

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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

1. In accordance with its terms of reference the Committee conducted the consultation with Israel. The Committee had before it basic documents supplied by the Government of Israel (BOP/65 and Add.1) and material supplied by the International Monetary Fund, to which reference is made in paragraph 3 below.
2. In conducting the consultation, the Committee followed the plan of discussion for consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was held on 6 December 1966.

### Consultation with the International Monetary Fund

3. 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 the consultation with Israel. In accordance with the customary procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Israel. The statement made was as follows:

"With respect to Parts I and III of the Plan for Consultations, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 18, 1966<sup>1</sup>, taken at the conclusion of its most recent Article XIV consultation with Israel, and particularly to paragraph 5 which reads as follows:

'Israel has further reduced its reliance on quantitative restrictions and in order to improve the productivity of industry and to restrain price rises, the Government has decided to reduce customs duties in several steps. The Fund welcomes this decision and stresses the beneficial effects competition from abroad will have both on moderating the rise in prices and on the efficiency of domestic industry. The Fund regrets the lack of progress in terminating bilateral payments agreements, and expresses the hope that the Israel authorities will reconsider their continuous resort to these agreements.'

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<sup>1</sup>The full text of the decision appears in Annex I.

At the present time the general level of restrictions of Israel which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, the Fund again invites attention to the decision taken at the conclusion of its most recent Article XIV consultation with Israel. The Fund has no additional measures to suggest at this time."

Opening statement by the representative of Israel

4. In his opening statement, the full text of which is contained in Annex II, the representative of Israel described the evolution of Israel's balance of payments. As imports had remained fairly stable in 1965, whilst exports had increased by about 15 per cent, the trade gap had narrowed as compared with 1964, but this improvement was partially offset by a deterioration in the balance on services so that there still remained a very large current-account deficit. In large part this gap had been met by further long- and medium-term borrowing that had increased Israel's total indebtedness to a level which gave rise to concern with regard to the future. There had also been some outflow of reserves of the Bank of Israel, beginning in March 1966, a fact which would be less disquieting if the annual current-account deficit were not so large.

5. The Government had consequently concluded, late in 1965, that the time had come for vigorous steps to curb domestic inflationary pressures, even though painful readjustments would be involved. It was decided to put a halt to the increase of public spending, especially in building construction, and to begin a long-term shift of resources to increase emphasis on expansion of export-oriented industry. Further, the link between wages and the cost-of-living index was partially suspended and the incentive system was given broader application in industry to promote efficiency. Also a freeze was placed on taxes, already heavy, as past increases appeared to have given rise to price increases. A first result of these measures was an increase in unemployment, which had affected 5 per cent of the working population by October 1966. Hence, in spite of the reduction of the trade gap, 1966 proved to be a very difficult year.

6. The Government had also offered certain new inducements to investment in the expansion of industries with export potential in which Israel appeared to enjoy a relative advantage. Efforts were also being made to intensify the cultivation of available land with a view to producing, where possible, increasing quantities for export. Certain other export promotion efforts were also being made, and these had to some extent helped relieve the domestic situation.

7. With regard to the external situation Israel had, however, come to the conclusion that continued economic growth would require still closer co-operation with, and even integration in, a large economic grouping. The commercial agreement with the EEC, which was discussed with the Committee last year, was a first move to implement this decision. More recently the Government of Israel had concluded that that agreement could not take care of Israel's essential needs. Consequently, an application for association with the EEC had been made last October. In addition, Israel looked forward to increased opportunities for trade through the results of the Kennedy Round, which would have a direct effect on the direction of official thinking about the reduction of tariffs and non-tariff barriers by Israel. Israel itself had reduced tariff rates on over 300 items by 5 to 10 per cent on 1 November 1966, in accordance with the programme announced last year. Reductions on about sixty more products were to be made in May 1967. It was important that these steps become accepted as a part of a regular programme to reduce all tariffs on imported products by 5 to 10 per cent annually, but there was an obvious interrelationship between what Israel could do and what other countries did. For their part, the Government of Israel hoped that the Kennedy Round would succeed, since the solution to Israel's balance-of-payments problem could only come through a growth of both exports and imports in which exports grew at a quicker pace in order to bridge the wide external gap.

