18 per cent in 1980 to 32 per cent in 1987 and 30 per cent in 1993, while the share of imports from the United States remained stable at around 19 per cent. The trade balance was positive. He asked why this agreement was more favourable to Israeli exports that the FTA with the EC. He believed that possible explanations were that agriculture was covered and that rules of origin might be simpler in the agreement with the United States.

25. The performance of the Israeli external sector would in the future be influenced by a number of factors including the peace process and the follow up of the Casablanca Summit, the elimination of the boycott, and a further opening towards Asia and Latin America. He asked about Israel's position with regard to the proposed establishment of a regional common market, trade perspectives with neighbouring countries, and the possibility of reducing defence spending.

IV. STATEMENT BY THE SECOND DISCUSSANT

26. The second discussant, Mr. José Luís Perez Sanchez, sought clarification on: the coverage of the 15 per cent price preference and offset requirements on public sector procurement; export prohibition, where he requested the list of banned export products including animals, meat, dairy products, cereals and other agricultural products; and import prohibition, where he requested the list of products subject to import prohibition. He asked if the products subject to import prohibition were those listed in Annex V.1, being restricted for reasons of supply self-sufficiency.

27. In examining the situation of Israel with its historical background, he described the success of Israel in the 1960s as a miracle in the desert and a miracle in the wilderness. The Israeli economy was conditioned by two circumstances: external circumstances, which characterized the economy as a wartime economy, and internal domestic circumstances, historical and social aspects which gave it a very special feature, its "corporatism", giving great importance to the public sector. Military costs were 25 per cent of the GNP and two-thirds of economic activities were generated by the public sector. Under these circumstances it was obvious that economic and trade policies were not autonomous, but were the result of, and were conditioned by, external and internal circumstances.

28. He referred to Israel's current economic situation and the prospects for the near future. There were hopes, following the peace agreement, of the Arab boycott being eliminated, for the conclusion of a number of Mediterranean agreements, whether a Mediterranean Common Market or under other Mediterranean arrangements of the European Union. In the medium-term, the balance of payments could be improved by increased tourism receipts or larger capital investments. It should also be possible to correct the budget deficit as economic activity grew, rather than by taxing imports. Although Israel had been able to reduce inflation, it was still relatively very high.

29. He noted that the structural adjustment programme would have to continue, with a speeding-up of the liberalization process and increased domestic competition. It was also important that trade policy be oriented towards diversification, and economic policy towards efficiency in the allocation of resources.

30. Referring to a number of economic and social indicators given in the Secretariat report, he questioned Israel's status as a developing country. He said that Israel, having a per capita income of US$13,000 in 1992, was not a developing but a mature country.

31. He referred to Israel's short-term objective to facilitate the transition from subsidized agriculture to a liberalized agriculture which was export-oriented. The Israeli Government had noted in its report that, in the long-term, agriculture had to become a scientific type of activity, based on the development of water resources, as well as research and development. However, the Government report had also noted that the agricultural sector had financial problems. He encouraged Israel to apply financial resources to technological research in agriculture and to make it clear that the protection given at the present time would be modified and that the market would be opened up.

32. Turning to specific subjects in the context of Israel's trade policies and practices by measures, he said that Israel had to speed up its trade liberalization programme. The implementation of the Uruguay Round would result in more internal competition.

33. Free trade agreements should not increase discrimination, in particular attention should be given to special treatment given to the agricultural and fisheries sectors. Article XXIV of the GATT should not be used to cover non-fulfilment of Article I, the m.f.n. clause. At the same time, he hoped that the FTA agreements with the European Union would be improved so that there would be a dispute

settlement system on a bilateral level for any complaints under this agreement, similar to the procedure under the agreement with the United States.

34. Referring to measures affecting imports, he said that customs duties should be more transparent, and noted that Israel's customs valuation system, which included administrative increases to declared values of up to 10 per cent (the HARAMA system) would have to be adjusted to the Uruguay Round Agreement. He said that the 1.5 per cent wharfage fee could be a disguised export subsidy, and that the system for calculating the purchase tax (TAMA) discriminated against imports. He questioned why purchase tax was levied on imports even when there was no domestic production. He suggested that it would be more competitive to prepare a list of products not produced domestically and exempt them from this tax.

35. He asked whether there was a list of specific products subject to import prohibition and requested clarification on the procedures for granting import licences, adding that the system should be transparent. He questioned the need to have a State enterprise with a monopoly for importing meat. Noting that there was a relatively long delay for granting certificates related to standards and technical regulations, he asked if there was a maximum time limit for the granting of these certificates, or if it was discretionary. Another area of concern was the large number of samples required for homologation procedures; this was very costly for exporters. He asked if the number of samples required was based on a regulation or if it was at the discretion of the authorities.

36. Twenty-two public enterprises had been privatised until 1992, but this was relatively low when compared with the 170 public enterprises, out of which 82 were commercial enterprises, still in activity. Given that two-thirds of economic activities were accounted for by the public sector, he said that there was greater scope for privatization. Furthermore, in public sector purchases, national production was given a 15 per cent price advantage and 35 per cent offset was required. He noted that, as a result, there was a great protectionist element in government procurement. He recalled that the protection of one sector might affect other sectors, result in a situation where policies disadvantaged competition and consumers, and increase rigidity in economic development. In a rigid system, one could find that there was permanent structural inflation. He also wished that rules of origin be made compatible between all the agreements and that countries should harmonize them with the Uruguay Round Agreement.

