

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/29
26 September 1963

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original : English

1963 CONSULTATION WITH

I S R A E L

Basic Document for the Consultation¹

1. Legal and administrative basis of the import restrictions

The Import Export and Customs Powers (Defence) Ordinance 1939, and the Mandatory 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 noted in section 2 below, have been freed from licensing control under the Order on Free Imports. Under the Order on "Authorized Importers", however, persons who desire to engage in import trade are required to register and obtain a licence permitting them to do so. This requirement is aimed at ensuring fair trade practice, and up to now no application for such a licence has ever been refused.

Import licences, where required, are issued by the body generally known as the "Competent Authorities" comprising officials designated by the Ministries of Commerce and Industry, Agriculture, Transport, Health, Labour, Ports and Finance.

Each licence issued by the "Competent Authorities" requires the counter-signature of the Department of Foreign Exchange Control of the Ministry of Finance. The counter-signature ensures that the foreign exchange required will be at the disposal of the importer on the date and terms specified in the licence.

Each financial year the Government adopts a Foreign Exchange Budget which sets out estimates of foreign exchange receipts from different sources and of expenditures on imports of goods and services. The Budget also specifies the amount of foreign exchange allocated to each Ministry. However, as quantitative restrictions are imposed only on a limited portion of total imports, the expenditures indicated in the budget can only be tentative; nor are the "Competent Authorities", in issuing licences, bound by the amounts specified therein. (A summary of foreign exchange expenditures during the financial year 1962/63 and preliminary information on 1963/64 are given in Annex I.)

¹Based on material supplied by the Israeli authorities.

2. Methods used in restricting imports

Under the general import liberalization programme about 400 commodities, representing nearly 50 per cent of total imports, have been freed from licensing restrictions. In addition a considerable number of commodities may be imported under the Automatic Approval System. Less than 20 per cent of imports commodities are still under the "Individual Licensing System". The system governing all imports may therefore be described under three headings:

- (a) Free imports: Imports of products in this group by "authorized importers" are free of licensing control.
- (b) Automatic approval system: Import licences for goods in this group are granted automatically. In most cases, this licensing requirement has been retained to ensure that trade is conducted at competitive prices.
- (c) Individual licensing system: 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: the needs of the prospective importer, the requirements of the foreign exchange budget, price of the commodity from alternative sources of supply, its availability from local resources, size of stocks etc.

3. Treatment of importers from different sources

The import control system involves no discrimination as regards countries of origin. In so far as prices and quality are considered suitable, the "Competent Authorities" do not interfere in the choice of the source of supply, except in the following special cases:

- (a) Agricultural surplus: i.e. agricultural products available under surplus disposal schemes.
- (b) Earmarked sources: i.e. imports of goods stipulated by a loan agreement under which credit is extended specifically for the purchase of the goods, e.g. loans granted by the Import-Export Bank, A.I.D., etc.
- (c) Imports within the framework of bilateral agreements: Imports are steered to these sources in order to make use of accumulated balances. Imports from these sources have decreased in the course of the past years. In 1962 they amounted to \$24.4 million, as compared with \$26.1 million in 1961.

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

A list of the commodities covered by the Free Import Orders is attached in Annex II. The following are the main commodities covered by the Automatic Approval System and Individual Licensing System.

- (a) Automatic Approval System - tools, electric cables, household utensils, miscellaneous electrical apparatus and appliances for domestic use, furniture, various kinds of paper, etc.
 - (b) Individual Licensing System - textiles, specific kinds of spare parts, special kinds of paper, special kinds of food (e.g. juices), etc.
5. Use of State trading or government monopolies in restricting imports

Governmental imports are limited to a few essential foodstuffs (frozen meat, milkpowder, wheat, soyabeans, edible fats and sugar: see Annex III). The Government continues to import these goods in order to maintain adequate stocks and to ensure proper storage. The goods are ordered, stored and financed by the Government. Sales on the local market are unlimited. The Government is ready to transfer the import of these goods to private firms on condition that they meet certain requirements in respect of the size of stocks and their storage. So far no importer has been found prepared to take over this business.

6. Measures taken in the past year in releasing restrictions

The gradual increase in Israel's exports and consequently in export proceeds, as well as growing foreign exchange earnings from other sources, has in recent years enabled the introduction of a new economic policy, providing for the gradual liberalization of imports and reduction in government intervention in foreign trade. One of the main objectives of the new economic policy has been to force certain branches of the industry to meet foreign competition by improving quality and reducing costs of production. The administrative protection previously granted to local production has been gradually replaced by fiscal protection. Most of the industries which previously benefited from administrative protection are relatively young industries and not yet capable to stand on their own feet. This fact made it imperative to expose their products to competitive imports only gradually so as to permit them a gradual adaptation to the new situation.

