

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1358

11 November 1960

Limited Distribution

CONTRACTING PARTIES

Seventeenth Session

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH

I S R A E L

1. In accordance with its terms of reference the Committee has conducted the consultation with Israel on the restrictions applied by it for balance-of-payments reasons. The Committee had before it: (a) a basic document for the consultation (NGT(60)58); and (b) a background document provided by the International Monetary Fund, as noted in paragraph 2 below. In conducting the consultation the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The discussion was completed on 1 November 1960. The present report summarizes the main points of discussion during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Israel. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's document concerning the position of Israel. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on Israel dated October 10, 1960.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund is currently in the process of conducting a consultation with Israel and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, pending the conclusion of its current consultation with Israel, the Fund has no comments on alternative measures."

Opening statement by the representative of Israel

3. In his opening statement the representative of Israel described to the Committee the factors influencing his Government's foreign trade policy. The economy of Israel was still at an early stage of development and was further characterized by a scarcity of arable land and water for irrigation. Natural resources were still at an early stage of exploitation. The structure of the economy was also significantly influenced by the large-scale immigration which

had more than doubled the population within the last twelve years. The need to integrate large numbers of immigrants into an economy still in the initial phases of exploitation of its relatively scarce natural resources and the need to enable the people of Israel to achieve a decent standard of living called for high levels of foreign trade and capital investment. During the past decade a high level of capital investment in Israel had been achieved largely through capital transfers both in the form of grants and loans. In assessing the prospects for future financing of investment in development plans, account had to be taken of the termination of some forms of capital transfers and a heavy and growing burden of debt servicing and capital repayment of previous loans.

4. Hence, it was deemed necessary to maintain in the near future, sufficient control over imports so as to ensure the optimum utilization of the limited foreign exchange resources. It was thought that the control maintained in the past had not resulted in restriction and contraction of imports as a whole, but had rather resulted in influencing the distribution of imports between various categories of goods, mainly between consumer and investment goods. This distribution had been directed in a way which, it was thought, would in the long run also benefit Israel's trading partners. The representative of Israel added that the direction of imports was conducted in a non-discriminatory manner. Necessary as these controls were it was the declared policy of the Government of Israel to reduce as far and as quickly as possible the remaining administrative controls. Thus quantitative restrictions had been removed from some two thirds of total imports and remaining restrictions had been relaxed. It was the intention to undertake further liberalization as soon as possible. At the same time Israel was limiting the scope of bilateral trade and payments arrangements and was moving towards multilateralism. As a result of the increasingly liberal import régime, imports had shown some considerable increase in recent years and imports during the first half of 1960 were up 12 per cent compared with the corresponding period of 1959.

Balance-of-payments position and prospects

5. The Committee expressed appreciation of the concise statement by the representative of Israel and congratulated him on the remarkable progress which his country had made, particularly in recent years, in increasing the level of production and exports and in strengthening its foreign exchange reserves. Members of the Committee noted in this context the concern expressed by the representative of Israel about the future financing of investment and they invited him to give a short description of the effect which the reduction in the level of certain forms of capital transfers during the next five years would have on the balance of payments. The representative of Israel informed the Committee that capital transfers to Israel on reparation account which had amounted to an average of \$50 million per year were to cease in 1963 in accordance with the schedule of payments under the Reparations Agreement. Personal restitution payments from the Federal Republic of Germany, which had been rising in recent years, amounting to \$65 million in 1958 and \$71 million in 1959, were also expected to show a significant decline after 1963-64, possibly falling to about one half of the present level by 1967-68. During the same period requirements of foreign capital for debt servicing and repayment would increase. For

