

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/968/Add.2
22 June 1959

Limited Distribution

PROVISIONAL ACCESSION OF ISRAEL

The Foreign Trade and Exchange Régime of Israel

At their fourteenth session the CONTRACTING PARTIES appointed a working party to examine the request by the Government of Israel to accede to the General Agreement. During the discussions in the working party the representatives of Israel were asked a number of questions about Israel's foreign trade and exchange régime as described in L/968/Add.1. These questions and the answers given by the representatives of Israel are reproduced in this document. (The headings and the section numbers of titles are those used in L/968/Add.1.)

A. General

Section 4. System of Trade

1. Q. In 1957/58 imports into Israel by State-trading amounted to 15 per cent of total imports. How are these imports effected and on what basis is the amount to be imported by State-trading decided?

A. State-trading is limited to the import of certain foods and feeding-stuffs for the Ministry of Trade and Industry. The major part of such imports is connected with arrangements for the purchase of surpluses from the United States of America. Imports are effected by private importers who submit competitive tenders which include mark-ups, surcharges, etc.; on the basis of these tenders and other conditions such as price, reliability of supplier, general terms of supply, a final decision is made. Imports are effected on a competitive basis except where special arrangements for the purchase of surpluses are involved or where special consideration is given to commitments under bilateral agreements.

State imports are effected within the framework of a general import programme which is drawn up annually under the Foreign Currency Budget. Since the policy is to hold adequate stocks of foodstuffs, the stock position as well as domestic production is taken into account in determining the amount to be imported. Importing circles are kept fully informed about the annual import programme and this information is also available to commercial representatives from other countries.

2. Q. Are foodstuffs imported by the State available to the consumer at world prices, taking into account any customs tariffs applicable?

A. The aim is to keep prices of foodstuffs at a stable level regardless of fluctuations in world prices. In order not to burden Israel's wage policy unduly there is a tendency to keep prices within Israel at a low level.

3. Q. Will the Israeli Government notify the CONTRACTING PARTIES under Article XVII of those items which are subject to State-trading and, in the event of quantitative restrictions for balance-of-payments reasons being removed, will the legislation covering State-trading permit imports under this system to compete freely on a non-discriminatory basis with domestic production?
- A. Israel will submit information on State-trading in accordance with the provisions of Article XVII. There is no mandatory legislation providing for State-trading and it is not at present possible to foresee what action will be taken when Israel ceases to have balance-of-payments difficulties since any action then will be related to agricultural production and the need to maintain some measure of agricultural protection.

B. Imports

Section 6. Import Licensing

4. Q. Does the Israeli import licensing system consist of a series of global quotas within which licences are granted on a non-discriminatory basis?
- A. Licences are granted in accordance with the foreign currency programme which envisages a global system. Liberalization measures are also designed to apply globally.
5. Q. "The price of the commodity from alternative sources of supply" is among the points taken into consideration in examining an application for an import licence. What is the purpose of this requirement which might have an effect on goods of better quality?
- A. Foreign currency controls make it necessary to take prices from alternative sources of supply into consideration in order to avoid misuse of the foreign exchange system. The "Competent Authorities" may interfere if the prices are thought to be artificial or if problems of foreign currency control arise.

Section 7. Exchange Control - Imports

6. Q. Foreign exchange for imports is sold by the Bank of Israel at the official rate of exchange: \$1 = I£1.800. Is this rate the same regardless of the commodity concerned and the country of origin?
- A. The rate of \$1 = I£1.800 is applied to all imports regardless of country of origin, etc., with the exception of special book import schemes.

Section 8. Liberalization of Imports

7. Q. It is stated that every commodity to which the system of open import licences is applied is subject to a surcharge which keeps the internal price at the approximate level previously established, ensuring operation of the price mechanism and eliminating windfall profits. Is the surcharge applied only to products imported under this system?