37. Referring to measures affecting exports, he noted that there were still export prohibitions. He asked about the economic and social basis for this measure. Export licences were justified by the Israeli authorities as being for quality and health control; however, this sort of control was done in other countries at the time of shipping at the frontier. He questioned the need for such a licensing requirement, and asked whether excessive bureaucracy and red tape was involved. He then referred to export subsidies, noting that financing facilities for capital goods should be effectively harmonized with OECD practices. He asked if the export premium of 4 to 5 per cent per dollar of value added still existed, how export subsidies for agricultural products were applied, and to what extent the wharfage fee affected exports. Noting that there was a very generous support for export promotion, he sought information on the rules governing the Israeli Export Institute. Concerning measures affecting production and trade, he noted that R&D support was fundamental but that it had to be adapted to the GATT Subsidies Code. Moreover, regional assistance had to be transparent.

38. In summary, he noted that there was a certain degree of obscurity in Israel's trade policies, and that remaining protectionist measures had to be clarified and eliminated.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

39. The representative of Australia congratulated Israel for its improved trade performance, which was a reflection of its growing integration into the world economy and the removal of trade barriers. Israel's trade reforms included the autonomous reduction of barriers against imports from countries not covered by FTAs, the elimination of most import restrictions, a tariff reduction programme, the elimination of direct export subsidies and the elimination of administrative import restrictions. However, much remained to be done, especially in the agricultural sector. Australia strongly encouraged Israel to maintain its trade reform momentum, and continued to look forward to further liberalization in the agricultural sector. Noting that the Government of Israel had reported a slowdown in imports from third countries, she urged Israel to continue its efforts to ensure reasonable access for non-FTA partners.

40. She noted that Israel's tariff structure was complex with a mixture of specific, combined and alternate rates. Ad valorem equivalents for these rates were not available. While welcoming Israel's market access offer in the Uruguay Round, Australia continued to be concerned by the high level of tariffs on a large number of products, including fruit and vegetables and dairy products. Australia was also concerned by the number of products subject to tariff quotas and the high level of above-quota tariff rates. Import restrictions had been maintained on 17 tariff lines in the agricultural sector. Domestic support and export subsidies for the agricultural sector would be reduced under the Uruguay Round Agreement on Agriculture. She asked what changes in agricultural legislation were expected to be introduced to implement the Uruguay Round Agreement, and what administrative arrangements were to be taken for agricultural products under quotas.

41. The representative of the European Communities noted that the EC was Israel's main trading partner, accounting for half of Israel's imports and one third of its exports. The basis for trade relations between the EC and Israel was the 1975 FTA agreement covering both industrial and agricultural products. A new agreement was being negotiated and was expected to be concluded in early 1995.

42. Israel's Economic Stabilization Programme coupled with structural adjustment measures had laid down a firm basis for economic recovery with relative price stability. The Government's reform efforts also extended to the external side. The 1991 trade liberalization programme had been instrumental in fostering a more liberal and transparent trade régime. The European Communities welcomed Israel's efforts to limit the use of licences and quantitative restrictions, as well as the elimination of the 2 per cent import levy used for balance-of-payments reasons. He asked if Israel remained committed to eliminating import licences for agricultural products justified under the GATT balance-of-payments provisions.

43. One of the lessons that could be drawn from Israel's experience was that sound macroeconomic policies were necessary, although not sufficient, for promoting a more liberal trade régime. Additional efforts were required by Israel in order to create a more open trade régime. Areas of concern for the EC included the complexity of the tariff structure, escalation of tariff rates, remaining import restrictions on agricultural products, very high bound tariff rates as a result of the Uruguay Round negotiations, the 15 per cent price preference in government procurement, internal taxes and export subsidies. Noting that the State still controlled a large share of economic activity, he said that the privatization process needed to be speeded up in order to ensure the necessary conditions for free competition.

44. He hoped that the recent positive political developments in the region, as well as the conclusion of the Uruguay Round, would be conducive to creating a more open trade régime and would give new and better opportunities for Israel.

45. The representative of Japan noted that his country and Israel were in the process of reinforcing bilateral economic relationships and cooperation. An agreement on cooperation in science and technology had been recently signed. He hoped that this agreement would further strengthen trade and economic relations. Japan had no major trade and investment problems with Israel.

46. Government procurement practices and preferential trade agreements were two areas of concern for Japan. Some Japanese companies trading with Israel had met with some difficulties concerning counter-purchase requirements. Noting that these requirements seemed not to be based on written laws or regulations but on administrative decisions, he asked if this situation would be changed in the near future. Some Japanese companies had also mentioned that the difference in the tariff levels applied on imports from FTA sources and Japan were enormous. Japan encouraged Israel to continue liberalizing its market, including the reduction of m.f.n. tariffs. He sought information on the schedule of tariff reductions.

47. The representative of Canada noted that his country's trade with Israel was increasing. Sectors of commercial interest to Canada included telecommunications, transportation, high technology, environmental technologies and services, and power generation.

48. Israel had gradually moved from a strongly protected economy to one which was increasingly open to foreign competition. Israel had also signed a number of free trade agreements. Canada saw these agreements and initiatives as strong positive impetuses to the country's overall trade development. Canada and Israel announced on 21 November their intent to begin negotiations on a Free Trade Agreement, which was expected to come into effect in January 1996.

49. Israel's broad trade policy objectives appeared to be in line with its transition to an industrialized country. The improvements in Israel's foreign trade régime in the last few years were an encouraging sign of the country's trade maturity. Its trade liberalization programme had brought radical changes to the protection system. While import liberalization had increased the efficiency of the trading system, Israel still maintained a rather complicated tariff structure. He noted that, although there were domestically driven reasons for utilizing several types of rates, Israel would benefit greatly in long-term trade efficiency gains by instituting a process of tariff simplification and by binding its remaining tariff lines. A particular area of concern for Canada was the level of effective protection that tariff escalation afforded.

