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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

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ISRAELI IMPORT RESTRICTIONS AND TEMPORARY IMPORT SURCHARGE

Basic Document for the Consultation and Discussion[1]

1. Legal and administrative basis of the import restrictions

The Import, Export and Customs Powers (Defence) Ordinance 1939 and the 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.

Persons desiring to engage in import trade have to register as such and obtain an "importer number". Foreign currency for free imports is obtainable by every importer having such a number at Authorised Dealers (Banks) as defined by the Defence Regulations (Finance) without prior confirmation by the Competent Authority of the Ministry of Finance.

Import licences, where necessary, are issued by the "Competent Authorities" who are officials designated by the Ministers of Commerce and Industry, Agriculture, Transport, Health, Labour, Posts and Finance.

Every licence issued by the "Competent Authorities" is countersigned by the Foreign Exchange Division of the Ministry of Finance.

2. Methods used in restricting imports

Imports into Israel may be classified into three categories, the main features of which are described as follows:

(a) Free imports

1. Goods in this category do not require import licences;
2. foreign currency is freely allocated by banks;
3. conditions of payment are usually on a cash against document basis at f.o.b. quotations except when otherwise specified by the Ministry of Finance.

[1] Text supplied by the Israeli authorities.

(b) Automatically approved imports

1. Under this régime import licences are usually issued without delay. No quantitative or other restrictions are applied. These licences are automatically countersigned by the Ministry of Finance.

2. The aim of the licensing is to enable an examination of the effects of the imports on the Israeli production of goods which have been liberalized. The licences serve as an additional source of information regarding the level of home demand.

(c) Restricted imports

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:

1. The necessity to protect "infant industries"; the restriction is gradually removed as the industries develop;

2. the necessity to protect industries in development areas;

3. prices of commodities from alternative sources for control purposes;

4. considerations such as religious dietary laws and security.

Other measures affecting imports are:

(a) Import deposit scheme

This measure was introduced on 11 January 1970 for the purpose of improving the balance of payments and combating inflationary pressures in the economy.

It had been hoped that the scheme could be discontinued by the end of 1970, but it has been found necessary to extend it for a further year until 31 December 1971 although the deposit rate has been reduced from 50 per cent to 40 per cent of the value of the imported goods (for full details see Annex VI).

(b) Temporary import surcharge

The order concerning the import surcharge came into force on 17 August 1970 and formed part of a further series of measures designed to bring about an amelioration in the rapidly deteriorating balance of payments.

At present the legal expiry date of the measure is 31 March 1972 and it is hoped that it will not be found necessary to extend the measure after that date. (For full particulars concerning this measure see addendum to the present document and L/3433/Add.1.)

3. Treatment of imports from different sources

The foreign trade policy of Israel is based on the principle of non-discrimination and imports are treated on a most-favoured-nation basis. The Competent Authorities do not interfere in the choice of the source of supply, except in the following special cases:

(a) Agricultural surpluses

Agricultural products available under surplus disposal schemes.

(b) Earmarked sources

Imports of goods covered by a loan agreement under which credit is extended specifically for the purchase of goods from a specific country of origin.

(c) Imports within the framework of bilateral agreements

In 1970, the payments agreement with Yugoslavia was not renewed. Thus only four bilateral agreements now remain. Imports within the framework of bilateral agreements were consequently reduced by half, and, based on 1970 figures, amounted to about 1.1 per cent of total imports, compared to 1.7 per cent in 1969. (Details of imports within the framework of these agreements may be found in Annex II.)

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

(a) Free imports

The list of products which fall under this category includes mainly raw materials and essential foodstuffs (see also 6 below).

(b) Automatically approved imports

This category comprises local production which has been liberalized, semi-manufactured and investment goods not produced in Israel and fiscal items.

(c) Restricted imports

These consist of certain types of spare parts and equipment, certain kinds of paper, foodstuffs etc. (see Annex I and addendum for further details).

5. The use of State trading or Government monopolies in restricting imports

State trading in Israel generally does not serve as a means of import restriction. Therefore it has no direct implications on the balance of payments.

Government imports are limited to a small number of basic essential foodstuffs of which sufficient quantities are bought to cover and to ensure the current local demand plus quantities required for maintenance of adequate stocks (the items are listed in Annex III).

Sales on the local market are unrestricted. The Government is ready to transfer the import of these goods to private firms on the condition that they meet certain requirements in regard to the size of stocks and their storage.

6. Measures taken in 1970 in relaxing restrictions

The following measures designed further to liberate imports have been taken by the Government:

Tariff reductions

(a) The tariff concessions granted during the Kennedy Round are being implemented according to schedule. On 1 January 1971 the third reduction was put into effect.