#### Balance-of-payments position and prospects

8. Members of the Committee thanked the representative of Israel for the information he had given and congratulated Israel on its improved export performance - an improvement which seemed to represent part of a secular trend toward matching exports to imports. They acknowledged the pressure on imports created by Israel's commitment to rapid industrialization, to development of new agricultural lands and to unrestricted immigration, which had no doubt been all the more difficult in the face of rising unemployment. They hoped that the relaxation of import restrictions would not be offset by general tariff increases. They welcomed the progress toward increased liberalization made during the year and commended Israel for the domestic programme to ensure sustained economic growth. They did note, however, that Israel's reserves appear to be equivalent to about ten months' import needs; this should warrant some increase in the tempo of liberalization, which instead appeared to be slowing down. There were even some cases of reimposition of import control on products formerly liberalized. It was noted that some industrial materials which would be useful to Israel's economy remained subject to licensing control. They noted too that no progress had been made in termination of bilateral payments agreements which had frequently been the subject of discussions in the Committee and in some cases were causing real problems to other contracting parties.

9. In reply to these general points, the representative of Israel noted that for the time being, Israel had been very happy to reach the second phase of its liberalization programme in beginning a process of tariff reduction. It had seemed best to begin to accustom industry and agriculture to the idea of regular reductions in tariffs, which had been carried through on about 8 per cent of dutiable imports. So far as the tariff was concerned, a high proportion of imports fell in categories which were free of duty and many imports were effectively imported free of duty because they were to be used for re-export. Less than one sixth of all imports were subject to duties of more than 35 per cent ad valorem and most of this trade bore duties of less than 60 per cent. The recent reductions affected 300 dutiable products which account for imports of \$20 million out of a total of \$250 million subject to duty, and 80 per cent of the reductions affected goods dutiable at more than 35 per cent. The transfer of certain goods from the free list to automatic licensing or to the discretionary licensing list was connected with the process of industrial diversification to which he had referred in his opening statement. Though a careful screening process is carried out to ensure that permitted new industries are only such as have a good chance of becoming competitive on world markets within a relatively short period of time - three to five years - it was simply not possible to induce people to invest unless some temporary assistance was given. With regard to reserves, the representative of Israel referred to the judgment of the IMF on this point and added that current needs include not only what is required to pay for imports of goods but also requirements to pay for services, and on that basis the reserves as of 30 September 1966 were hardly sufficient to cover six months' needs, a much more modest figure for a country dependant on relatively few export products, some subject to the caprices of the weather, not to mention Israel's special geo-political position, as noted in the opening statement.

10. In this connexion the representative of Israel answered various specific questions. He noted that the unemployment rate he had mentioned resulted from the fact that out of a labour force of just over 800,000, 40,000 were unemployed in October 1966. Citrus picking would give at least temporary employment to some laid off in the building construction industry, but there were the usual problems of mobility in transferring workers from one industry to another. To another question he explained that Israel maintained several specialized export-promotion institutions, governmental or mixed government and industry, which served such functions as bringing buyers and exporters together, finding new markets, providing information on trade regulations and restrictions, and handling Israel's representation at trade fairs. For a country developing new export products as well as new markets there was endless work of this kind to do. Concerning the export trade outlook, which the representative of Israel again said was far from telling the whole story, the first nine months of 1966 had seen favourable developments. Imports had increased but by less than the increase in exports, so that the trade gap, according to provisional figures,

had been narrowed from \$296.5 million in nine months of 1965 to \$262.2 million in January-September 1966, and exports had been equal to 58 per cent of imports in the latter period as compared with 51 per cent in the corresponding months of 1965. However, these developments were mainly due to good exports of citrus and diamonds (where the value added by manufacture in Israel is small) rather than to performance in the new and difficult industrial area on which Israel's future hopes depend. The optimum level of production of both these major exports, especially oranges, will soon be reached, so that most of the future expansion of Israel's export trade would have to come from elsewhere, and it was the new industries which would also have to provide the stability which the export trade now conspicuously lacked.

11. Members of the Committee noted the continued capital inflow which, with the improved trade balance, seemed a good basis for the start that had been made on tariff reductions. In reply, the representative of Israel noted that both personal restitutions and investment capital from abroad had declined in 1965 as compared with 1964. The difference had been made up mainly by heavier borrowing which would, if continued on the present scale, create very heavy repayment obligations within a few years. In answer to a question about per capita income in 1965, the representative of Israel noted that in 1965 gross national product had increased over 1964 by 7 per cent and that in 1966 a further increase of between 5 and 6 per cent was estimated to be taking place.