- A. Inflation in Israel's economy in recent years has now been brought to a standstill but the internal price structure is still out of line with world market prices. To offset this a surcharge is applied to imports. Since import licences are issued freely for liberalized goods the surcharge is levied mainly on these goods but it also applies in certain cases to non-liberalized goods.
8. Q. Are the open licensing and the individual licensing systems the only import systems in effect and if so which commodities fall within the different sectors? Is it possible for a specific commodity to be subject, under different conditions, to both systems and thus to be liable to a surcharge under one system only?
- A. Only two licensing systems are in effect. Goods falling within the open licensing system include raw materials for the chemical, metal, timber, paper and textile industries and semi-finished commodities. The surcharge is imposed on specific commodities and is charged non-discriminatorily without reference to the system under which the commodity has been imported or to the country of origin.
9. Q. If the commodities subject to open licensing are, in general, raw materials for processing in Israel, why is it Israel's policy to impose a surcharge on goods imported under this system since this would appear to raise the level of costs in the industries concerned?
- A. Light industries in Israel are fairly well developed and much of their production is destined for domestic consumption. They are, however, dependent on imported raw materials, and for this reason it is one of the aims of Israel's economic policy to keep domestic consumption under control so that currency resources may be directed instead into the fields of investment and development. A surcharge is therefore imposed on primary and semi-manufactured products for Israeli industries. Provision exists, however, for drawback of import charges if the finished product is re-exported.
10. Q. Will Israel be prepared to envisage a standstill on existing surcharges and will the items which it has been announced will be liberalized shortly be subject to import surcharges?
- A. It would be difficult for Israel to immobilize the surcharge system for a few years. For the first years of the existence of the State of Israel, local industry was protected by quantitative restrictions but in recent years there has been an attempt to depart from this procedure and to make use of the customs tariff for protective purposes. The Israeli customs tariff however is largely a fiscal instrument which is not completely suitable for the protection of industry and further work on the tariff during the next two or three years will be necessary before the surcharge system can be removed. Because of this there will be no exemption from the surcharge system for goods to be liberalized shortly. It is realized that the CONTRACTING PARTIES may have misgivings about entering into tariff negotiations on the Israeli customs tariff as it stands at present but Israel will be prepared to seek with the CONTRACTING PARTIES measures to cover this situation.

11. Q. Is the surcharge fixed or is it subject to change? Would the information published keep foreign exporters fully informed of the position?
- A. Surcharges can be modified. Prospective exporters are kept fully informed of surcharges in effect by information published in the Official Gazette.
12. Q. Are State-trading purchases subject to a surcharge and do Israel's bilateral agreements contain any references to surcharges?
- A. In general no surcharges are levied on imports of foodstuffs and no provisions on surcharges are included in bilateral agreements.
13. Q. Is there any difference between the "private importers" referred to in Section 8 and the "prospective importers" referred to in Section 6?
- A. There is no discrimination in Israel between private importers. The reference to "prospective importers" in Section 6 covers arrangements for the import of e.g. building materials and machinery, drawn up under legislation to encourage foreign investment.

Section 9. Customs Duties

14. Q. Israel maintains a single-column, non-discriminatory tariff. Does this tariff contain provision for conventional duties which can be modified by the administration?
- A. Israel has no conventional duties so the single-column tariff applied includes all customs duties. Tariff rates which are modified by administrative order of the Minister of Finance must be approved by the Knesset within two months but this approval is not automatic.
15. Q. Does Israel intend to translate its tariff into Brussels Nomenclature form?
- A. The transposition of the Israeli tariff into Brussels Nomenclature form is expected to be completed within a year.
16. Q. How is the average tariff rate of 43.4 per cent calculated?
- A. Less than 50 per cent of total imports are subject to customs duty and the average rate of 43.4 per cent applies only to dutiable items. The figure is calculated by reference to the actual amount of duty collected during 1958 and the total value of imported dutiable commodities.
17. Q. Are any internal duties or taxes applied to imported products?
- A. A purchase tax is applied mainly on manufactured products. Excise duties are levied on a small number of items (matches, cement, tyres, tobacco). No consular taxes, licence fees or other exchange taxes are applied.

18. Q. Is the system of valuation for customs purposes in Israel in accordance with the provisions of Article VII of the General Agreement and does Israel intend to accede to the Brussels Valuation Convention?

A. Israel accepts the provisions of Article VII of the General Agreement and intends to become a full accessory to all the Brussels Conventions.

Section 10. Trade Agreements

19. Q. Israel maintains eleven strictly bilateral agreements which cover 8 per cent of total imports. What are the main items covered by these agreements and has Israel any intention of terminating them at a future date?

A. The main items covered by each trade agreement are shown below;

Argentina - Price considerations tend to limit trade and the scope of the agreement is unimportant.

Brazil - Sugar.

Bulgaria - Timber, some agricultural commodities.

Denmark - Machinery, agricultural commodities.

Finland - Timber, paper.

France - Machinery, semi-finished raw materials.

Ghana - Agricultural items.

Hungary - Agricultural items, machinery.

Iceland - Fish.

Norway - Fish, paper, timber.

Poland - Machinery, semi-processed materials, iron, steel sheets.

Rumania - Timber, agricultural items.