(b) Following the approval by the Ministerial Committee for Economic Affairs of the liberalization of imports, the Government pursued its policy of facilitating access of imported goods to the Israeli market, while ensuring a reasonable level of protection to the local industry. The transition from the existing high customs rates to the target lower rates is to be implemented in equal annual stages on 1 January of each of the years 1970 to 1975.

(c) The first stage of the policy outlined in (b) above was implemented on 1 January 1970 when customs rates were reduced on a large number of locally produced items. The second stage was carried out in January 1971, according to schedule. This last customs reduction affected a smaller number of items.

Relaxation of non-tariff barriers

Up to 1 January 1969 liberalized imports appeared on positive lists. It had been intended that from that day all imports should be liberalized except those mentioned in a negative list. Owing to administrative and legislative difficulties this conversion has not yet been fully implemented, but further progress has none the less been made in reducing the number of restricted items. (See Annex I and addendum.)

EEC Agreement

The text of the agreement between the European Economic Community and the State of Israel which was signed on 29 June 1970, was submitted to the CONTRACTING PARTIES in document L/3428.

At its meeting of 14 October 1970 the Council decided to set up a working party to consider the agreement.

7. Effects of trade restrictions and general policy in applying restrictions for balance-of-payments considerations[1]

The year 1970 saw a continuation in the trend of relentless expansion - the gross national product increasing by 8.5 per cent over the previous year. Economic activity was at a high level and full employment was maintained throughout the period. On the other hand, as in previous years, a considerable part of the gross national product (28 per cent) had to be directed to defence expenditures.

The rapid deterioration in the balance of payments continued in 1970 and this remains the country's most critical economic problem. Imports of goods and services persisted in their sharply rising trend, increasing by 20 per cent in 1970 to reach a peak of $2,580 million.

By comparison the annual growth rate of exports has been relatively slow during the past few years (9 per cent between 1968 and 1969, and only 5 per cent from 1969 to 1970). Exports of goods and services reached $1,256 million in 1969 and rose to $1,315 million in 1970. Commodity exports, however, increased from $746 million in 1969 to $791 million in 1970 - a growth rate of 6 per cent. The share of industrial exports, including diamonds, in total commodity exports rose in 1970 from 80 per cent to 83 per cent. Citrus still remains by far and away Israel's most important agricultural export; however, its share in total agricultural exports declined considerably, falling from 78 per cent in 1969 to 70 per cent in 1970. Polished diamonds and citrus which together account for almost half of Israel's commodity exports, had a rather poor year mainly because of the unfavourable market conditions in Western Europe and North America. This was the main factor contributing to the slow growth rate of commodity exports as a whole.

The economy's performance in the export of services was also somewhat disappointing, rising from $509 million to $524 million in 1970. The main increases were achieved in the fields of transportation and tourism. The relatively slow export growth rate combined with rapidly rising imports brought about a deficit of close to $900 million in 1969 and the highest ever deficit figure of $1.26 billion in 1970. The startling increase in the deficit of $360 million in one year is certainly the highest one in Israel's economic history.

In 1970 unilateral transfers covered only part of the deficit ($680 million). The remainder - about $600 million - had to be met by a sharp increase in the country's net borrowing abroad, thus raising the foreign debt to a peak of $2.9 billion (an increase of $200 per capita in one year). The figure for Israel's foreign debt per capita is now at the level of $1,000.

[1] See also Annexes IV and V.

The average terms of borrowing became harder in 1970 as the rising needs could not be met by concessional sources. Israel had, therefore, to rely increasingly on commercial sources. Debt service payments reached $420 million in 1970 ($265 million in principal and $155 million in interest) compared with a total of $277 million in 1969.

In the light of this situation the Government has implemented a series of measures whose purpose is to bring about a restoration of external equilibrium. Short-term measures included a tight monetary and fiscal policy aimed at reducing the growth of money supply and private consumption. The introduction of the import deposit scheme was designed to slow down demand for non-essential imports, without endangering the growth of investments, in the fiscal field, important steps were taken: indirect taxes on several important consumer goods were raised; the defence levy was increased from 10 per cent to 15 per cent of income tax payments, and contributions to the national insurance scheme were raised substantially. Surplus purchasing power was mopped up by the introduction of compulsory subscriptions to certain Government bond issues. A temporary import surcharge of 20 per cent was introduced on all but a limited list of essential goods (see addendum).

In the field of Incomes Policy, the so-called "Package Deal" between the Government, the manufacturers and the trade unions was concluded in February 1970, having for its aim the maintenance of stability in domestic prices and wages. Along with this short-range policy designed to limit the effects of the external disequilibrium, the Government has initiated a policy of encouraging selective investments in the export sector in order to bring about structural changes in the pattern of Israel's foreign trade. In this connexion it should be borne in mind that citrus and diamond exports have now almost reached their optimum level, so that Israel must look to new industries for the future expansion of her exports.