12. Concerning the choice of new industries with good export prospects, about which a question was also asked, the representative of Israel mentioned that raw materials found within the country, mainly in the southern region, were the basis for much new investment. There, potash, rock phosphates, natural gas, copper cement had all been developed within the past decade. One new plant, by the Dead Sea, at Arad, would produce phosphoric acid and concentrated fertilizers. At the Weitzmann Institute fine chemicals were being developed, some of which were already being exported. In many cases not only capital but also know-how was being sought from abroad, and a recent change in the law on foreign private investment accorded foreign investors a grant of up to 20 per cent of their installation costs if they could sell 50 per cent of their output for export. This appeared to be more effective than the former system of tax credits as an incentive to added investment.

#### Alternative measures to restore equilibrium

13. The point was made that many Mediterranean countries have developed an important source of foreign exchange by encouraging tourism, and the question was asked how much revenue tourism brings to Israel and what were the prospects for further increase. In reply, the representative of Israel noted that tourism had indeed been very much in the minds of the Government authorities

and that receipts from this account had increased to perhaps \$60 million as compared with \$56 million in 1965. Numbers of tourists have increased more than have receipts, and it would seem that future expansion would likelier be in catering to the many tourists with smaller budgets. For this reason, Israel was now developing moderate-priced hotels and motels and was trying to attract more group tourists.

14. Another question concerned regulations on terms of payments for imports, which it was understood could not exceed 180 days in the case of raw materials required for export industries, special permission being needed for longer credit which was very rarely given. The question was asked whether some relaxation of this regulation would be considered consistent with Israel's general trade liberalization programme. The representative of Israel replied in the negative. To allow longer periods for payment of raw materials and consumer goods would undoubtedly increase foreign exchange costs, particularly because interest rates in Israel were much higher than in Western Europe or North America and many import firms would increase their reliance on credits obtained from abroad. This would not only imply a greater drain of foreign exchange but risked adding to the inflationary pressures and distorting the pattern of imports. At best, Israel would be paying more and more to service debts now being contracted, and to obtain more credit would only increase the payments gap. Except for investment goods, where longer payment terms were allowed, Israel would not consider longer payment terms desirable.

15. Members of the Committee reverted to the question of diversification of industry and inquired how the screening of industries was carried out and what experience Israel had had in persuading industries once established to give up the protection they first enjoyed. The representative of Israel stated that, after an initial period in which industries had been established with insufficient consideration of their ultimate capacity to compete without protection, Israel now realized that in its own interest all industries must be forced to compete. This was of course much more easily said than done, particularly at a time like the year 1966 when the Government's policy was widely blamed for unemployment. It was against this background that progress toward liberalization in 1966 had been made and in this context that the action to admit some imports never before permitted had to be evaluated. So also for the tariff reductions begun this year. In any case, the basic test for permission to establish a new industry was now the question whether export competitiveness could be achieved with no more than, normally, three to five years' quantitative restrictions. As previously noted, it was in this context that some transfers of goods from free to licensable lists had taken place. In all such cases, the prospective investors had presented a persuasive case to show that they could export and dispense with quantitative restrictions within the kind of time period indicated. In this connexion, a member of the Committee asked whether in such cases it would not be possible to permit the continued import of at least some quantities of goods, based on past trade, in order to safeguard the interest of existing exporters. The representative of Israel undertook to bring this suggestion to the attention of his authorities.