example the Independence and Development Bonds, which had amounted to \$360 million at the end of 1959, would begin to mature in 1962 and thereafter in accordance with the respective dates of issue of these twelve-year bonds. It was expected that some bond holders would exercise their option to redeem their bonds before the due date in local currency. Nevertheless, the obligation to repay in foreign currency remained and it was possible that the drain on the reserves could be substantial. In reply to a question, the representative of Israel said that repayment obligations in foreign currency in accordance with the maturity dates of these bonds amounted to about \$24 million in 1963, to \$40 million in each of 1964 and 1965, to \$73 million in 1966, \$23 million in 1967, \$21 million in 1968 and \$113 million in 1969. Outstanding Government and Government guaranteed foreign debt at the present time amounted to a total of \$860 million. Interest payments in foreign currency had amounted to \$26 million in the fiscal year 1958/59, \$22 million in 1959/60, and were estimated at \$24 million during 1960/61. Debt amortization payments had amounted to \$45 million in 1959/60. Members of the Committee expressed appreciation to the Israel representative for the detailed nature of these replies and observed that, though the external debt obligations would remain a matter of some concern to the Israel authorities, it appeared that the repayment problem with respect to the Independence and Development Bonds did not arise in any severe form before 1963 at the earliest; it would presumably be open to the Government of Israel to seek conversion of the bonds due into some form of new bonds.

6. In reply to other questions concerning non-commercial capital imports the representative of Israel explained that during 1959 his country had obtained grants-in-aid from the United States Government and technical assistance to an amount of approximately \$9 million. Imports under surplus disposal programmes had amounted to \$35 million. In 1959 Israel had received \$20 million from the Development Loan Fund and also a small loan from the United States Export-Import Bank. Receipts from private foreign donations in 1959 had amounted to \$65.6 million, and it was expected that in the current year these would reach \$68 million. Certain private donations although included in the foreign exchange budget were earmarked by the donors for specific purposes. In the past such allocations had mainly been made to the Hebrew University, the Weitzmann Institute, and other similar bodies. Receipts of this kind had amounted to about \$20 million in 1958/59 and to about \$25 million in 1959/60.

7. The Committee welcomed the apparently increasing ability of Israel to finance its imports through export receipts. While in 1950 export earnings had accounted for only 12 per cent of import outlays, this proportion had risen in recent years to some 30 to 40 per cent and had exceeded 50 per cent during the first six months of 1960, although imports had been increasing also. Members of the Committee enquired in this context about the prospects of closing the gap between exports and imports in the foreseeable future and about plans which the Government might have or any measures which had already been taken to improve the relationship between exports and imports. The representative of Israel explained that the Five-Year Development Plan for the years 1960 to 1964 attached particular importance to a strengthening of Israel's

industrial base and to the expansion of industries producing for export. In addition to more general measures assisting the development of export industries the Government was encouraging a number of development projects for example in the mining and chemical industries. In reply to other questions concerning economic development in Israel which might influence the level and pattern of import demand the representative of Israel stated that a recently discovered, but as yet unexploited, natural gas deposit as well as the further exploitation of the oil reserves discovered a few years ago, were expected to assist in the industrialization of the country and to ease the demand for fuel imports. At present about 15 per cent of domestic fuel oil requirements were met from domestic production. He pointed out, however, that the decline in the last few years in expenditure on imports of oil was only partly the result of the availability of oil from domestic production, and that the decrease was largely due to the lower unit prices of oil imports in 1958 and 1959 as compared with previous years. He stated that although it was not yet possible to predict exactly when the gap between imports and exports could be closed as a result of an expansion of export earnings, the Government anticipated balancing import outlays and export proceeds after a period of five to seven years; this assumed that the rate of immigration into Israel in coming years remained at about the present level and that no emergency arose which necessitated larger defence outlays. It was for example envisaged that exports of goods and services would increase to a total of \$660 million by 1964 from the present level of about \$300 million. Invisibles would account for about \$95 million of the anticipated total increase of \$360 million. Gross receipts from shipping were expected to increase from about \$42 million in 1959 to a total of almost \$100 million in 1964. Similarly receipts from tourism were expected to show a significant increase.

