

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## TEMPORARY IMPORT SURCHARGE APPLIED BY ISRAEL

### Addendum

#### Statement by the Representative of Israel at the Council Meeting on 29 September 1970

As contracting parties were informed in document L/3433, the Government of Israel has been constrained to impose an import surcharge of 20 per cent on the major part of its imports.

This action forms part of a group of emergency measures designed to cut consumption and stem the rapid deterioration in the balance of trade and hence on the balance of payments.

Members of the Council will recall that our balance-of-payments problems were brought to their attention during the session of 22-23 January following the introduction of an import deposit and that they were subsequently discussed in detail by the Committee on Balance-of-Payments Restrictions. The report of the Committee (document BOP/R/43) was brought before the Council on 28 April and was approved by it.

As is apparent from the report, the Government took a number of corrective internal measures already at the beginning of the year. The most important of these measures found its expression in the so-called "package deal", an agreement between trade unions, employers and Government which limits wage and price increases. Although these various measures have had a stabilizing effect, they were not sufficient to reverse the negative trend in the balance of trade and the balance of payments.

Thus, while the deficit on current account amounted to \$930 million in 1969, it will, according to present forecasts, reach \$1,230 million in 1970, this being the difference between estimated total imports of goods and services of \$2,570 million and estimated total exports of goods and services of \$1,340 million.

Taking imports of goods alone, these are expected to reach \$1,400 million as compared to \$1,230 million in 1969, an increase of more than 15 per cent. Exports of goods, on the other hand, are rising more slowly and are expected to reach \$740 million in 1970 as against \$680 million in 1969, which represents an increase of

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only 8 per cent. The loss of momentum is noticeable mainly in earnings from exports of citrus fruit, and in exports of polished diamonds, which reflects the weakness of major markets for these two most important items within our total exports.

Foreign currency reserves, which had stood at about \$700 million in January 1969 had declined to \$412 million in December 1969 and \$406 million in January 1970. In spite of heavy borrowing abroad the reserves in June 1970 remained at the same level. The net foreign debt is expected to rise from \$2,100 million in December 1969 to \$2,700 million in December 1970 and per capita foreign debt will then exceed \$900.

In view of these facts, the Government had to take immediate measures, one of them being the import surcharge which we have notified. This 20 per cent charge affects all imports of goods with the only exception of certain essential foodstuffs and some goods falling into special categories such as supplies for the handicapped and for welfare organizations, imports of books, etc. These exceptions amount to less than 15 per cent of all imports of goods. I stress that the import surcharge is levied on imports from all countries without discrimination.

The order concerning the import surcharge came into force on 17 August and its initial validity was until 31 December this year, as stated in document L/3433.

However, in view of the continuing serious situation, the Government now envisages extending the measure until the end of the next fiscal year, i.e. March 1972.

Other emergency measures introduced were: an increase in tariffs on a number of items not bound in our schedule in GATT; an increase in purchase tax on a wide range of goods and services; an increase in the travel tax; an increase in excise taxes; higher charges for postage and telephone. Direct corporate income tax and capital gains tax rates were increased. At the same time food subsidies were curtailed.

All these measures constitute a formidable burden on the consumer. Yet, they were received with considerable understanding by the public and there is every indication that the "package deal" mentioned earlier will remain effective, and prices will not rise by more than the margin justified by increased taxation. My Government has, in fact, taken the necessary steps to prevent unjustified price increases. For that purpose two public committees have been set up whose function is to ensure that no undue advantage of the tax increase is taken by either producers or distributors.

It is to be particularly noted that in spite of our difficulties the Government decided not to resort to quantitative restrictions, but to rely on fiscal measures which are less likely to disrupt the normal flow of trade than measures of administrative control.

My delegation will be ready to supply any further information which may be required by contracting parties.