System and methods of the restrictions

16. Members of the Committee referred to the figures concerning the proportions of trade subject to various import régimes, shown in the background documentation for last year's and this year's consultations. They inquired how these figures had been drawn up; others noted that without consolidated up-to-date lists of products subject to the various import procedures, it was difficult to understand how such data could be prepared or how comparisons from one year to another could be made or verified. Some instances had been noted in which a product believed to have been liberalized had turned up on new liberalization lists, and the percentage breakdown as given did not appear to reflect changes in the system, on which detailed reports were received from time to time. It was also recalled that at one time it had been foreseen that a negative list might become necessary for the review of items still subject to restrictive licensing. In reply the representative of Israel acknowledged that change had been so rapid, in the process of liberalization, that the administrative services had not been able to keep pace in developing an adequate tabulation of the net results. There was no difficulty in determining the status of individual products so that traders were less handicapped than were those interested in analysis of the overall position, since each foreign exporter or Israeli importer was interested in only a limited range of goods. As to the fact that there had been no change in the percentages despite changes in the make-up of the various lists, one should avoid hasty conclusions. Quantities of imports in a given year reflect not only the liberality or restrictiveness of regulations but also market demand and supply. Without a detailed analysis of the composition of the figures, including knowledge of the year used as a basis for the breakdowns in the various compilations, one should not attempt to evaluate the figures in detail. He asked the Committee's indulgence and patience and assured them that his own officials were most anxious to put an end to the somewhat confused condition of the lists. While he would not promise to deliver a list at a date which might later prove to be impractical, he would do his best to see that priority was given to drawing up and keeping current consolidated lists showing which products were admitted without licence, which were subject to automatic licensing and which were still subject to discretionary licensing. This would be preferable to an effort to explain the figures on proportions subject to various régimes appearing in the documents, which undoubtedly reflected correctly enough the approximate shares of trade subject to the various methods but which would certainly be reviewed and revised once the new lists were available.

17. Members of the Committee referred again to Israel's bilateral payments agreements in which no change appeared to have occurred since the last consultation, and inquired whether there were any prospects for the termination of any of the existing agreements. They also asked what kind of commodity coverage was included in these agreements and whether the agreements might be

described as of the "balancing" variety, that is with list on both sides; they also wished to know whether the agreements contained any element of discrimination among the countries involved. In reply the representative of Israel first emphasized that only 4.3 per cent of Israel's trade was involved in all of the agreements which might be called bilateral payments agreements, though some were not strictly intergovernmental agreements. Imports from these countries had either fallen or done no better than keep pace with the growth of total import trade. Israel had regularly let bilateral payments agreements lapse when the trade partner had itself gone over to a system of free multilateral trade. More than that Israel could hardly do, however, for it was not possible to sell to the State-trading countries unless agreements had been concluded. A small country has to adapt itself to the trade problems and methods used by its trading partners, and Israel could certainly not afford to forego any export markets while her need to increase exports remained so great. These would be export markets which Israel would especially regret losing since, unlike the general situation in trade with other countries, exports to these countries did cover fully the imports which Israel bought from them. Furthermore, Israel was always very careful to buy from the State-trading countries only at prices competitive with world prices. The products which Israel bought there were largely bulk raw materials, and whenever imports were licensed from bilateral countries imports were also licensed from elsewhere to help ensure that prices would be competitive. Israel had, however, no intention of extending the sector of its trade which is subject to bilateral payments agreements. He knew, he said, of no discriminatory import facilities or of any premium prices involved in operation of the agreements.

18. Members of the Committee expressed satisfaction on learning that Israel did not intend to extend the area covered by bilateral agreements, but urged, as the IMF Executive Board had done, that Israel reconsider its continued resort to these agreements. They expressed great sympathy with Israel in its efforts to expand exports notwithstanding the rather narrow range of products which it could sell, but nevertheless urged that in the long run a continued reduction in the use of bilateral payments agreements would be in the country's best interests. In particular, the question was asked how the Government of Israel could "encourage" imports from bilateral countries whilst at the same time respecting the principle of non-discrimination, in particular as concerns prices, and in what such encouragement might consist. In reply the representative of Israel pointed out that products purchased from these countries were not generally products which had been placed on the free list. The encouragement really consists in a willingness to licence the imports, and in selecting the products to be licensed the Government had naturally followed the traditional pattern of trade with those countries. He emphasized, however, that whenever goods were licensed from bilateral countries, licences were also accorded for imports from multilateral countries (usually under the automatic licensing procedure) in order, as he had stated, to make sure that

the relative costs were kept in line. This had been fairly easy to do when imports were rising but was more difficult when imports were falling, since Israel did of course feel an obligation to fulfil the commitments made under the bilateral agreements. A country with a limited trade volume, like Israel, must also take into consideration, to some extent, elements other than the purchasing price in the country of origin, especially in trade with distant countries, for if bulk goods had been exported the shipment could only be made economic by purchase of goods from the country of destination in order to fill the ships on the return voyage. From this standpoint some directing of import trade helped to move the exports.