50. Recalling several trade policy initiatives undertaken over the past decade, which pointed to an Israel committed to being an international, market-driven economy, he said that certain Israeli trade practices could still benefit from liberalization and restructuring. These included the barriers protecting certain areas of the agricultural sector, the government procurement system and direct agricultural export subsidies.

51. Canada had provided the Israeli delegation with detailed written questions, which covered the following areas: standards; marking, labelling and packaging; import prohibitions; liberalization commitments under the Uruguay Round; Special Treatment Provisions of the Agreement on Agriculture; safeguards; anti-dumping; State trading, in particular for beef and veal; and government procurement.

52. The representative of Sweden, speaking on behalf of the Nordic countries, welcomed Israel's trade liberalization programme implemented in 1991, and appreciated the elimination of the 2 per cent import levy in 1993. Tariffs had replaced licences and quantitative restrictions, though they were initially set at relatively high levels. The trade reforms had a positive impact on the economy. An efficient implementation of the Uruguay Round results would reinforce this trend.

53. The Nordic countries welcomed the positive political developments in the region. The peace process would result in better conditions for the trading partners and would increase Israel's access to new markets. The Nordic countries firmly believed that the peace process was a key positive factor for all parties involved.

54. He referred to certain points of concern for the Nordic countries. Trading partners had experienced different treatment between domestic and imported goods in relation to technical regulations and standards. He encouraged Israel to use international standards. Complaints had also been received about the methods for calculating the purchase tax (the TAMA system), which appeared to discriminate against imported goods. He sought clarification about the Israeli position with regard to this situation. The activities of public companies and the existence of monopolies and cartels constituted an obstacle to trade and free competition. He noted with satisfaction that in 1991 the Government had given an impetus to the privatization programme, although he felt that this was still rather slow. The Nordic countries would welcome a removal of remaining trade barriers and the implementation of measures to increase competition in the Israeli domestic market.

55. The Nordic countries had given the Israeli delegation written specific questions which covered competition, technical regulations and standards, import licences, and the purchase tax.

56. The representative of Turkey noted that since 1985, significant progress had been made in the modernization of the Israeli economy. Since 1991, Israel had complemented its free trade agreements with the autonomous reduction in tariff barriers against imports from third countries. However, there was still a lack of transparency and it was difficult to estimate the real tariff burden on imports. This was the case for most agricultural products, for which real protection was high and unpredictable. Turkey hoped that the implementation of Israel's commitments under the Uruguay Round Agreement would increase transparency and facilitate market access. He sought detailed information on Israel's privatization programme.

57. Turkey believed that the peace process would bring a new atmosphere into the region, facilitating the opening-up of markets, creating new opportunities for foreign direct investment and trade, and furthering Israel's integration into the world economy.

58. The representative of Poland requested information on the powers of the Ministry of Industry and Trade to impose restrictions or countermeasures against imports from specific countries. He asked if there were any industrial products still subject to import licensing requirements, and if there was any special criteria for granting import licences for textiles and garments. He also requested additional information on customs valuation, the maximum "uplift rate", the existence of additional import levies, and import surcharges.

59. Noting that mutual recognition of national standards would facilitate bilateral trade and that the Standards Institute of Israel was entitled to accept test reports performed in other countries, he asked if the Ministry of Industry and Trade was entitled to sign bilateral agreements on mutual recognition of standards.

60. The representative of the United States congratulated the Government of Israel for the progress made in reforming and opening the Israeli economy. He welcomed the privatization of the banking sector and encouraged the Government of Israel to expand its privatization programme to the telecommunications and transport sectors.

61. Israel had pursued trade liberalization through multilateral and bilateral tracks. The Israel-United States Free Trade Agreement was a comprehensive agreement, reducing to zero tariffs on all

products, including agricultural products. The United States would implement the final stage of tariff reductions on 1 January 1995. On the multilateral front, he welcomed Israel's commitment to the WTO, and commended the Government of Israel for autonomously reducing import barriers vis-à-vis non-FTA trading partners. The United States encouraged continued and accelerated progress on each of these tracks in the future.

62. The United States was concerned about wharfage and port fees which tended to discriminate against imports. The United States believed that the time frame for the elimination of the fee system, five years, as recommended by a special Israeli committee, was too long. He asked about the possibility for elimination of the discriminatory wharfage and port fees. Another area of concern was Israel's taxation practices (TAMA/HARAMA) which tended to discriminate in favour of domestic products by artificially raising the value of imports. He sought information on any planned changes in the TAMA/HARAMA practices. He also asked what was the present status of Israel's efforts to improve the transparency in licensing and in the calculation of variable levies.

63. He commended the Government of Israel for its commitment under the Uruguay Round Agreements to bind most tariff lines and convert import restrictions, including on most agricultural products, into tariff rate quotas. Tariffication of import licences and quotas would enhance both efficiency and transparency in the trade régime. However, the United States was concerned about remaining import quota restrictions on certain animal and dairy products as well as export subsidies granted to certain agricultural products. He asked what steps were being taken with respect to the tariffication of import restrictions on live animals and dairy products, and sought information on agricultural export subsidies and their impact on the sector. The United States was also concerned about the effect that agricultural marketing boards might have on price competition. He asked what steps the Government of Israel was taking to ensure that the marketing boards did not distort competition.

64. Noting that certain aspects of Israel's rules for Kosher certification were discriminatory and were applied for the purpose of protecting domestically produced products, such as wine and beef, he sought information on any plans to reduce or eliminate the discriminatory aspects of these rules.