8. In the discussion of prospects of Israel expanding her exports and finding new markets the representative of Israel explained that although the geographical pattern of the country's trade transactions had not significantly changed during the past few years, with most of the trade being conducted with OEEC and dollar area countries, there had been some increase in trade with countries in Western Africa and also with some countries in Asia. However, despite the generally favourable prospects for an expansion of trade, the expansion of exports to countries in Eastern Africa, South West Asia and other parts of Asia was severely handicapped by the continued denial to Israel of passage through the Suez Canal.

9. Members of the Committee enquired about the factors which had contributed to the large increase in exchange reserves of about \$66 million during the six-month period between the end of 1959 and the end of June 1960. Total exchange reserves by the end of June 1960, at \$231 million, were about 40 per cent larger than at the end of 1959. The representative of Israel explained that a large part of this increase could be explained by the normal seasonal variation in exchange receipts in accordance with the pattern of payments for citrus exports. There had also been an unusually large inflow of short-term

capital during this period. Allowing for these two factors, the increase in reserves had not been as large as might appear from these figures. It was anticipated that by the end of 1960 foreign exchange reserves would amount to approximately \$200 million. Members of the Committee observed in this context that a level of reserves of \$200 million was equivalent to the value of about five months' imports and that it would seem therefore that Israel should be able to liberalize imports beyond the present level.

Alternative measures to restore equilibrium

10. Members of the Committee discussed with the representative of Israel the rôle of foreign investment capital in the financing of economic development and enquired about the attitude of the Government of Israel to the inflow of such capital and about any measures which might have been taken to encourage foreign investment. The representative of Israel stated that the Government was aware of the important contribution which foreign investment could make to the economic development of the country, especially as the foreign exchange component in the required investment was of necessity large in a country like Israel which had only very limited resources for the production of capital equipment. Accordingly, the Government of Israel had always tried to pursue policies which encouraged foreign investment. In August 1959 the Law for the Encouragement of Capital Investment had been amended to provide additional safeguards and incentives to foreign investors. Israel did not require foreign companies to provide for local participation in share capital or management and there were no restrictions on the transfer of dividends. In addition, foreign investors were entitled to repatriate their investment after a waiting period of five years from the date of the investment. Share capital which was quoted on the Tel Aviv Stock Exchange could be repatriated at any time.

11. Members of the Committee, while agreeing with the representative of Israel about the importance of the availability of foreign capital for development financing, enquired about the possibilities of Israel increasing the share of gross domestic savings in gross investment. They noted that gross domestic savings had, on average, amounted to only about 40 per cent of gross investment in Israel, and they also noted that in recent years almost the whole increase in overall available resources had gone into public and private consumption. This allocation of resources, much as it might be understandable in view of the special circumstances characterizing the economy of Israel, did not seem to be in the long-term interest of the country. The representative of Israel explained that his Government recognized this difficulty and was trying to encourage a shift towards financing a larger share of total productive investment from domestic savings. It was felt, however, that such a shift could only be brought about on a voluntary basis. The Government was trying to create an economic environment conducive to increased savings by maintaining a stable price level while at the same time encouraging economic growth and investment. It was true that the share of available resources which had gone into investment had declined during the

last two years; however, it was hoped that, as a result of growing per capita incomes and as a result of the policy of monetary stability pursued by the Government, domestic savings, some elements of which had recently shown a significant increase, would show further increases in coming years, and that the share of gross domestic savings in gross investment would increase.

12. Members of the Committee noted what appeared to be the very tight position in the supply of labour. For example, unemployment which had amounted to only slightly over 1 per cent of the total labour force in 1959, had been reduced further in the first half of 1960 to a level of between 0.8 and 0.9 per cent. They enquired whether the Israel authorities anticipated any difficulties from running the economy at a level of activity so high as to produce such a situation. In particular, they enquired whether it might not be likely to lead to pressure on wages and prices, especially whilst imports were still restricted, and thus to reduced competitiveness of the export industries. The representative of Israel explained that, although the level of registered unemployment was very low, there was a considerable amount of under-employment in the economy resulting from the difficulties associated with the adaptation of a labour force with varying backgrounds and skills to new types of employment and due also to the scope for significantly increasing productivity in industries at an early stage of development. Thus, there appeared to be scope for the expansion of production in the economy without undue pressure on wages and prices. Moreover, the low unemployment figure did not take into account the employment of 2 to 2½ per cent of the labour force under emergency relief programmes.