19. Members of the Committee referred to a statement in the background paper that the purpose of the required licence under the automatic approval system is to check the prices of imports. This raised the question what happens after the check has been made, or in other words was this check being used as something like an anti-dumping control. The representative of Israel acknowledged that some surveillance over prices was maintained, both to see that no dumping was being practised and to see that no purchases were being made from high-cost sources. He added that this should not be thought of as a complete system of control however, as there was a recognition that much interference with trade posed risks of error possibly greater than the risks of letting trade take care of itself. Nevertheless, though this method was regarded as less than ideal, it appeared that a control of this kind fulfilled a necessary function with a minimum of disadvantage.

#### Conclusions

20. The Committee thanked the representative of Israel for the full and frank way in which he had responded to their questions and welcomed the steps taken to pursue domestic policies designed to restore equilibrium and to intensify and diversify production for export. They hoped that Israel would bear in mind the contribution which improved access for imports to the Israel market could make in bringing about more effective use of resources and urged Israel to move as rapidly toward liberalization through removal of quantitative restrictions as the balance-of-payments position permits. They also urged Israel progressively to reduce reliance on bilateral payments agreements. The Committee expressed the hope that in the near future the Israeli Government would publish consolidated up-to-date lists of the products subject to the various import procedures. The representative of Israel assured the Committee that he would convey the views which had been expressed to his Government, and he wished to state, as he had done during the consultation, that Israel was well aware of the need to make its industry as competitive as possible, in its own interests, and would continue to move toward liberalization and non-discrimination as rapidly as conditions permitted.

ANNEX I

INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION  
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION  
WITH ISRAEL ON 18 MAY 1966

1. This decision is taken by the Executive Directors in concluding the 1965 consultation with Israel pursuant to Article XIV, Section 4 of the Articles of Agreement.
2. Real gross national product of Israel rose by 8 per cent in 1965, a slightly lower rate than in several preceding years primarily because the increase in the labor force was smaller than in 1964. Although a capital inflow and the conversion of foreign exchange receipts continued, the rate of growth of money supply slowed down as there was a shift into less liquid deposits denominated in foreign currency. The budget continues to be expansionary; its financing from domestic resources and the effectiveness of monetary policy are impaired by the interest rate law. Wages rose substantially more than productivity and the rise has adversely influenced exports.
3. The balance of payments on goods and services account remained in substantial deficit but by a smaller amount than in 1964. As a result of special factors, imports did not increase in 1965, while exports again expanded, rising by 15.5 per cent. The gold and net foreign exchange reserves of the Bank of Israel rose by \$98 million, and amounted to \$643 million at the end of 1965.
4. For 1966 the authorities are committed to a policy of economic restraint. The budget for 1966-67 is less expansionary than the previous one, and the monetary and credit policy is to remain restrictive. To achieve the Government's long-term goal of reducing the balance of payments deficit on goods and services account, an increasing share of resources will have to be devoted to exports. The Fund considers that it is important that this policy of restraint not be weakened and believes that the lack of an effective incomes policy seriously hampers the efforts to restrain domestic demand and to improve the competitiveness of exports.

5. Israel has further reduced its reliance on quantitative restrictions, and in order to improve the productivity of industry and to restrain price rises, the Government has decided to reduce customs duties in several steps. The Fund welcomes this decision and stresses the beneficial effects competition from abroad will have both on moderating the rise in prices and on the efficiency of domestic industry. The Fund regrets the lack of progress in terminating bilateral payments agreements, and expresses the hope that the Israel authorities will reconsider their continuous resort to these agreements.

ANNEX II

STATEMENT OF THE REPRESENTATIVE OF ISRAEL

The year 1965 marked a significant improvement in the balance of trade of Israel; exports of goods increased appreciably, while imports remained at the level of 1964 (\$797 million as against \$803 million). Commodity exports of goods increased by 15 per cent, from \$349 million to \$403 million. The trade gap narrowed from a deficit of \$454 million to \$394 million, or by 13 per cent.

On the other hand, there was a deterioration in the balance of services; the deficit increased from \$116 million to \$127 million, or about 10 per cent.

The total deficit on current account declined from \$569 million to \$521 million. This gap was closed by unilateral transfers as well as by long and medium term loans, which further increased Israel's foreign indebtedness from \$1,050 million in 1964 to \$1,226 million in 1965.

During the latter part of 1965, the Government of Israel undertook vigorous measures to curb inflationary pressures by halting the increase of public spending and, in particular, of building activities. The results of this policy became apparent after the spring of 1966. Economic activity slowed down. Determined efforts were made to induce the shifting of resources from building and related industries and services to export-oriented industries.

