

GENERAL AGREEMENT ON TARIFFS AND TRADE

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EXPANSION OF TRADE - AGRICULTURAL POLICY

Report of Committee II on the Consultation with Israel

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Israel. The Committee had the following documents before it:

- (i) document COM.II/40(f), dated 24 August 1960 which contained a synopsis, supplied by the Government of Israel, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers; and
- (ii) document COM.II/89 dated 20 September 1960 which contained detailed information and statistics, also supplied by the Government of Israel, on commodities entering importantly into international trade.

In conducting the consultation, the Committee followed the plan for consultations contained in Annex A to COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 6 October 1960.

A. General agricultural policies

2. In his opening remarks, the representative of Israel gave the Committee a brief statement on the background and the aims of the Israeli Government's agricultural policies. He explained that Israel was a small country, rather poor in natural resources, where, because of large scale immigration, the population had more than doubled in the last twelve years. Under these conditions Israel was attempting to build up a healthy national economy. One of the major aims of the Government in this respect was to build up an economically sound farming community. To achieve this, immigrants had to be settled and provided with productive employment. Large tracts of land had to be placed under cultivation in order to provide the increasing population with adequate food supplies which, because of the lack of foreign exchange, could not be imported in sufficient quantities. Moreover, the representative of Israel stressed that Israel had no commercial ties with her surrounding neighbours, hence the only open way for trade was by sea. This made it imperative for the country to adopt certain policies.

3. The representative of Israel informed the Committee that during the period 1953-1959 £880 million (or about US\$480 million) were invested in agriculture including irrigation works. During the same period 400 new settlements were built, and approximately 40,000 families were placed in agricultural employment, bringing the number employed in agriculture to about 115,000 which represented 16 per cent of total employment. Consequently, there was a rapid growth in production. Israel produced only 30 per cent of domestic food requirements in 1950 at which time a scarcity prevailed with regard to all products. The representative of Israel pointed out that at present the country was producing 70 per cent of domestic food requirements, concentrating mainly on foods like milk and eggs, vegetables and fruits. Israel was, however, a net importer of wheat, fodder grains, oilseeds, sugar, fish, cotton and some meat. Israel produced only about 15 per cent of domestically consumed wheat; 50 to 60 per cent of fodder and grain requirements, depending on the crop year; 30 per cent of sugar requirements, and 60 per cent of cotton requirements.

4. The representative of Israel informed the Committee that in the last three years seasonal surpluses developed in vegetables, fruit other than citrus, milk and eggs. Hence the Government, through the operation of various administrative measures and the Production and Marketing Boards, attempted to limit the production of these commodities so as to ensure only a full supply for domestic consumption and so as not to disrupt the price structure or to threaten the incomes of farmers. The Government, therefore, endeavoured to divert production into other branches of agriculture for which the land was suitable and for which internal or external demand existed. In this connexion, Israel was especially developing export commodities such as citrus, out-of-season fruits and vegetables, and groundnuts. These commodities were expected to assist in alleviating the serious balance-of-payments difficulties still confronting Israel.

5. For certain commodities, such as vegetables, which were subject to sharp price fluctuations on the market, there was a minimum price fixed by the Government and maintained through an equalization fund in which the government participated. For other commodities, such as milk, where the Government was interested in lower consumer prices, a subsidy was granted to the farmer. It was expected that the subsidy would, in future, be limited due to the Government's intention to keep the expansion of the dairy industry within certain defined limits. The Israeli representative pointed out that measures such as guaranteed prices and subsidies had been granted to ensure producers an adequate standard of living and thus to lessen the probability of a movement out of agriculture which in itself would be a threat to the entire economic structure of the country. The representative of Israel explained that new farms had not yet been fully equipped and had not reached full efficiency in production. Productivity, however, was increasing steadily and it was hoped to develop a sound farming community which would be competitive without the need for special protective measures.

6. In concluding his statement, the representative of Israel stated that for the next five years it was not anticipated that the number of farms would be increased; the country was moving rapidly towards industrialization. The

agricultural plan provided for an increase of foods such as milk, eggs, vegetables and fruit in relation to the growth of population and a certain increase of citrus and out-of-season vegetables and fruits, depending on export demand and an increase of cotton and groundnuts. The import of grains and oilseeds was expected to continue because the natural conditions of the country were such as not to permit a substantial increase in the production of these items. In the same way, there would probably continue to be considerable imports of sugar, since there was no intention to increase sugar production beyond 50 per cent of domestic requirements.