13. In further discussion of this matter, members of the Committee noted that although there appeared to have been no significant increase in the cost-of-living index during 1959 and during the first half of 1960, this stability had apparently only been achieved by a continuation of the subsidization of items that played an important part in the calculation of this index. They noted that the total Budget allocations for subsidies for the stabilization of domestic prices and for the promotion of exports had been increased from £I 106 million in 1958/59 to £I 151 million in the current Budget apparently due to a sharp increase in the allocations for the promotion of exports. They enquired whether this substantial increase did not reflect a diverging trend in the development of prices in Israel and abroad. The representative of Israel explained that although total budget allocations for subsidies had been increased in recent years, these allocations had predominantly been used for export exchange premia. On the other hand subsidies for the stabilization of the domestic price level had shown a continuous decrease from year to year. The Government was aware of the desirability of maintaining price stability through other measures than subsidy payments, and it was planned, therefore, to eliminate the price-stabilization subsidy scheme as soon as possible. The Government had chosen to grant such subsidies in order to prevent increases in the cost of living from starting a price-wage spiral. Wages in Israel were linked to the cost-of-living index. He explained that the reduction in price-stabilization subsidies had been made possible partly by the greater degree of

wage stability which had been achieved since 1957 through an agreement between labour unions and employers to adjust wages only every six months and only if there had been an increase in the cost-of-living index during the preceding six months of at least 3 per cent. Prior to 1957 wages had been adjusted every three months in response to very small movements in the index. Furthermore, the reduction in subsidy payments had also been possible because the growing level of production in the country and the increasingly liberal application of import controls had reduced the temporary shortages which previously had played a considerable rôle in de-stabilizing the level of prices in Israel.

14. Commenting on the export promotion scheme the representative of Israel stated that the increased payments for export exchange premia which had been noted by the Committee were in his opinion not the result of the price and wage policy pursued by Israel. In reply to other questions concerning the operation and purpose of these export premia which the Committee observed now appeared to amount to a figure roughly equivalent to 20 per cent of Israel's export receipts, the representative of Israel explained that the standard exchange premium of £I 0.85 per US dollar of the added value was granted on exports of all commodities and on certain invisible exports. Since the premium was calculated on the net value added, i.e. the value of the export after deducting the direct and indirect foreign exchange cost, production of goods with a high degree of finishing was encouraged because it was felt that this type of production was most suitable for a country like Israel deficient in natural resources. He confirmed that the premium on exports of citrus was £I 0.50 per dollar of net added value and that a few products were temporarily granted exceptional premia of £I 1.20 in order to assist exporters in meeting the additional costs associated with the development of markets for new products. He explained that this more favourable treatment of certain exports was given only as long as special circumstances warranted this exceptional treatment. In addition, special premia were granted for exports of all commodities for new markets when this involved additional expense. They were reduced as the additional expense declined. Thus, the premium for exports to countries in West Africa, which had originally been set at £I 1.20, had already been reduced to £I 1.00, and would doubtless in due course be further reduced to the "general" level of £I 0.85. Special exchange treatment for exports to these destinations had been necessary because of unusually high shipping costs to ports in West Africa resulting from the denial to Israel of the services of most of the regular shipping lines calling on both Mediterranean and West African ports. With the increase in the volume of trade between Israel and countries in West Africa, more economical shipping facilities had become available and the premium had consequently been reduced. One member of the Committee commented that although it would be inappropriate to discuss the merits of the scheme in the Committee, his country's Director of the IMF would explain in that forum the reasons why he considered the scheme inappropriate.