However, these structural changes cannot be effected overnight and, for the first time in a decade, they have given rise to unemployment which, by October 1966, was affecting more than 5 per cent of the labour force.

The resulting slow-down in economic activity and demand in 1966 are one of the main reasons why imports have remained stable on the whole, in fact imports of certain investment goods have even declined while exports have continued to grow by 15 per cent as compared with 1965. However, the price paid for these desired balance-of-payments improvements is high in human terms. The medicine meted out to the economy is strong and painful.

Reserves held by the Bank of Israel started to decline in March 1966. This signified a turning point after many years of steady growth of reserves, and has given rise to apprehensions of a continuous decline in reserves in the future. Our authorities consider that as long as the annual deficit in the current account

exceeds half a billion dollars, reserve holdings must cover at least the equivalent of eight months' imports. This is of particular importance in the light of Israel's special geo-political situation.

As a result of factors beyond the control of the Government of Israel, personal restitution payments and private capital investments have also declined during this period. This has accentuated the need for still greater efforts towards closing the enormous gap in the balance of payments during the next few years.

Raising of further loans, and the subsequent increase of foreign indebtedness, cannot be a satisfactory answer to this problem. Israel has already reached a high level of indebtedness, which will burden the economy with very heavy repayments in the not too distant future. What then is our small developing economy to do to reach self-sustenance within a few years?

On the internal front, the Government of Israel has adopted measures to attain, first of all, stability and confidence after a long period of inflationary pressures. Taxes, which are already extremely heavy have, in general, been frozen, as a result of increases during the past few years. The practice of linking wages and salaries to the cost-of-living index has been partially suspended. At the same time, steps have been taken to extend the application of the piece-work system in industry in order to promote greater efficiency. Finally, new inducements have been offered to investors in export industries in which the country has a relative advantage; such are, for example, chemical and pharmaceutical industries based on local raw materials. Agriculture is being further intensified since there is no additional cultivable land available, and specialized export crops are grown in the off-season. Sophisticated products based on the import of raw materials converted by research capacity and special know-how, are developed. In this way, a greater productive capacity is created for exports to foreign markets.

However, difficulties of an external nature have reduced the effectiveness of these efforts. The main natural markets of Israel are the countries of Western Europe; 60 per cent of its exports have traditionally gone there. For reasons which are well known and which, therefore, I do not have to recount here, the export to both the European Economic Community and the European Free Trade Association is becoming more difficult for third countries.

Big and small countries alike have come to the inevitable conclusion that their economic growth depends on increased co-operation with, and even integration in, large economic groupings. Israel, like other nations, is seeking a closer relationship with these groupings. One result of the efforts made in this regard was the commercial agreement with the EEC, with all of whose

individual members we have close traditional trading links. However, in our statement last year, we expressed the concern that this agreement might not be sufficient to assure Israel's essential needs. This has proved to be the case. Consequently, the Israel Government decided in October to apply for association with the Community.

As the same time, we are making efforts to develop exports to EFTA countries and to North America.

As to trade with the developing countries. All of us have established and continue to establish light industries whose logical market is to be found in the industrialized countries. Trade among developing countries themselves must therefore be for the most part complementary. In this connexion, the Kennedy Round negotiations amongst the developing countries for a mutual reduction of tariffs are of the greatest importance.

The Kennedy Round talks, which are now reaching a climax, will not only help all Members of GATT to increase trade; in the case of Israel, they have a direct effect on the direction of official thinking about the reduction of tariffs and non-tariff barriers. Entirely independently of the Kennedy Round, the Government of Israel reduced tariff rates on over 300 imported items by 5 per cent to 10 per cent on 1 November this year. In our statement last year, we announced that this measure would be taken under Phase 2 of the liberalization programme, which was started after the adoption of the new economic policy in 1962. Under Phase 2, tariffs on sixty more products will be reduced in May 1967. The most important aspect of this step is the acceptance by government and industry of the principle whereby tariffs on all imported products will be reduced by 5 per cent to 10 per cent annually. The inter-relationship of the reduction of tariffs and other barriers at home, on both exports and imports, as well as abroad is fully realized. It is the view of the Government of Israel that only through increasing both exports and imports can the central problems of its balance of payments be solved, although, of course, exports must grow at a quicker pace if the wide external gap is to be bridged.