65. The United States applauded Israel's commitment, as a signatory of the Agreement on Government Procurement, to improve access to government contracts for foreign bidders. The representative also welcomed Israel's commitment to gradually reduce offset requirements for code covered purchases under the new agreement. However, the United States was still concerned about offset requirements and preferential margins maintained with respect to purchases that were not covered by the agreement

66. In conclusion, he commended the Government of Israel for its efforts to reform its economy and liberalize trade. The United States believed that Israel's commitments under the Uruguay Round Agreements would benefit Israel through improved efficiency and allocation of resources as well as increased opportunities for its exports to foreign markets. He encouraged the Government of Israel to continue in its efforts toward trade liberalization.

67. The representative of Hong Kong commended Israel for its market-oriented economic reforms and the liberalization of its trade régime, and noted the impressive economic growth achieved by Israel. He asked if there were any plans to simplify the complex tariff structure. He noted that the refusal of the Kosher certificate could effectively block foreign sales to the larger part of the Israeli market, and asked about the criteria for granting a Kosher certificate and whether information on these criteria were available to foreign traders.

68. He noted that imports subject to standards requirements had to be sample-tested at port before being allowed to enter Israel, while domestic products were subject to market inspection. In this respect,

he sought information on the progress made in developing an equivalent enforcement system. He also requested information on the additional criteria used to allow imports of certain products including textiles, garments and footwear.

69. Hong Kong had provided the Israeli delegation with an advance written question concerning government procurement practices.

70. The representative of Argentina referred to Israel's economic performance and recalled its general objectives including industrial development, absorption of immigrants and raising living standards. Israel had most of the characteristics of an industrialized country. Its trade was oriented towards distant markets for various reasons. With respect to the FTAs with the European Communities and the United States, he sought information on the evolution of the product composition of this trade, and the authorities' views about Israel's overall trade trends. He said that export diversification in terms of products and markets was proceeding rather slowly, and asked if this was due to certain restrictive practices.

71. He raised questions about a number of Israeli trade practices, including the privatization of meat imports, sanitary and phytosanitary requirements, and government procurement practices.

72. The representative of India hoped that trade relations with Israel would be encouraged by recent political developments in the region. India also hoped to benefit from Israel's experience in the area of technical cooperation, in particular irrigation and farming techniques. He expected that Israel would play an active rôle in trade and economic development in the region.

VI. REPLIES BY THE REPRESENTATIVE OF ISRAEL AND ADDITIONAL COMMENTS

73. The Chairman of the Council invited the representative of Israel, in giving the replies, to focus on four major themes: Israel's economic restructuring programme and recent geopolitical developments; the pattern of Israel's trade liberalization; agricultural trade policies; and other specific trade issues.

(1) Economic restructuring and recent geopolitical developments

74. The representative of Israel highlighted certain points which were important to understand Israel's unique situation. Israel was dependent on access to more distant markets, because its domestic market was relatively small and it had limited access to neighbouring markets. Due to its geopolitical situation, 10 per cent of GNP was devoted to defense expenditure; although this figure was lower than at the beginning of the 1980s, it still imposed a heavy burden on the economy. Defense expenditure was likely to remain high in the near future because of remaining security concerns. Israel was dependent on external sources for raw materials as it had very limited natural resources. It was highly dependent on foreign trade.

75. Following the Economic Stabilization Programme and despite massive immigration, the Government had reduced its involvement in the economy and had implemented wide ranging economic reforms. It had reduced budgetary expenditures from nearly 60 per cent of GDP in 1986 to under 50 per cent in 1994. In 1991, the Knesset had adopted a Budget Deficit Reduction Law to reduce the domestic component of the budget deficit. Accordingly, the deficit was reduced from 5.2 per cent of GDP in 1991 to 2.4 per cent in 1993 and although the planned deficit for 1994 was 3 per cent, it was expected to be just over 1 per cent of GDP. At the same time, indirect taxes had been cut, income tax had been reformed, corporate income tax had been reduced and industrial subsidies had also been reduced.

76. Privatization was seen by the Government of Israel as one of its central economic objectives, intended to increase competition, improve efficiency, attract foreign investment, reduce the budget deficit, widen share ownership, and further develop Israel's capital market. Government-owned companies had to act as commercial enterprises. Continued losses by a government-owned company could lead to bankruptcy proceedings, as was the case with El Al in the 1980s. Between 1990 and 1993, the Government had raised over US$4 billion from privatization. The large fall in the domestic stock market frustrated plans for the flotation of government-owned companies in 1994; however, certain progress was made in privatization. In 1995, the Government was expecting to raise over US$1 billion from the sale of equity in government companies.

77. The Government had placed an important emphasis on improving the competitiveness of Israeli companies as part of its policy of increasing Israel's integration into the world economy. It believed that increased competition was closely linked to improved efficiency and lower prices. The Government had acted to open and increase competition in many fields, including: the telecommunications sector, where a second competitor had been licensed in the cellular telephone field and a tender for a second operator of international calls was being prepared; the petrol market especially in the retail sector; the international air transport sector, with the adoption of an open skies policy; the domestic air transport sector where a tender for a second domestic carrier was being prepared; and the capital market, where the Government was diluting the previously high concentration level of the banking sector.

78. Israel had also made progress in making the New Israeli Shekel fully convertible. In 1993, Israel acceded to Article VIII of the IMF. In August 1991, further steps were taken to liberalize currency transactions, including the removal of restrictions on Israeli companies investing abroad.

79. These macro and microeconomic policies were implemented in a period when Israel was aiming at absorbing 600,000 new immigrants and reducing unemployment, while its trade deficit grew to over US$8 billion and its current account deficit reached US$3.4 billion. Despite these unfavourable external circumstances, Israel was fully committed to continuing and deepening its economic reform programme.