System and methods of the restrictions

15. The Committee welcomed the progress which had been made by Israel in moving towards more liberal import controls. They also welcomed the statement by the representative of Israel that it was the declared policy of his Government to diminish as far and as quickly as possible existing administrative controls and to reduce the scope and extent of bilateral trade and payments arrangements. Some members of the Committee felt, however, that despite a continuing large trade deficit which might give rise to a cautious approach to import liberalization, the level of Israel's foreign exchange reserves seemed sufficiently favourable to warrant a further relaxation of import controls. Moreover, import licences for many of the goods under the so-called Automatic Approval System did not appear in fact to be granted automatically, but only if certain specified conditions had been met, and it appeared that the licensing procedures for goods falling in this category continued to permit a fair amount of administrative intervention. In this context members of the Committee asked the representative of Israel for further information concerning what appeared to be conflicting data in the consultation background material.

16. The representative of Israel explained that according to the import programme contained in the 1960/61 Foreign Exchange Budget, goods falling into the category of liberalized imports, i.e. under the Automatic Approval System, would account for about 60 per cent of total estimated commodity imports. He also explained that import figures in the Foreign Exchange Budget for goods falling under the Automatic Approval System were only indicative and not ceiling figures; with respect to imports falling under this category importers were completely free to choose their source of supply. The different import liberalization percentages given in the background papers could be explained by the fact that the import liberalization figure of 80 to 90 per cent given in one of the documents referred to the imports of commodities and services combined. The statement in the background material that rejections of import applications were negligible on the other hand referred to the actual situation at present concerning the number of licence applications received as compared with the number of licences refused, and the statement was correct not only with respect to licences falling under the Automatic Approval System, but also with respect to the other licensing categories. Members of the Committee observed that this statement, insofar as it concerned the Individual Licensing category, might have had little real significance. It might be that the small number of applications rejected might be related to the low level of licence applications received for imports of commodities known to the trading community to be severely restricted or in effect not licensed.

17. In reply to questions concerning the relative progress in a number of recent years in removing import restrictions, the representative of Israel explained that although restrictions had gradually been relaxed from the level of controls prevailing in the early 1950's when all imports had been subject to the Individual Licensing system, relaxation of import control had particularly

gathered momentum since the autumn of 1957 when an Automatic Approval System, open to all authorized importers, had been adopted for seventy-five commodities. Considerable progress had been made since that time. For example, in 1958 and in the spring of 1959, the Automatic Approval System had been extended to more industrial raw materials and also to a considerable range of consumer durables, including automobiles. Moreover, since June 1960 a consolidated schedule had been published for those goods for which the licensing authorities had undertaken a formal commitment to issue licences and also listing those items for which licences were issued on application. The representative of Israel informed the Committee that it was the intention of the Government of Israel to abolish shortly import licensing requirements on the commodities included in the "Positive List". Furthermore the Government was considering the inclusion of additional items on that list.

18. The Committee welcomed the statement that the licensing requirements for goods falling under the Automatic Approval category would soon be removed. Members of the Committee noted with some concern that although progress was being made in relaxing import restrictions with respect to certain commodities, and although there were no formal import prohibitions other than those for health and public order, imports of milk products had apparently been entirely discontinued and it also appeared that a discontinuation of imports of cotton and sugar was envisaged as soon as the increasing domestic production met requirements. Moreover, no licences were apparently being issued for certain types of raw materials, as well as certain manufactured items and equipment, unless domestic requirements could not be met at reasonable prices from local production. The licensing policy with respect to these items might tend to encourage inefficient domestic industries and also raised serious doubts concerning the possibility of importers importing at least minimum commercial quantities of the restricted items as provided for in the relevant provisions of the General Agreement concerning import restrictions applied for balance-of-payments reasons.