Towards the end of 1970, the various Government measures began to take effect. Private consumption per capita grew by only 3 per cent in real terms compared to approximately 10 per cent in 1969. The growth rate of commodity imports was greatly reduced. Whereas at the beginning of 1970 the monthly growth rate was at a level of 20 per cent, by the end of the year this had fallen to only 5 per cent. Nevertheless, as the estimated deficit on current account for 1971 will be in the region of $1.4 billion, the Government will have no alternative but to persist in its present policy of restraint.

ANNEX I

Categories of Industrial Products the Import of which is still Subject to Restriction

(a) Products in regard to which it has been decided by the Public Advisory Council for the Protection of Local Industry to continue administrative protection indefinitely or products in regard to which the Public Committee has not as yet completed its examination.

(b) Products which remain under administrative protection for security reasons; this category includes explosive material and weapons.

(c) Products which remain under administrative protection due to reasons of kashruth (Jewish Dietary Law) (see List "c").

(d) Essential foodstuffs imported by the Government (see paragraph 5 above; statistics of Government imports of essential foodstuffs are given in Annex III).

(e) Products of newly established industries requiring protection in the light of the large initial basic investment required and the limited size of the local market. These products remain under administrative protection according to the decision taken by the Ministry of Commerce and Industry (see List "e").

List "c"

Products for which Administrative Protection will Continue for Reasons of Kashruth (Jewish Dietary Laws)

BTN item	Product
03.02	Smoked fish
04.03	Butter
04.04	Cheese
15.13	Margarine and its substitutes
16.01	Sausages and the like
16.02	Preserved meat and pickled meat
16.03	Meat extracts
ex 17.04) ex 18.05)	Halvah
19.03	Noodles and similar products
19.06	Pastry
19.03	Biscuits
19.06	Waffles
21.04	Mayonnaise
21.05	Soups
21.06	Baking powder
29.40	Enzymes - rennet

ANNEX I (cont'd)

List "e"

Products under Administrative Protection According to the Decision of the Ministry of Commerce and Industry

BTN item	Product
56.01-56.04	Acrilan fibres and synthetic tops The administrative protection does not prevent import of the above products for purposes of re-export.
85.15	Transmission-reception radio equipment The Ministry determined that new products will enjoy administrative protection for three years from the start of production.
29.16	Citric acid
87.02 1020	Buses

ANNEX II

Imports within the Framework of Bilateral Payments Agreements

($'000 c.i.f.)

Country		1969	1970
Bulgaria		1,502	1,774
Brazil		2,870	4,553
Hungary		4,919	4,309
Yugoslavia		10,753	3,000 1/
Portugal		2,999	3,287
	Total	23,043	16,923
	Total imports	1,318,264	1,438,538
	Percentage of total imports	1.7%	1.1%

1/ The agreement with Yugoslavia lapsed in April 1970.

ANNEX III

Government Imports

Commodity	1969		1970	
	Quantity (in tons)	Value ($'000)	Quantity (in tons)	Value ($'000)
Frozen meat	36,318	18,026	36,001	18,716
Skimmed milk powder	7,448	2,413	9,438	3,376
Butter	142	169	258	81
Eggs[1]	45,838	1,812	32	10
Wheat	283,005	18,220	349,638	28,471
Soyabeans	290,484	31,047	259,297	25,975
Edible fats	14,636	3,399	17,188	5,017
Sugar	87,679	7,543	79,720	7,358
Total		82,629		89,004

[1] In thousands: imports due to a shortage on local market

ANNEX IV

Israel Balance of Payments 1969, 1970

($ million)