80. When discussing Israel's current economic development, the regional context could not be ignored. Israel was in the process of deepening and formalizing its economic relations with the Palestinian Authority, Jordan and Egypt. Israel recognized that it was in its interest to assist its neighbours' economic development as an important element in ensuring an enduring and lasting peace.

81. The second discussant commented on Israel's recent economic developments and the reduction in military expenditures. Under these circumstances, import taxes might not be absolutely necessary as a source of government revenue.

(2) The pattern of Israel's trade liberalization

82. The representative of Israel stressed that the aims of the 1991 trade liberalization programme were to: enhance Israel's integration into the world economy; create new challenges and induce Israeli manufacturers to improve their competitive position; minimize possible negative effects of trade diversion which might result from free trade agreements; check inflationary pressures by allowing access for lower priced products, thereby enhancing the welfare of Israeli consumers; achieve a better allocation of resources; and enhance trade relations with countries not covered by FTA agreements, thereby improving the opportunities for the diversification of export markets. The programme allowed sufficient time for the necessary structural adjustment of affected sectors, thereby minimizing possible negative effects on employment.

83. Tariffs, which replaced discretionary licensing and quantitative restrictions, were initially set at relatively high rates in order to provide sufficient protection and prevent disruption of the domestic industry. A clear time schedule for tariff reductions was established and a final maximum rate of duty was set at 8 per cent for raw materials and 12 per cent for intermediate and finished products. Tariff reductions were to be linear, implemented each year on 1 September, and would provide for the phasing out of the specific component of the duties. All specific duties would be eliminated under the programme. Most products would reach their final duty on 1 September 1996, but more sensitive products would do so on 1 September 1998, while final rates for textiles would be achieved on 1 September 2000. The time schedule of tariff reductions was included in an order signed by the Minister of Finance and was published as an integral part of Israel's Customs Tariffs Schedule. Changes resulting in the slowdown of the liberalization programme could not be implemented without Knesset approval.

84. The impact of the trade liberalization programme was already being felt, with an increase in the share of imports from non-FTA countries. Israel expected that the impact would become more substantial with the deepening of the liberalization programme.

85. Israel was also engaged in a process of bilateral trade negotiations, including the free trade agreement with EFTA countries which came into effect on 1 January 1993 and eliminated duties on all industrial products and substantially reduced duties in the agricultural sector. Negotiations with Canada had just been initiated for the establishment of an FTA to be implemented at the beginning of 1996. Exploratory talks had also been held with Turkey and Central European countries concerning the possibility of establishing free trade areas which would complement the agreements that these countries had with the European Communities.

86. Israel and the European Communities were in the process of negotiating a new more comprehensive agreement. Israel was not prepared to enter into a deep analysis regarding its trade performance with the EC. Among the many factors that could be considered in this respect, one was the insufficient degree of industrial cooperation between Israeli and European companies, probably due to the effects of the Arab boycott. Israel hoped that the peace process would change this situation. Israel was ready to undertake all efforts for the success of the peace process and had expressed her willingness to open negotiations with Jordan for the establishment of a free trade area and, in the future, for a regional economic agreement with neighbouring countries.

87. The first discussant noted that the share of imports from the European Communities had increased while that of the rest of the world fell considerably. He was of the view that Israel's FTA agreement with the EC had not created trade for Israel but had diverted some trade.

88. The second discussant said that free trade agreements should not mask the m.f.n. clause. It was necessary to verify the discriminatory aspects of these agreements. He hoped that the Arab boycott would disappear to the benefit of the whole region.

89. The representative of the European Communities noted that a trade deficit could not be explained only by numbers. Another important element was also the relationship between private and public industries. The new trade agreement between Israel and the EC would probably be signed in early 1995 and would cover a number of issues including rules of origin, services, additional concession for agricultural products, and technological cooperation. Contacts between the private sectors were also going to be encouraged.

90. The representative of Australia requested more recent information on the effects of the trade liberalization on non-FTA countries, while the representative of Japan said that multilateral liberalization efforts would reinforce Israel's trade relation with Japan.

91. The representative of Israel said that the possibility of accelerating the tariff reduction process was being studied, although she believed that the current linear reduction was already quite quick. Israel was not yet able to analyze the effects of the m.f.n. liberalization, although the domestic industry noted that the effects were already being felt. The Government of Israel encouraged trade relations with non-FTA countries. Israel expected that negotiations with the EC would be successfully concluded and that the agreement would have a wider coverage of agricultural products than in the past.

(3) Agricultural trade policies

92. The representative of Israel explained that under the commitments made in the Uruguay Round Agreement on Agriculture, Israel intended to liberalize all agricultural imports. For the majority of products, licensing, quotas, levies and other restrictions would be abolished and replaced by tariffs according to the "ceiling binding system", without commitments for minimum access. For a limited number of products, Israel had tariffied its restrictions and established duties with minimum access at lower rates of duty (bovine meat, wheat, prunes, and skimmed milk powder). For certain products, such as cheese or milk powder with high fat content, Israel had applied the Special Treatment provisions (Annex 5) and established minimum access with lower tariffs. After six years, tariffication would also apply to these products. She noted that by implementing these commitments the lack of transparency would disappear.

93. Current agricultural import quotas were administered in various ways. It could be done according to past trade, by lottery, by tender among importers after fixing a maximum amount of imports per importer, or according to any other equitable way. No decision had yet been taken for the administration of tariff quotas resulting from the Uruguay Round commitments.

94. Israel intended to abolish its agricultural restrictions by September 1995. These restrictions had been maintained for balance of payments reasons. Current import licences for agricultural products were granted in a selective way in accordance with temporary shortages in the domestic market.

95. With respect to export subsidies, she noted that the Government of Israel granted support for export-oriented crops, such as flowers and citrus products. Government support took the form of research and development programmes and specific support to farmers in regions of national interest. More details about agricultural export subsidies would be supplied later.