19. The representative of Israel explained that it was not the policy of the Government to implement the restrictions applied for balance-of-payments reasons in a manner aiming at the protection of domestic industries. The low level of licensing for a number of products which were available at reasonable prices from domestic production had been decided upon so as to permit the optimum utilization of foreign exchange resources by concentrating imports on essential commodities which could not be supplied domestically. At the same time the Government was aware of the necessity of maintaining trading channels through permitting at least token imports of items subject to a more restrictive import treatment and applications for import licences of these products were therefore examined with this consideration in mind. Moreover, the Government was determined to relax these import restrictions as soon as the balance-of-payments position permitted. Members of the Committee pointed out that the fact that licence allocations were given in certain instances, although the trading community had reason to believe that in general no licences were granted for these particular commodities, did not seem a sufficient guarantee that trading

channels would indeed be maintained as envisaged in the relevant provisions of the General Agreement. The Committee expressed the hope that Israel would at an early date reconsider its licensing policy, particularly with respect to products at present effectively excluded from licensing allocations, and take action to assure an awareness in the trading community of import possibilities for these products. Members of the Committee felt that such a step would be most unlikely to lead to large additional outlays of foreign exchange, especially since in many of the cases concerned the imported product was also subject to customs duties and surcharges and thus at a competitive disadvantage vis-à-vis the domestic product. The representative of Israel informed the Committee that the details of import licences issued in Israel were regularly published and made available to the trading community, in English as well as in Hebrew.

20. In further discussing methods used by Israel for the restriction of imports, members of the Committee noted that the relaxation of quantitative import restrictions had been accompanied by the imposition on freed items of heavy customs surcharges and purchase taxes and in many instances significant increases in customs duties in addition. Members of the Committee enquired about the nature of these customs surcharges, particularly whether they were variable or fixed on the basis of the difference between the prices for comparable imported and domestic goods. The representative of Israel explained that customs surcharges were based on considerations of essentiality of the commodity, with high customs surcharges applying to goods considered less essential. While the surcharges did not normally vary over the short-term they were in principle temporary devices and thus subject to change from time to time; if their continued application appeared necessary they would be incorporated in the customs tariff. He also pointed out that although it was the purpose of these surcharges to prevent an undue expansion in import demand, the surcharges had been conceived as a more liberal form of import control than quantitative restrictions and experience had shown that actually imports of most of the commodities subject to such surcharges had increased after they had been freed from quantitative import restrictions.

21. In discussion of the differentiation by the licensing authorities in import treatment according to country of origin, members of the Committee noted that the licensing authorities intervened in the choice of source of supply with respect to imports falling under the following categories: (i) imports under agricultural surplus programmes; (ii) imports from bound sources; and (iii) imports under bilateral agreements. They enquired about the proportion of trade falling under these import categories. The representative of Israel stated that imports obtained under agricultural surplus disposal arrangements in 1959 had amounted to \$35 million, and imports in 1959 which had been financed under agreements providing for bound sources of supply had amounted to \$88 million. In this latter category, items on reparation account had amounted to \$50 million, while imports financed by the Export-Import Bank Loan and by loans repayable in Israel currency from the Development Loan Fund had accounted for the remainder. Imports from countries with which Israel had bilateral trade and payments agreements had amounted to \$52 million during the fiscal year 1958/59, and \$47 million in 1959/60, and for the current fiscal year these imports were estimated at \$30 million (of which \$7 million from Eastern European countries). The representative of Israel confirmed that the Reparations Agreement with the Federal Republic of

Germany provided that purchases be made in the Federal Republic unless the two Governments agreed otherwise. In reply to further questions concerning the treatment of imports under these three categories, the representative of Israel explained that, depending on the goods in question, imports could fall either under the Automatic Approval System or under the Individual Licensing Scheme. In general, the availability of a given product from any one of the three above-mentioned sources did not preclude importers from applying for a licence for the importation of this product from other sources of supply. Intervention by the licensing authority in the Individual Licensing category occurred only if it seemed likely that imports freely applied for would not be sufficient to utilise fully the credits available under categories (i) and (ii) or, in some limited cases, in connexion with trade under bilateral agreements, as mentioned in paragraph 23. Such interventions had in fact been rare.