Description	January-June 1969 Credit	1969 Debit	Net	1970 Credit	1970 Debit	Net	January-December 1969 Credit	1969[1] Debit	Net	1970 Credit	1970[3] Debit	Net
A. Goods and Services (f.o.b. Net)												
Goods	395.7	564.0	-168.3	412.4	661.5	-249.1	746.5	1,152.1	-405.6	791	1,265	-474
Services	242.8	481.6	-238.8	249.7	471.5	-221.8	509.7	997.7	-488.0	524	1,315	-791
Thereof: Transportation	75.2	81.3	- 6.1	84.8	97.8	- 13.0	162.0	179.8	- 17.8	189	208	- 19
Travel	42.5	28.2	14.3	47.8	25.1	22.7	89.6	68.2	21.4	104	57	47
Insurance	37.0	40.9	- 3.9	37.9	42.1	- 4.2	74.0	82.2	- 8.2	78	85	- 7
Investment Income	32.2	70.3	- 38.1	27.0	-79.9	- 52.9	72.5	152.3	- 79.8	55	165	-110
Government	13.6	212.2	-198.6	9.9	181.3	-171.4[2]	27.4	423.3	-395.9	20	720	-700
Other Services	42.3	48.7	- 6.4	42.3	45.3	- 3.0	84.2	91.9	- 7.7	78	80	- 2
Total Goods and Services	638.5	1,045.6	-407.1	662.1	1,133.0	-470.9	1,256.2	2,149.8	-893.6	1,315	2,580	-1,265
B. Transfer Payments												
Institutional Remittances	95.5	-	95.5	168.5	-	168.5	181.7	-	181.7	300	-	300
Personal Restitutions from Germany	63.6	-	63.6	112.3	-	112.3	137.6	-	137.6	205	-	205
Personal Remittances	86.1	-	86.1	83.5	-	83.5	169.8	-	169.8	175	-	175
Transfers from Israel (including to administered areas by the I.D.F.)	-	4.7	- 4.7	1.7	5.9	- 4.2	-	10.9	- 10.9	-	13	- 13
Total Transfer Payments	245.2	4.7	240.5	366.0	5.9	360.1	489.1	10.9	478.2	680	13	-667
C. Capital Movements, Long and Medium Term												
Independence and Development Bonds	98.2	76.9	21.3	105.6	41.0	64.6	183.8	120.5	63.3	220	85	135
United States Government Loans	22.8	13.9	8.9	15.8	17.5	- 1.7	56.4	39.1	17.3	383	55	328
German Government Loans	(	(	(	(	(	(	(35.0	(	(			
Other Loans	(111.0	(63.4	(47.0	(182.4	(94.0	(88.4	(216.8	(126.2	(125.6	242	117	125
Investments	60.9	36.1	24.8	42.8	36.5	6.3	90.9	61.4	29.5	90	55	35
Total Capital Movements	292.9	190.3	102.6	346.6	189.0	157.6	582.9	347.2	235.7	935	312	623
D. Net Capital Short Term Plus Errors and Omissions	64.0	-	64.0	-	46.8	- 46.8	179.7	-	179.7	15	40	25
Grand Total	1,240.6	1,240.6	-	1,374.7	1,374.7	-	2,507.9	2,507.9	-	2,945	2,945	-

1/ 1969 figures are revised.

2/ About $180 million should be added to this figure. This omission is corrected in the final figures for the year.

3/ 1970 figures are provisional.

ANNEX V

Imports of Goods by Economic Destination

($ million c.i.f.)

	1968	1969[1]	1970[2]
Total imports	1,115.1	1,318.9	1,437.3
Consumer goods	111.3	140.3	137.8
Non-durable	72.8	79.0	88.4
Food	37.7	42.5	46.5
Other	35.1	36.5	41.9
Durable	38.5	61.3	49.4
Production inputs	773.1	896.1	953.0
For agriculture	51.0	50.2	67.2
For industry	587.9	680.5	708.5
Raw diamonds	162.8	192.8	155.0
Other	425.1	487.7	553.5
For building	15.5	18.7	20.8
Fuel	62.8	69.9	67.4
Spare parts	55.9	76.8	89.1
Investment goods	230.7	282.5	346.5
For agriculture	6.4	9.2	6.9
For industry and building	109.4	157.4	186.4
Transport	89.3	81.0	112.0
Ships and aircraft	57.6	32.0	55.6
Other	31.7	49.0	56.4
Other	25.6	34.9	41.2

[1] 1969 - revised

[2] 1970 - provisional

ANNEX VI

Import Deposit Scheme

This measure is intended to absorb means of payment from the economy and thus bring about a lessening of demand for imports and an improvement in the balance of payments.

The following are the main elements of the scheme:

(a) The scheme covers all imported goods on which customs duty exceeding 30 per cent is paid.

(b) In order to obtain clearance of goods through the customs, importers are required to make a deposit with the Treasury.

(c) The rate of deposit is equal to 40 per cent of the value of the imported goods as defined by the Customs Ordinance.

(d) The deposit is lodged with the Treasury for a period of six months from the time of deposit and is repayable at the expiry of this period.

(e) The deposit bears interest at the rate of 6 per cent per annum.

(f) The depositor's right to receive the deposit and interest is not transferable.

The following categories of imports are exempted from the obligations to pay the deposit:

(a) Postal packets for which the total deposit payable would not exceed I£ 500.

(b) Goods imported by new immigrants, temporary residents or returning residents for personal use.

(c) Goods covered by a general import licence such as parcel post consignments for private consumption, personal luggage, etc.

(d) Goods imported for war invalids provided such goods are approved by the Ministry of Defence.

(e) Motor vehicles for invalids as classified under heading 422 of the Schedule to the Customs Tariff and Exemption Ordinance 1937.

Note: In order to ensure the effectiveness of the scheme, the banks have been requested by the Governor of the Bank of Israel not to extend credits for the purpose of financing import deposits. Furthermore, the money deposited will not be used to finance the Government budget.