96. With the exception of the Poultry Marketing Board, all other agricultural boards did not intervene in the market. Their products were sold at market prices. The main activity of these boards was focused on training, supplying professional and technical assistance, and providing assistance concerning the issue of insurance in case of natural disasters. The Poultry Marketing Board still fixed, to a limited extent, production quotas, and therefore was also involved in marketing its products in the domestic market.

97. Imports of frozen beef, which in the past were under State trading, had been privatized and licensing requirements had been abolished. Only the Chief Rabbinate could approve the compliance of products with Kosher requirements. Approval of Kosher certification by the Chief Rabbinate was required by law in order to prevent the deception of religious consumers.

98. The second discussant requested more information on export and import prohibitions, and on the import monopoly for beef. He said that imports of non-Kosher meat could be allowed for consumers who did not need to eat Kosher products. He recalled that trade transparency would also be enhanced through the publication of trade legislation.

99. The representative of Canada, noting that all import licences would be eliminated, asked when Israel would disinvoke the balance of payments provisions. The representative of Australia asked how remaining restrictions would be applied, and if FTA partners would be favoured in the allocation of quotas. She sought information on the type of measures affecting imports of nuts. The representative of the United States noted that it was not possible for American Rabbies to issue Kosher certificates, and asked if any steps were being taken in this respect. The representative of the European Communities sought clarification on phytosanitary measures and their transparency.

100. The representative of Israel preferred to use the term import restriction rather than import prohibition. According to the existing licensing system for certain agricultural products, licences were granted only when shortages in the market occurred. Under Israel's Uruguay Round commitments, these import restrictions would disappear. The transparency question would be irrelevant once these commitments would be implemented. Israel was still to decide on how quotas would be allocated. The GATT balance-of-payments provisions would be disinvoked before September 1995. Import measures for nuts included quotas established under the FTA agreement with the United States; no imports were allowed from other countries, but this restriction would also be eliminated with the implementation of the Uruguay Round commitments. Automatic import licences which were maintained for a limited number of products for monitoring purposes, had been eliminated. Existing restrictions on imports and exports of certain products, such as narcotics, were in line with international regulations.

101. Israel would later provide answers to questions relating to export prohibitions. With respect to phytosanitary certificates, she said that the Plant Protection Department of Israel was preparing a brochure where all laws and requirements for imports of plants would be explained. On Kosher certification, she indicated that she was not aware about the fact that a Rabbi in the United States was

not recognized by the Chief Rabbinate, but that the Government of Israel could not interfere with the Chief Rabbinate on religious issues.

102. The representative of the United States clarified that his country had exported to Israel Kosher products, but that it was difficult for a Rabbi not "trained" in Israel to grant certificates. The representative of Australia requested information on the treatment given to agricultural products, which were still restricted, when they were imported from preferential sources.

103. The representative of Israel said that until September 1995, the existing régime would remain. After, the discriminatory treatment of non-FTA countries would disappear.

104. The second discussant asked if it was possible to import meat without Kosher certificate.

105. The representative of Israel answered that there was a law prohibiting the importation of non-Kosher frozen meat.

(4) Specific trade issues

106. The representative of Israel pointed out that the liberalization programme would bring import duties within the range of 8 to 12 per cent, while specific duties would be reduced to zero. This process would eliminate the complexity of the tariff structure and drastically reduce tariff escalation. The most complex structure was in the textiles sector, where, in addition to a combined tariff rate, an upper ceiling was established for the import duty to ensure that the effective rate would not be excessively high. He was of the view that the complexity of the tariff structure was far from being obscure, and that it gave the necessary transparency and assurance that the tariff would not be higher than a pre-established ad valorem level.

107. Goods imported through sea ports were subject to a wharfage fee of 1.5 per cent, which was imposed and collected by the Port and Railways Authority. Until 1993, the fee was at 2 per cent. The Israeli Government intended gradually to reduce and equalize the burden of the fee on imports and exports.

108. Answering questions regarding Israel's customs policy (HARAMA), he explained that Israel applied the Brussels Definition of Value for customs duties. The value of imported goods was determined in the open market on the day when the goods were released from customs. The declared value was not applicable when there were price fluctuations between the date of sale and the date of release, when the declared price was not that of the open market because of exceptional discounts, and when the importer had exclusive import rights. In those cases, customs authorities added to the declared value a certain amount (known as HARAMA) in order to bring the declared value up to the open market price. There was no pre-determined limit on the calculation of HARAMA. Israel had stated that it would accede to the GATT Customs Valuation Code, which operated on the basis of the price declared by the importer, and had begun to take action to implement the new system. Legislation was being prepared in order to receive Knesset approval for the new system.

109. Referring to questions about the TAMA system, he explained that the most appropriate method to apply a purchase tax was on the retail price. Such a system avoided distortions between all goods, either produced domestically or imported. However, due to the difficulties in collecting taxes from retailers, the easiest way to collect them was from importers and producers. In Israel, purchase taxes were levied on the wholesale price and were imposed at the importer and producer level. The wholesale price was then closer to the retail price, which was similar to that of the VAT system. The price was also known to producers and importers; therefore it was a feasible system and economically viable. Purchase tax calculations were based on two alternative options: the TAMA system, which utilized

a coefficient adding to the import value of the product, or the declaration option, by which the wholesale price was declared and the tax was imposed on this price. Importers were able to opt between the two alternatives, while local producers could use the second route only. The TAMA system did not discriminate against imports. In practice, most importers opted for the TAMA system because its rates did not result in prices higher than the wholesale value, and because it did not entail any further examination by customs authorities. Israel believed that the TAMA system was fully consistent with GATT and that it did not result in any discrimination between imported goods and domestically produced goods. Israel did not see the need to change the existing system.

