SUMMARY

1. Since the last Trade Policy Review of Israel in 2012, economic growth has averaged 3.3%, and GDP per capita increased to more than US$40,000 in 2017. Growth has been driven primarily by private consumption and domestic investment and, while trade is very important to the economy, the trade (goods and services) to GDP ratio declined from 72% in 2012 to 57% in 2017. However, despite a decline in the value of imports and exports of goods in 2012-16, the total value of trade (goods and services) in nominal terms increased due to strong growth in exports of services and a more modest growth in imports of services. Israel's external position remains strong with a current account surplus in every year of the review period and comfortable reserves, against the background of an appreciating currency. The unemployment rate declined to a historical low of 4.2% in 2017, but challenges remain to increase labour market participation rates among the Arab-Israeli and ultra-orthodox communities

2. After public protests in 2011 over the high cost of living, the Government appointed the Trajtenberg Committee to investigate socio-economic issues and make proposals for changes. Following the recommendations of this and other committees, tariff reductions were made, autonomous tariff quotas introduced, and measures taken to increase competition in several sectors, including finance, telecoms, and air and sea transport. Furthermore, reforms are continuing and include an ongoing programme to reduce administrative costs and regulatory requirements for imports (including for food products and spare parts).

3. Another major development during the review period was the start of natural gas production in 2013 from the Tamar field, while production from the large Leviathan gas reservoir is expected to start in 2019. Israel is in the process of establishing a sovereign wealth fund for the purposes of safeguarding the tax revenues from natural gas exploitation. The fund, which will be managed by the Bank of Israel, is expected to become operational in 2020.

4. The increase in domestic production of gas has contributed to a reduction in the quantity and value of imports of fuels in general, from 22% of the value of imports of goods in 2012 to 9% in 2016. Diamonds are important for both imports and exports: in 2016, about a tenth of all imports of goods and a quarter of exports were diamonds as Israel remains a major trading and processing centre. The principal trading partners are the United States and the European Union: in 2016, over half of all goods were exported to these two trading partners, and the European Union alone accounted for 42% of imports. The main services exports are computer services, and research and development services.

5. Inward and outward investments are important to Israel with inward investment averaging US$10 billion and outward investment US$7 billion per year for 2012-16. Investment into Israel has been mainly in the form of acquisitions, including from venture capital funds that invest in Israeli start-ups, and real estate. The main recipients of FDI were the manufacturing sector, telecoms, computer programming and information services, research and development, and financial services (except insurance and pension funds). There is no specific law for foreign investment and Israel maintains foreign-ownership restrictions in a few sectors, including air and maritime transport, telecommunications and broadcasting, and energy, mainly for public interest and energy security reasons.

6. In the WTO, Israel has implemented the revised Information Technology Agreement and the revised Government Procurement Agreement, accepted the Trade Facilitation Agreement and submitted a notification on its Category A commitments, accepted the TRIPS amendment, and, in line with the Nairobi Ministerial Decision, submitted a notification stating that it will stop using export subsidies for agricultural products from 1 January 2023. From 1995 to end-2017, Israel had been a third party in eight dispute settlement cases, four in the period 2012-2017.

7. Israel's average applied MFN tariff was reduced from 7.6% in 2012 to 5.2% in 2018. This was mainly the result of unilateral elimination of import duties on a range of products triggered by the 2011 protests. Some 67% of all tariff lines are now duty free, and only 3.7% are above 20%. Customs duties amount to 1% of total tax revenues. During the review period, Israel also transposed its Schedule XLII of concessions from the Harmonized System (HS) 1996 nomenclature to the HS2012 nomenclature. It is presently under waiver for the introduction of HS2017 changes.

8. The average applied MFN tariff on non-agricultural products is relatively low (3%, compared with 4.2% in 2012), while tariffs on agricultural goods (WTO definition) average 19.1% (down from 27.7% in 2012). Tariff protection is particularly high on dairy products (with an average of 65.6%). Moreover, many agricultural tariffs comprise specific, compound or mixed duties. Outside of agricultural products, the maximum tariff is generally 12%, except for fish and fishery products (up to 146.3%), textiles (up to 22%), and minerals and metals (up to 16.9%).

9. About three-quarters of Israel's tariff lines are bound. The average bound rate is 20.6%, 15.4 percentage points higher than the average applied MFN rate. Bound rates are high for agricultural products, averaging 78.1%, while for non-agricultural goods the average bound rate is 9.6%. MFN applied rates exceeded their bound levels for 18 tariff lines on products such as parts and accessories of machines; for some tariff lines the gap is 12 percentage points.

10. Israel has a network of FTAs that covers Canada, EFTA, the European Union, Jordan, MERCOSUR, Mexico, Turkey and the United States. Since the last Review, Israel has concluded FTAs with Colombia and Panama, which are not yet in force.