Turkey - Agricultural items, raw materials, chemicals.

Yugoslavia - Agricultural items, timber, chemicals.

Israel would be prepared to terminate bilateral agreements where trade could continue on a free basis. This would depend also however on the attitude of her trading partners and a number of agreements are with countries which, because of their trading system have to trade bilaterally and insist on payment through a bilateral clearing system.

C. Exports

Section 12. Exchange Control Exports

20. Q. Which categories of goods qualify for an exchange premium and does this have any special bearing on agricultural products?
- A. Approximately 40 per cent of Israel's exports are agricultural while 55 to 60 per cent are industrial and in general all exports qualify for an exchange premium. For some agricultural exports (e.g. citrus, which is the main agricultural export item) the premium is generally lower than for industrial products.
21. Q. Which categories of exported goods would qualify both for the premium of £0.850 and for the additional premium of £0.350 and is there any discrimination against certain currency areas in the application of the additional premium?
- A. The additional premium of £0.350 applies not to specified commodities or to exports to any particular currency area but to all exports to a number of African countries, (Ghana, Guinea, Liberia, French West Africa, French Equatorial Africa, Belgian Congo, Cameroons, Nigeria, Sierra Leone, Angola, Senegal, Ivory Coast, etc.). The additional premium for exports to this area is mainly designed to equalize the additional transport charges caused by development of the port of Elath as a line of communication. Only about 2 per cent of Israel's total exports qualify for the additional premium.
22. Q. Are the rates of £0.850 and £0.350 upper limits within which different rates of premia may be applied to particular products?
- A. The two rates of premia are ceilings within which rates vary on the basis of an official table fixing the premium for different categories of goods. The highest rates are paid only where this is necessary to offset distortions caused by the exchange rate and the buying power of the Israeli pound. In the case of citrus for example, exporters received only the official rate of exchange until this year when it was agreed that a premium of £0.350 per dollar should be paid.
23. Q. The exchange premium is paid in respect of every dollar of net added value which is computed by deducting from export proceeds the foreign exchange outlay incurred in the production of the goods concerned. Would the exchange premium on a product with a high content of imported raw materials be less, therefore, than on a similar product manufactured from domestic raw materials?
- A. The rate of premium applied to the product in question would remain the same but the amount on which it would be paid would vary according to the percentage of imported raw material involved.
24. Q. In the calculation of net added value on agricultural exports, is account taken of any other factors (e.g. fertilizers) which add to costs of production?

A. Irrigation for Israeli agriculture is provided by fuel-consuming machinery. As fuel is an imported item it is taken into account in the calculation of net added value but it is unlikely that items such as fertilizers would be included as they are mostly produced locally.

25. Q. The system of net added value appears from the answer to Question 23 to contain an element of discrimination against imported raw materials. At the same time, it appears that the granting of exchange premia of varying rates within the upper ceiling of £1.200 on Israeli exports cannot be considered wholly as a fiscal measure and may not be fully consistent with the provisions of Article XVI of the General Agreement. Is Israel considering any alteration to the existing system before acceding to the GATT?

A. Israel has to import about 50 per cent of the raw materials used in local production and the system of exchange premium is necessary to counteract the price distortions affecting local industry because of the difference between the official value of the Israeli pound and the buying value. The system does not discriminate against imports since Israel is a net importer whose imports have risen annually.

In Israel's view the system of exchange premia is a currency question and is not inconsistent with the provisions of Article XVI. The system came under examination during Israel's consultation with the International Monetary Fund at the end of 1957 and the report of the consultation stated that the Fund Mission was not aware of any complaints about export premia which applied on a uniform basis to all industrial commodities with the exception of cement. The Mission had agreed that while the present exchange rate was maintained some system of assistance would be necessary. They had thought, however, that the system was unnecessarily complicated and that for its remaining lifetime the multiplicity of rates should be reduced to the greatest extent possible. Israel has taken steps to introduce a more uniform system and now applies only the two types of premia described above.

26. Q. In certain cases exporters are allowed to retain a percentage of export proceeds for financing the import of raw materials needed in their manufactures. To which commodities does this apply and must the foreign exchange retained be used only by the exporter who has earned it? Similarly, must the raw materials imported under this system be used only by the importer?

A. Israel has undertaken in the International Monetary Fund to abolish this currency retention scheme by the end of 1960 and is now in process of dismantling it. The commodities to which it applies are mainly in the field of light industry (e.g. leather, textiles, metal, cosmetics, sweets, plywood). The retained currency may be used only by the exporter concerned to import raw materials needed for his manufactures from any currency area.