22. Members of the Committee noted that out of total imports of \$430 million in 1959, \$153 million, or about one-third of all imports, had been imported under one or the other of the three categories described above. The limitation of normal market opportunities to other suppliers as a result of imports into Israel effected under one or other of the three categories mentioned in paragraph 21 was a matter of concern to the countries adversely affected by these measures. They expressed the hope that the licensing authorities, when making licensing allocations, would take into account and give sympathetic consideration to the import interest of other contracting parties which were not conducting trade, or part of their trade, under these bilateral arrangements. The representative of Israel stated that in the absence of receipts under agricultural surplus programmes or from bound sources Israel's balance of payments would have required that imports be reduced commensurately. He added that no representation concerning the effect of imports from bound sources on the trade of other contracting parties had been made and that if any specific representation of this kind should be made the Government of Israel would give it most careful consideration.

23. The representative of Israel further explained that his Government was trying to limit the scope and the extent of its trade and payments conducted under bilateral agreements. Trade and payments agreements with Argentina, Burma, Denmark, France, Iceland and Italy had been terminated and since the beginning of 1958 only three new trade-and-payments agreements had been concluded, namely with Ghana, Portugal and Uruguay. In general, where trade was maintained on a bilateral basis, Israel did so because of the structure of the trading system of her trade partners or because of other special circumstances. The representative of Israel stated that so far as bilateral agreements between Israel and non-State trading countries were concerned, the majority of such agreements not only contained no country quotas, but no indication at all of the volume of trade. The only exceptions were those with Norway and Finland. In no case had Israel undertaken specific bilateral purchasing commitments although in several cases Israel had undertaken to issue import licences upon request up to a certain amount for specific products. In no case had Israel reserved imports of a given commodity exclusively to bilateral trade partners. All imports under bilateral agreements, including imports from State-trading countries, had amounted to only

7 per cent of total imports in 1959 and preferential import treatment had been given to not more than 5 - 10 per cent of imports under bilateral agreements. Thus, only about 0.5 per cent of total imports had been admitted under preferential bilateral quota arrangements.

24. Members of the Committee noted with satisfaction the intention of the Government of Israel to multilateralize trade and payments to as large an extent as possible. It was pointed out in this context that, notwithstanding the progress made in reducing reliance on bilateral arrangements, Israel continued to be a partner in a considerable number of payments agreements providing for swing credits. The existence of such arrangements in itself tended to provide some inducement to the licensing authorities to intervene in the issue of licences in a manner which might well affect the trade interests of other contracting parties. Furthermore, the fact that the overall volume of trade subject to bilateral quotas was small, did not preclude the possibility of their having a more important adverse effect on the trade of other countries, particularly if the products affected played an important rôle in the exports of those countries. Finally, in conditions in which there existed fairly severe restrictions over a wide field of imports, undertakings to issue import licences on application up to "indicated" quota levels in bilateral agreements might result in the full amount being licensed and hence raise apprehensions in the minds of other trading countries. The Committee expressed the hope, therefore, that Israel would soon be able to make further progress in the elimination of bilateral arrangements. The representative of Israel explained that in no case had the issue of import licences been influenced by the existence of "indicated" quotas. He also explained that the technical credit facilities which were in operation between Israel and bilateral trading partners had their parallel in facilities liberally in use with other trading partners through the normal banking and trading channels. Members of the Committee stated that while not wishing to pursue in this Committee a discussion which might more appropriately take place in another forum, they could not agree that the two cases which the representative of Israel had cited were entirely parallel or had precisely the same results in regard to their effect upon trade. As to the possible effect of the bilateral trading arrangements on any particular third trading partner, the representative of Israel reaffirmed that the Israeli authorities were not aware of any such difficulties. Nevertheless, he declared that any specific representation in this respect would be given most careful consideration.