11. No major changes have been made to the legislative and institutional framework regarding Israel's customs regime since its last TPR. Nonetheless, Israel has ratified the Trade Facilitation Agreement, which entered into force on 8 December 2017. On the other hand, Israel maintains non-automatic import licensing procedures on a wide range of products for various reasons, such as health, safety, security, and tariff-quota administration. Up-to-date notifications would help improve the transparency of these import procedures.

12. A tax reform for alcoholic beverages was implemented in 2014 and the TAMA (a type of import surcharge which approximates domestic wholesale prices) was cancelled and replaced by a specific tax on imports and domestic products alike. VAT accounts for about 30% of Israel's tax revenues; VAT is applied on imported and domestic goods and services. The standard rate for VAT was increased from 16% to 17% in 2012 and to 18% in 2013. In October 2015, it was decreased to 17% (at a cost to government revenue equivalent to 0.4% of GDP). A number of items, including fruit and vegetables, are zero-rated. Alcoholic beverages, cigarettes and fuel are subject to excise tax.

13. The legal framework governing trade contingency measures has remained unchanged since Israel's last Review in 2012. During 2012-17, Israel initiated ten anti-dumping proceedings; one AD measure is currently in force. Israel has not taken any countervailing or safeguard actions during the period under review.

14. Israel maintains export licensing and approval (permit) schemes for selected products for reasons such as commitments under international agreements, quality control, and conservation, but there are no export taxes or levies. Israel provided export subsidies for agricultural products during the review period. One export state-trading enterprise is active in the groundnut sector.

15. During the review period, Israel eliminated six programmes that had been notified to the WTO Committee on Subsidies and Countervailing Measures: the Design Product Programme; the New Media Support Programme; the Marketing Tutorial Programme; the Consortia Programme; the "Two Hundred Times Two"; and the Greenhouse Gas Emissions Reduction Programme. Three of these programmes (Marketing Tutorial, Consortia, and Two Hundred Times Two) have been replaced by other programmes with similar expenditure amounts.

16. The Israeli economy specializes in the development and production of high-tech goods and services, supported by the highest level of civilian R&D in the world (about 4.3% of GDP in 2015). The Israel Innovation Authority, set up in 2015, encourages both local and foreign investment by offering a wide range of incentives and benefits to investors in industry, tourism and real estate. Most of these incentive programmes offer participation in the risks involved in the development process via conditional loans.

17. During 2012-17, Israel submitted 453 notifications to the TBT Committee, mostly on revisions of technical regulations or the adoption of international standards. Israel aims to align all of its standards to international standards by August 2019. Legislative amendments have recently been made requiring the adoption of international and regional standards in place of Israeli

standards, and also set out timetables for a revaluation of all technical regulations by August 2019. Regulatory impact analysis became mandatory in January 2016.

18. Different government agencies are responsible for different sanitary and phytosanitary measures but in general the National Food Service is responsible for fisheries and imported foods and domestically produced food after picking, slaughtering, or delivery for processing, while the Veterinary Services and Animal Health, and the Plant Protection and Inspection Service are responsible for unprocessed food, and live animals and their slaughter. Israel has not made a notification on SPS measures since 2011 although some of the TBT notifications submitted since then may include references to SPS-related issues. The Protection of Public Health (Food) Law of 2015 is intended to increase competition in marketing of food by reducing the regulatory burden on imports. Imports of "non-sensitive" foods (where "sensitive" foods are so classified based on risk assessment) no longer need prior authorization to be imported and only require a declaration of conformity with Israeli regulations rather than documentary evidence from the manufacturer. Except for meat products, there is no legal requirement for food products to have kosher certification, but it has been reported that it is often a practical market requirement as many hotels and shops do not stock non-kosher products.

19. Some major reforms have been introduced to the competition regime to enhance productivity at the firm level, foster GDP growth, and improve consumer welfare. Notably, the Israel Antitrust Authority (IAA) director may now impose monetary penalties for competition law infringements (including cartel violation, abuse of dominant position, or mergers carried out without IAA approval). In addition, the Antitrust Commissioner may now issue instructions to members of a concentration group to prevent harm to competition or to the public, or in order to improve the competitive situation; and a series of reforms have been launched to increase competition and efficiency in some sheltered sectors (e.g. financial services, telecoms). Furthermore, the Promotion of Competition and Reduction of Concentration Law was enacted in 2013 to reduce the risks posed by large, complex and leveraged business groups ("pyramids").

20. State-owned enterprises (SOEs) continue to play an important role in the economy, notably in the electricity, water, transport, ports and defence industries. At least two SOEs have been declared as monopolies under the Restrictive Trade Practices Law: the Israel Electricity Corporation; and Mekorot (the water corporation). In 2014, a new three-year privatization scheme, equivalent to 1.75% of GDP, was launched involving the divestment of some SOEs, including the ports and the postal service, and a series of partial privatizations (electricity, water and defence).