110. Most Israeli standards were voluntary. In the last few years, international standards had been used as the basis for determining standards applicable in Israel. Existing standards were being reviewed to ensure their compatibility with international standards. In order to fulfil its obligation under the TBT Agreement, Israel had approved a proposal to establish a special committee to ensure that national authorities responsible for preparing new official standards, technical regulations, testing procedures or substantial amendments to existing regulations, provided early information concerning their proposals. A foreign manufacturer could apply to receive prior certification by the Standards Institute of Israel. Compliance with labelling requirements was checked by Customs. In order to facilitate trade, Israel was seeking to negotiate bilateral agreements providing for the mutual recognition of certification of compliance with the standards of the importing country.

111. To address questions regarding the coverage of government enterprises, services, and offset requirements, he said that Israel had submitted a comprehensive schedule of commitments, which was attached as an appendix to the Agreement on Government Procurement. He stressed that Israel did not and would not apply the 15 per cent preferential price treatment with regard to domestic products and entities covered by the Agreement vis-à-vis countries which were also party to the Agreement. Israel did not have any plans to phase out the preferential treatment given to other domestic products. Buy-back or offset conditions would be clearly defined in accordance with Israel's commitment under the 1994 Agreement on Government Procurement.

112. The second discussant sought more information on the TAMA optional system, standards certification, and government procurement. He still believed that Israel's tariff structure was complex.

113. The representative of Japan also requested additional information on government procurement practices, while the representative of Hong Kong asked about standards and import licensing practices. The representative of Australia also found Israel's tariff structure complex, and requested the ad valorem equivalents of specific and combined duties. She also asked why certain Israeli standards had not been translated into English.

114. The representative of Israel explained that the option for the TAMA or the self-declaration systems was valid for one year. She reiterated that import licences on industrial goods, including textiles, were eliminated. She noted that there might be a misunderstanding of Israel's tariff structure, and that the tariff structure was not complex. Israel would establish a list concerning government procurement in accordance with the agreement, in January 1996. Concerning standards, she said that for domestic products, inspection was done at the company level. This procedure would be rather costly for foreign suppliers. Israel preferred to have bilateral mutual recognition agreements. An inter-ministerial committee was reviewing standards in Israel and studying the possibility of translating them into English. She noted that it would be meaningless to provide ad valorem equivalents because Israel was constantly reducing specific duties. However, the maximum ad valorem equivalent was known.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

115. The Council has now conducted the first review of Israel's trade policies and practices. These remarks, made on my own responsibility, summarize salient points raised during the discussion. They are not intended to substitute for the Council's collective evaluation and appreciation of Israel's trade policies and practices. Details of the discussions will be reflected in the minutes of the meeting.

116. Following Israel's opening statement, the Council's discussions fell under four main headings:

(a) The economic restructuring programme

117. Council members congratulated Israel on its economic performance and welcomed the structural reforms undertaken since 1991 which covered a number of areas such as trade liberalization, privatization and deregulation, and were supported by sound macroeconomic policies. Noting that the privatization process was relatively slow, certain members asked for more information about the future of the programme. The reforms had contributed positively to Israel's overall economic performance; however, their effects might be felt gradually and were also likely to be influenced by external factors, such as the implementation of the Uruguay Round and the peace process in the region.

118. Questions were asked about recent geopolitical developments and their implications for the Israeli economy and trade, including changes in the Arab boycott. Members noted that the achievement of the peace process would result in better conditions for all trading partners in the region and would improve Israel's access to new markets. Following the Casablanca Conference, some participants sought Israel's view on the possibility of creating a regional common market.

119. In response, the representative of Israel noted the small size of the Israeli market and limited access to neighbouring countries, as well as the high expenditure on defence and limited raw materials. Under the Economic Stabilization Programme the Government had reduced its involvement in the economy, cutting budget expenditure; the deficit was expected to be just over 1 per cent in 1994, below what had been expected. Direct involvement in economic activity had been reduced through the sale of government-owned activities, although 1994 had been a disappointing year for privatization due to the fall in the stock market. The Government had also acted to open competition, including in capital markets, telecommunications and aviation. Israel had also made progress in its aim of making the New Israeli Shekel fully convertible, and in 1993 accepted Article VIII, Sections 2, 3 and 4 of the IMF Agreement. Further liberalization of currency transactions had taken place in August 1994. These policies had been implemented while Israel had received about 600,000 new immigrants, as well as trying to cut unemployment and counter growing trade and current account deficits. Regional developments could not be ignored; Israel was deepening and formalizing its relations with its neighbours and realized it was also in its interests to assist their economic development, playing a constructive rôle in the region.

(b) The pattern of trade liberalization

120. Participants noted that Israel had concluded free trade agreements with the European Union, the United States and the EFTA countries and was in the process of negotiating several others; their effects on trade patterns had varied. Questions were asked about developments in existing FTAs, new negotiations, differential tariffs as between FTA and m.f.n. sources, rules of origin and their effects, and the evolution of trade with FTA partners.

121. Members also welcomed Israel's moves to reduce discrimination by cutting trade barriers on an m.f.n. basis, including reductions in import licensing and steady lowering of tariffs. Clarification of the timetable for tariff reduction was sought.

122. Members noted that Israel's Uruguay Round commitments reinforced the pattern of m.f.n. trade liberalization. Although high protection to certain sectors, in particular agriculture, would remain, the implementation of the commitments would significantly change and consolidate Israel's trade régime.