The implementation of the new policy is entrusted to a Public Committee for the Protection of Local Production headed by the Minister of Commerce and Industry. This Committee consists of representatives of the labour organization, industry, the agricultural sector, the Government and the consumer's organization. Meetings are held once a month. The Committee is assisted by a special department of the Ministry of Commerce and Industry, whose task it is to compile and prepare relevant material and submit it to the Committee's consideration.

Till June 1963, 209 commodities representing a turnover of IL.725 million in 1962, were considered by the Committee, and 162 thereof, with a turnover of IL.510 million, were freed from import restrictions. It is planned that to the end of 1963 the Committee will consider the whole range of industrial commodities which are produced locally with a view to removing the import restrictions applied on them.

7. Effects of restrictions on trade and general policy in the use of restrictions for balance-of-payments reasons

(Statement by the Israelian authorities)

In recent years the value of imports into Israel has been maintained at an increasingly high level. In 1962 imports reached a record high of US\$628 million, as compared with US\$578 million in 1961. The following table shows the continuous increase in imports during the last three years:

<u>Year</u>	<u>Value of imports c.i.f.</u> (million of US\$)
1960	496
1961	578
1962	628

While the value of imports has increased, the balance-of-payments position on current accounts has deteriorated:

<u>Year</u>	<u>Deficit on current account</u> (million of US\$)
1960	336
1961	397
1962	426

The country's indebtedness in foreign currency increased in 1962 by \$24 million, reaching the figure of \$806 million. The gap in the balance of payments is still covered by unilateral transfers, i.e. personal restitutions from Germany, institutional and personal remittances, and grants. It is expected that these sources will decrease in the near future. Yet the Government intends to continue the gradual liberalization of imports, to remove quantitative restrictions, and to withdraw administrative protection of local production.

The Government is convinced that the expansion of Israel's foreign trade and the constant drive towards "competition-mindedness" will help considerably in our endeavours to close the gap in the balance of payments. It must be stressed, however, that the continued success of this policy depends to no small extent on the goodwill of countries to which Israel wishes to export, in abstaining from erecting administrative and fiscal barriers against imports of Israeli goods. This is an all-important factor, not only because of the deficit in the country's balance of payments, but also because of the industrial development realized in recent years has been carried out with the conviction that exports must be expanded. Israel's limited local market is not capable of absorbing its total industrial output which is growing at the rate of 10 per cent per year, nor is this small local market capable of supporting large export industries. Therefore restrictions or limitations in international trade present grave problems for the Israeli economy.

LIST OF ANNEXES¹

- I. Summary of Foreign Currency Budget for
1963-64
- II. List of Free Imports
- III. Goods Imported by the Government 1960-62

¹These annexes are available in English only, and only one copy of Annex II is supplied to each contracting party.

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ANNEX I

SUMMARY OF FOREIGN CURRENCY BUDGET
FOR THE YEAR 1963/64
(in \$,000,000)

<u>INCOME</u>	<u>Actual Income</u> 1961/62 \$	<u>Estimate</u> 1962/63 \$	<u>Estimate</u> 1963/64 \$
Grand total	384,289	910	1,030
<u>EXPORTS</u>	376,355	430	530
Goods exports	242,597	280	340
Services exports (invisible)	133,758	150	190
<u>CAPITAL TRANSFERS AND RESTITUTIONS</u>	251,772	245	260
Investments of capital transfers in cash	95,494	100	100
Investments of capital transfers in goods	39,530	30	25
Restitutions from Germany	116,748	115	135
<u>AID OF WORLD JEWERY</u>	150,339	150	155
Institutional aid	93,346	90	90
Development loans	56,993	60	65
<u>INTER-GOVERNMENTAL AGREEMENTS</u>	105,823	85	85
Loan fund for development	14,627	35	35
Food surplus from the United States	26,321	27	27
Reparations from Germany	64,875	23	23
 <u>GOODS & SERVICES IMPORTS PLANNED</u> (in foreign currency)			
FINANCIAL YEAR 1963/64 (in \$,000,000)			
<u>EXPENDITURE</u>		Actual imports 1962 c.i.f. \$	
Grand total		884,300	
Goods imports		557,407	
Expenditures for services		278,587	
Reserves and net change in indebtedness		48,306	

ANNEX III

GOODS IMPORTED BY THE GOVERNMENT

Commodity	(in tons, 1960-1962)			(in 1000 \$, 1960-1962)		
	1960	1961	1962	1960	1961	1962
Frozen meat	2,171	2,863	11,605	1,015	4,803	6,205
Milkpowder	733	6,364	5,030	389	1,514	1,209*
Wheat	282,191	321,857	275,184	22,161	24,119	20,157
Soyabeans	130,504	115,915	221,928	12,081	11,935	21,488
Edible fats	16,238	14,491	26,681	4,566	4,869	6,487
Sugar	61,332	44,461	56,657	5,586	3,566	3,734
Total	493,169	505,951	540,433	36,818	50,806	59,280

* Provisional.