7. In response to questions posed by members of the Committee, the representative of Israel explained that although total farm income increased during the last nine years by 400 per cent due to a general increase in agricultural production, the income of individual farmers decreased. The decrease in farm income not only adversely affected well-established farms but also threatened the existence of new ones. Hence it was the policy of the Government to review from time to time the level of farm income in order to formulate certain measures to encourage the farm population to remain on the land. He stressed, however, that it was the policy of the Government to encourage mainly the expansion of industry rather than agriculture.

8. The representative from Israel in answer to questions on the establishment of new farms explained that it would possibly take about four years for new farms to become fully efficient and to make an appreciable contribution to solving the problem of the decline in the income of individual farmers. It was intended that new irrigated areas would cultivate cattle fodder, groundnuts, citrus fruit and cotton. If it was found that it was impossible to establish export outlets for products such as early vegetables and early fruits, the production of which might need some support for four or five years, then these commodities would no longer be subsidized. It was not the intention of the Israeli Government to foster uneconomic production of farm products, but simply to undertake experiments to see if export markets could be established for the items mentioned above.

9. In response to a question of one member of the Committee, the representative of Israel explained that the majority of land in his country was the property either of the State or of the National Fund. While there were a certain number of private land holdings in Israel, these were limited to 20-25 per cent of the agricultural land under production. Government owned land was available under a long-term lease of forty-nine years; this lease could be extended for a further equal period. Most new lease holders were given 2 or 3 hectares of land and in the southern part of Israel, the size of the majority of farms was 2 or 3 hectares. In the north, however, where there was better rainfall, there was a small number of dry farms of 12-14 hectares. New farms were equipped with livestock plus all necessary implements and irrigation equipment with the assistance of the Government; this was given to new farmers on credit at a 4 per cent rate of interest extended over a period of forty years. There were about 400,000 hectares of land under cultivation in Israel of which 130,000 hectares was irrigated. Given present water resources, it was estimated that Israel could irrigate 250,000 hectares of land.

10.. Members of the Committee raised questions with respect to the method of calculating guaranteed prices. The representative from Israel advised the Committee that such calculations were based on the cost of production of an efficient farm. Every year or two the Government reviewed the situation with regard to production costs; the guaranteed prices were then revised in relation to changes in costs of production. The guaranteed prices were the minimum prices, usually fixed below the level of the average market price but at a level to encourage only normal production. Cotton was an exception since it was accorded a subsidy at a rate of 30 per cent above the international price. In instances where the price the farmer could obtain dropped below the guaranteed price, the equalization fund would pay the difference. The guaranteed prices were applied to the produce of established farms as well as new farms.

11. The following points emerged from the exchange of views respecting import levies or surcharges, which were defined as synonymous expressions for the purpose of the discussion. The level of import levies was proposed by the competent authorities in Israel and presented to Parliament for approval, thus it was not possible to change these rates rapidly without advance warning. The rates of the levies were published officially with sufficient warning so that importers knew well in advance of any pending revision in these rates. The level of levies was not very often changed; it was only after serious consideration that decisions were implemented with respect to the revision of existing rates. While it was true that the existence of such levies sometimes had the effect of raising the costs of production, the danger of this happening was reduced by the fact that they were partly refundable to the farmers in the form of equalization fund payments.

12. Certain members of the Committee expressed an interest in the manner in which the equalization fund was administered. One member asked what proportion of contributions to the fund came from the three sources participating in it; also he wished to have a complete list of agricultural products subject to this price support programme. The answer was that approximately 65 per cent came from import levies, 20 per cent from the producers and 15 per cent from the Government. The representative of Israel explained that the contribution from the national budget was a sum fixed each year, whereas contributions provided by individual producers were variable. With respect to the list of agricultural products subject to this price support programme, the representative of Israel regretted that he did not have this information available, but assured the Committee that he would attempt to provide it at a later date. A member of the Committee expressed his understanding that contributions to the equalization fund were not imposed merely to adjust import prices, but also for revenue purposes. Earlier in the discussion the representative of Israel had pointed out that such contributions were imposed in order to adjust import prices to domestic prices.