25. Members of the Committee noted the statement that the decision of whether import licences were to be granted for imports from one source rather than another was at times made largely on consideration of export prices quoted by different suppliers. One member of the Committee pointed out in this connexion that in determining the granting of import licences the price consideration alone might not be a sufficiently good guide insofar as the price differentials might reflect significant differences in quality which, on the other hand, might not be readily apparent to the licensing authorities. The representative of Israel reassured the Committee that price was only one factor among many which was taken into account by the licensing authorities

in determining the issue of licences and careful attention was given to the representations of importers in describing why they wanted to import the higher priced product. Also price considerations entered significantly into licensing decisions only when price differences were substantial. In reply to another question, the representative of Israel explained that licensing allocations to State-trading agencies were granted on the same basis, and according to the same criteria, as those made to private importers.

Effects of the restrictions

26. Members of the Committee pointed out that the system of export premia applied by Israel, including the practice of calculating the premium on the basis of the net value added, seemed very complex. Moreover, the continued application of this system, despite its envisaged beneficial effects on the establishment and expansion of industries producing goods with high added value seemed likely to lead to distortions in the price and cost relationship between different domestic products and between domestic and foreign products. The representative of Israel explained that although the system seemed complex its practical application had not encountered any serious difficulties. In reply to a related question, the representative of Israel affirmed that, although Israel had not yet communicated to the CONTRACTING PARTIES the details of the subsidy measures employed by Israel, his Government would transmit these details in due course in accordance with its obligation under article XVI of the General Agreement.

27. Members of the Committee also enquired as to the effects on the Israel economy of the system of import surcharges, and particularly of the practice of differentiating, in fixing the level of such surcharges, between goods of more or less essentiality in the eyes of the Israel authorities. They enquired whether the effect of such differentiation might not rather be to produce distortions in the economy and, by offering a much higher incidental protection to the so-called non-essential sector, to provide greater inducements to Israel producers to shift resources into this sector at the expense of production in the more "essential" sector, a result which would presumably be the very reverse of that intended by the Israel authorities. The representative of Israel explained that his Government was aware of the possibility of such distortions in the structure of production, and sought to meet such dangers when they appeared by using selective fiscal measures and credit controls in order to prevent any unwarranted and uneconomic expansion of the industries benefiting from the higher incidental protection accorded by the import surcharge system.

General

28. Members of the Committee thanked the representatives of Israel for the frank and helpful manner in which they had engaged in this, their first, consultation on balance-of-payments restrictions. They congratulated Israel on its remarkable progress in developing its economy and in expanding production and exports, and noted with satisfaction the strengthening of Israel's foreign exchange reserves. They felt that notwithstanding Israel's particular difficulties, the overall prospects appeared to be good for increasing exports and for further strengthening the balance of payments. The Committee welcomed the progress which had been made by Israel in recent years, both prior to and since its provisional accession to GATT, in relaxing import controls and in multilateralizing trade and payments. The Committee hoped that the recent improvement in the monetary reserve position would be reflected in some further reduction of restrictions in the near future. The Committee urged that Israel should review and further simplify its present system of import controls. In this connexion, the Committee welcomed the indication given by the representative of Israel that the licensing requirement at present applying to imports under the Automatic Approval System would be eliminated in the near future, and that consideration would be given at the same time to the possibility of adding further to the number of items in this category. The Committee hoped that Israel would consider moving to the "negative list" system of licensing administration. The Committee also remarked on the large degree of administrative discretion involved under the individual licensing sector of the import control system, which might result in incidental protection to domestic producers and which, especially where bilateral agreements were involved, could give rise to objections regarding possible distortions of the pattern of trade. The Committee noted that, despite its general movement towards multilateralization of trade and payments, Israel continued to conduct a small part of its trade under bilateral arrangements, and urged that Israel should eliminate any discriminatory features to which such arrangements could give rise.

29. The representative of Israel thanked the Committee for the sympathetic and understanding manner in which the consultation had been conducted. He stated that the views and suggestions which had been made by members of the Committee would be duly conveyed to his Government, which would give them the most careful consideration.