21. Israel is party to the Agreement on Government Procurement (GPA) and was among the first parties to accept the revised GPA. Israel has made a number of market-access commitments that enhance opportunities for foreign companies to compete in government procurement. It will progressively reduce the current 20% offset level and eliminate offsets entirely 15 years after the entry into force of the revised GPA for Israel (6 April 2014). After five years, Israel will also start reducing the number of entities that apply offsets. Israel's tendering regulations allow for price preference of up to 15% to local suppliers using at least 35% domestic content. Preferences do not apply to contracts subject to GPA provisions.

22. With its high-tech economy, Israel has a well-developed intellectual property system and, during the review period, undertook additional investment in the administrative functioning of the Israel Patent Office's (ILPO) examination procedures, and further modernization of intellectual property legislation, particularly in the areas of patents and designs. Reflecting a highly innovative and competitive industry where many start-ups depend on and enforce their intellectual property rights, Israeli courts frequently encounter IP litigation, including the Supreme Court which has issued a number of relevant rulings and opinions since 2012. The challenges posed by the digital environment in the area of intellectual property rights are reflected in a number of developments during the review period. These include Supreme Court judgements on the extent of copyright exceptions under the 2007 Copyright Act legislative changes to permit online distribution of TV broadcast signals. Israel is a member of WIPO and a party to most of its treaties but, while Israel is a signatory to the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, these have not been ratified, and Israel has not signed the Patent Law Treaty.

23. Most of the land in Israel is publicly owned and managed by the Israel Land Authority with most agricultural production from kibbutzim and moshavim cooperatives on land leased from the

Authority. However, most members of the kibbutzim and moshavim now perform non-agricultural work as farms become larger and more specialized. With an arid climate, irrigation is essential for production in many areas although most water for irrigation is not fresh but treated waste water or saline water. Although agriculture in Israel is protected by relatively high tariffs and Israel continues to use export subsidies – which are expected to cease on 1 January 2023 – it is a net importer and has taken several measures to improve market access, including through tariff reductions and autonomous tariff quotas. Some sectors, particularly dairy products, and animals and products thereof, have high and often complex tariffs while the dairy and egg sectors are highly regulated with production quotas and minimum or target prices applied. As notified to the WTO, most domestic support is in the Amber Box and concentrated on milk and eggs (the only two products to exceed the *de minimis* limit of 10% of current value of production). For 2011 to 2014, the Current Total Aggregate Measurement of Support exceeded the total AMS commitment level of US$568.98 million, although the notification for 2015 and 2016 (the most recent) shows Current Total AMS below the commitment level for these years.

24. Services account for around 80% of GDP. Israel is a net-exporter of services, notably computer services and R&D services. The financial services regime underwent substantial reforms during the review period to enhance competition and efficiency of financial intermediation: the two largest banks have been required to sell their credit card subsidiaries by 2020/21; cross-holdings between major financial and non-financial companies have been made illegal; and new players have emerged, consumer credit has expanded, and classic bank intermediation has given way to greater use of non-bank credit, primarily in corporate business. Nonetheless, no new banks have been established in Israel in almost half a century. The Capital Markets, Insurance and Savings Authority is now an independent regulatory body for the insurance industry, pension funds and savings.

25. The Israeli telecommunications sector has been further liberalized. Reforms include: a policy on network and frequency sharing which enables operators to share their sites and Radio Access Networks; the granting of several fourth-generation mobile international services licences; in the fixed market, a new wholesale regulation which aims to facilitate competition in the telecommunication market; and improvement of competition in broadband internet through unbundling the local loop of the incumbent operators. The establishment of an independent regulatory authority for telecommunications is still under consideration by the Government.

26. Israel has three seaports, two of which are mainly operated by state-owned companies, while the Eilat Port Company was privatized in January 2013. Together, these ports handle 99% of the volume of Israel's imports and exports. Since its last Review, Israel has continued to implement its port-user fee scheme, introduced in October 2010, to put an end to imports effectively cross-subsidizing exports, and to base fees on costs. Foreign ownership remains limited to 49% of Israeli flag vessels, and majority control by Israeli nationals is required for the provision of port services open to international shipping. Israel has open skies agreements with Colombia, the European Union, New Zealand, Turkey, and the United States. During the review period, the Israel Antitrust Authority limited the sector-specific exemptions in maritime and air transport, the last remaining sectoral exclusions of the competition law.

27. Since the last Review in 2012, Israel has taken a range of measures to liberalize trade and increase competition. These measures followed popular protests about the high cost of living and the results have helped improve trading and investment opportunities. Although the value of imports of goods declined, this was mainly due to lower fuel prices and imports as domestic production of gas increased. However, challenges remain with some parts of the agriculture sector highly regulated and protected while other traditional sectors risk falling further behind the high-tech goods and services industries.