13. Various members of the Committee expressed interest in the exchange premiums accorded with respect to agricultural exports. In response to a specific question, the representative of Israel stated that the exchange premium was the same for exports to all countries. He informed the Committee that the system had been operating with the consent of the International Monetary Fund. The system was based on calculations whereby net added value was computed by deducting from export proceeds foreign exchange outlay incurred in the production of the goods exported. With respect to the cost of added value such elements as cases, wrapping, transportation, irrigation, etc. were taken into consideration. While the lowest exchange premium given on any agricultural product exported was 50 agoroths to the dollar, the general rate was 85 agoroths for most commodities in both the agricultural and industrial sectors, however 120 agoroths were payable in certain exceptional cases. He mentioned that the lowest exchange premium of 50 agoroths to the dollar was paid with respect to citrus exports. A member of the Committee remarked that the effect of this seemed from the statistics to be offset by differences in the method of calculating the net added value. The representative of Israel replied that this was not the case. Export premiums were not paid on exports of eggs which represented a substantial part of the agricultural exports other than citrus fruit.

14. One member of the Committee expressed an interest in the extent of control exercised by the Government over the marketing boards. The representative of Israel explained that legislation was at present before the Israeli Parliament designed to provide statutory authority for a number of agricultural boards. It was the policy of the Government of Israel to establish production and marketing boards for nearly all sectors of agricultural production. The Government did not have generally more than 25 per cent of the seats on any board; hence the boards made their own decisions with the interest of the farmers mainly taken into account. However, to the extent that the boards depended on financial assistance, they were subject to further government influence.

15. A member of the Committee asked if it were the intention of the Government of Israel to increase its State-trading activities. The representative of Israel assured the Committee that it was the declared policy of his Government to decrease and, if possible, eliminate these import trading activities. One member of the Committee asked if wheat imports would be an exception in this regard. The representative of Israel stated that wheat would probably be the last item to be transferred to private hands; even then it would possibly be necessary to retain some control. He informed the Committee that at the present time there was no control exercised by the marketing boards with respect to wheat imports since these were under the jurisdiction of the Ministry of Trade.

16. Members of the Committee requested confirmation of their understanding that Israel imposed quantitative restrictions due to balance-of-payments difficulties. The representative of Israel stressed the fact that his country was faced with serious and continuous balance-of-payments problems, with an annual deficit running in excess of \$300 million. As Israel's

balance-of-payments position improved it was the intention of the Government gradually to relax quantitative restrictions whenever and wherever possible with a view to eventually abandoning all controls. In the meantime, however, it was necessary to curb imports and to permit the import of only essential items. One member of the Committee made the point that trade in products on the restricted list should not be completely prohibited, but that token imports of such products should be permitted. The representative of Israel remarked that only imports of essential items could be permitted at the present time in view of severe foreign exchange shortages. The same member of the Committee pointed out that if a strict regime were built up it would make it difficult to dismantle quantitative restrictions at a later date: therefore the Government should give advance warning to producers so that they would be well prepared to meet competition from foreign imports once Israel had solved its balance-of-payments problem. The representative of Israel replied that his Government was fully aware of this problem.

17. Another member of the Committee requested an explanation of the term "licences under liberalization schemes".¹ The representative of Israel explained that while licences were required for the items under these schemes, these were issued automatically. The products under such schemes were as follows: coffee, dried fruit, cube sugar, spices, condiments, liquor, and manufactured tobacco. Since these items were considered as luxury goods in the past they had been subject to surcharges in addition to the normal customs duties. There was now a process of consolidating these surcharges into the customs tariff. The question was asked as to whether these rates would be negotiable either before or after incorporation into the customs tariff: the representative of Israel replied in the affirmative, explaining that such a provision was contained in the Protocol of Provision Accession. Licences for the commodities under reference were issued to private importers if they agreed to import in commercial quantities. These licences were not restricted as to quantity and were issued on a non-discriminatory basis. The representative of Israel explained that while in the import programme there was an estimate regarding the volume of imports that would enter the country in a given period, this estimate was by no means intended to have a restrictive effect on imports.

18. The question arose as to how Israel could reconcile non-discriminatory licensing with commitments assumed under bilateral trade agreements. The representative of Israel assured the Committee that under Israel's bilateral agreements the quotas were indicative rather than compulsory. Hence the importer was free to choose his source of supply; the licensing arrangements mentioned above worked very well within this system. Moreover the bilateral commitments simply gave the assurance that the Government of Israel would issue an import licence when requested for imports from a country with whom Israel has signed such an agreement.

B. Commodities

19. In response to questions on surplus disposal arrangements made between Israel and the United States, the representative of Israel assured the Committee that the practice of purchasing beef and dairy products under the

¹For details see document COM.II/40(f)

United States Public Law 480 programme had been virtually discontinued. Hence, in the past three years, there had been no purchases of beef; while limited quantities of skimmed milk powder were still entering the country no new purchases had been made in the most recent PL 480 agreement. Imports of cheese and butter were discontinued last year.