123. In replying, the representative of Israel reviewed the main features of the 1991 trade liberalization programme. This had been designed to allow time for structural adjustment of affected sectors. Tariffs, to replace discretionary licensing and quantitative restrictions, had been set at relatively high levels to prevent disruption of domestic industry, but a clear time schedule had been set for duty reductions to 8 per cent for raw materials and 12 per cent for intermediate and final goods. Most products would reach these goals by September 1996, while for textiles the goal would be achieved by September 2000. The impact of the programme was already being felt and was expected to increase as the programme deepened. Israel was negotiating an additional free-trade agreement with Canada and exploratory talks were being held with other countries. Israel had expected a larger expansion of exports to the EU and a new, more comprehensive agreement was being negotiated. There had been various reasons for the slow growth of exports, including the effects of the "secondary" and "tertiary" boycotts, but it was hoped that there would be positive changes as a consequence of the peace process, including current negotiations with Jordan and, in the future, for a regional agreement with neighbouring countries. Written responses to a number of detailed questions were distributed.

(c) Agricultural policies and practices

124. Participants noted that Israel still maintained certain strict protective measures in the agricultural sector, which was not, in general, included in the trade liberalization programme. Questions were raised about the status of remaining import restrictions and their phasing out, conditions for the importation of meat, and health, sanitary and phytosanitary requirements, including Kosher rules. Information was sought about changes in agricultural legislation, including tariffication, to accommodate Israel's Uruguay Round commitments, administrative arrangements for agricultural products under quota, and plans to improve transparency in the calculation of variable levies. Concerns were expressed about remaining import restrictions on certain animal and dairy products and on export subsidies granted to certain agricultural products. Members encouraged Israel to further liberalize its agricultural trade régime by lifting existing barriers and eliminating export subsidies.

125. In response, the representative of Israel indicated that Israel intended to open up imports in all agricultural sectors. For most products, non-tariff measures would be replaced with tariffs bound at ceiling levels, without minimum access commitment; for a limited number of products, restrictions would be tariffied with minimum access commitments; and for certain products, such as processed cheeses and milk powder with a high fat content, Israel would apply special treatment and establish minimum access with lower tariffs, to be tariffied after six years. Details were provided on the administration of quotas and the representative affirmed that remaining restrictions would be abolished for imports from all sources by September 1995. Preferential arrangements for imports of tariffied goods from FTA partners were under discussion. By implementing the Uruguay Round commitments, the problem of transparency would also disappear. Export subsidies were granted for export-oriented crops in the form of R&D or regional support. No agricultural board, except the Poultry Marketing Board, intervened in the market, being mainly concerned with training and technical assistance; the Poultry Marketing Board still fixed production quotas to some extent. State-trading had been privatized for imports of frozen beef. Kosher certification was issued by the Chief Rabbinate in accordance with religious laws for the protection of religious consumers; importation of non-kosher frozen meat was prohibited.

(d) Specific trade policy issues

126. Members noted that Israel's tariff was complex and relatively non-transparent, with many specific and combined rates. Tariff escalation and high tariff levels persisted. Israel was encouraged to improve the transparency of its tariff régime. Questions were also asked about customs valuation methods and the use of the HARAMA and TAMA uplift for calculation of customs duties and purchase tax.

127. Participants raised questions about government procurement practices, including price preferences, counterpurchase and offset requirements. Technical regulations and standards were another area of concern; in this regard, Council members highlighted homologation procedures and the high number of samples required for testing, differences in the enforcement system which might benefit domestic products, and marking, labelling and packaging requirements.

128. Other questions raised included the product coverage of export and import prohibitions, customs valuation and taxation practices, import surcharges, wharfage and port fees, internal taxes levied on imports, additional criteria for granting import licences, and the powers of the Ministry of Industry and Trade to impose trade restrictions against other countries. Participants asked if Israel remained committed to eliminate import restrictions maintained for balance-of-payments reasons.

129. In reply, the representative of Israel distributed written responses on tariffs, wharfage fees, standards and labelling requirements, government procurement, the HARAMA adjustment of declared customs values, and the TAMA adjustment of domestic taxes to import prices at wholesale levels. Israel applied the Brussels Definition of Value, to be replaced by the GATT Code for which legislation was being prepared. Where an amount had to be added to the declared value to bring this to the open market price, the supplementary amount was referred to as HARAMA. For ease of administration, purchase taxes based on retail prices were collected from importers or producers, based either on an adjustment of the wholesale price, as declared, or by adjusting the import value using a coefficient - the TAMA system. The latter option was only available to importers, but was not discriminatory and Israel saw no need to change the existing structure.

130. Under the liberalization programme, tariffs would be simplified, with specific rates being eliminated and escalation being considerably reduced to maintain reasonable effective rates. The wharfage fee was being gradually reduced and the burden on imports and exports equalized. Israel would disinvoke balance-of-payments provisions before September 1995.

131. International standards were the basis of Israeli standards - most of which were voluntary - and a special committee was being established to ensure fulfilment of obligations under the TBT Agreement. Foreign manufacturers could seek national certification, and bilateral agreements on mutual recognition were to be negotiated. Regarding government procurement, Israel did not apply the 15 per cent preference to products and entities covered by the Government Procurement Agreement. Buy-back conditions would in future be defined in accordance with Israel's commitments.

Conclusion

132. Members congratulated Israel for its multilateral trade liberalization efforts and encouraged it to maintain the momentum of the process. Commitments undertaken in the Uruguay Round Agreements would benefit Israel by supporting its autonomous liberalization and by further increasing the transparency of tariff and other trade regulations and procedures. However, a number of areas still required further action, especially in the agricultural sector, for Israel to become more fully integrated into the world economy. The Council expressed the hope that the peace process would have a positive effect on the economies of the countries in the region and promote the expansion of trade with all Israel's partners.