Dairy products

20. A member of the Committee was under the impression that the policy of the Government of Israel was not to encourage the production of liquid milk for transformation into butter and cheese. On the other hand, he noted that with respect to both commodities production had increased in the last two years, and subsidies to producers had increased considerably over the past few years. He questioned whether this implied a change in Government policy. The representative of Israel informed the Committee that the production of butter, for example, had doubled during the last three years, but this was a development which had preceded the policy decision made by his Government only last year to discourage such production.

21. The same member of the Committee asked whether, in view of the Government policy to discourage liquid milk production, there was any possibility that more butter would be imported from abroad. He noted that skim-milk powder was imported by the Food Import Division of the Government and asked whether these purchases would have been made through normal trade channels if supplies had not been available on concessional terms from surplus stocks. The representative of Israel stated that skim-milk powder had been purchased under the surplus disposal scheme of the United States, it was not considered an essential import and the Government of Israel would have to consider carefully before spending scarce foreign exchange for this item. On the other hand if this product were decreed to be an essential import in future, and if surplus stocks from the United States were not available, then Israel might purchase on the free market.

22. Members of the Committee expressed an interest in the dual tariff applied to certain dairy products in the form of two different specific rates of duty. Under the system, it appeared that a high or low duty had to be paid according to whether or not imports were financed through an official allocation of foreign exchange. It seemed that so long as the imports were not necessarily made on the basis of purely commercial considerations, the question of discriminatory treatment in respect to import duties would appear to arise. If, in fact, any private imports of butter, for example, were made, the higher duty of £3,500 per ton had to be paid which would be a considerable disincentive to import. In response to these observations, the representative of Israel stressed that commercial considerations were the basis for the importation of dairy products, and dual tariff rates were applied as regards imports under private or State trading. The lower duties on imports under State trading might be considered as a type of tariff quota. The representative of Israel explained that the existence of dual rates of duty was a left-over from the days when rationing was enforced.

23. Another member of the Committee requested information regarding the licensing allocation for imports of dairy products during the current licensing period. Subsequently the representative of Israel provided the figure of \$260,000 which represented the allocation for imports of dairy products for the period 1 April 1960 - 31 March 1961. The same member of the Committee mentioned that butter was shipped from Israel to the United Kingdom last year, and asked whether it was butter acquired under the Public Law 480. The representative of Israel replied that this was butter produced in Israel on an experimental basis for export and he advised that such shipments had been unsuccessful and had thus been discontinued.

Meat

24. A member of the Committee noted that imports of beef into Israel were small, and he wished to know to what extent it reflected, on the one hand, the necessity of the Government to conserve foreign exchange and, on the other, consumer preference. The representative of Israel explained that the foreign exchange situation was indeed serious, hence it was imperative for the Government to endeavour to encourage poultry consumption in lieu of beef; as a matter of fact the former would be preferred by the consumer since incomes were low in Israel and domestic poultry was substantially cheaper than imported beef.

25. Another member of the Committee noted that poultry production in Israel had increased considerably from 1957 to 1959 and asked for export figures for the same period. He noted that the meat industry was not subsidized and requested, in this connexion, information on producer prices and export prices. The representative of Israel stated that exports of meat were negligible. It was not the intention of the Government to develop further the production of meat. He expressed the view that poultry would not become a major export of Israel and confirmed that meat production was not subsidized in any way.

26. Another member of the Committee asked whether information could be provided with respect to the foreign exchange allocation which was made available for imports of meat. He asked if there were any bilateral commitments to purchase meat from abroad. Subsequently, the representative of Israel provided the figure of US\$2.15 million which represented the foreign exchange allocation for imports of meat during the period 1 April 1960 - 31 March 1961. Earlier in the discussion it was pointed out that bilateral agreements currently in force in Israel did not contain specific commitments with regard to any products. The representative of Israel later provided information to the effect that certain bilateral agreements mentioned the possibility of meat imports but these did not contain specific purchase commitments for meat.

Cereals

27. In response to a question raised by a member of the Committee concerning wheat cultivation, the representative of Israel stated that it had been necessary for his Government to take measures to increase wheat production in the past. He explained that there was a correlation between wheat and barley production; if the latter decreased the former increased in direct

proportion. Maize and sorghum were rotational crops. Domestic production of wheat represented about 15 to 18 per cent of Israel's total requirements of 300,000 - 380,000 tons per annum. In this connexion, a member of the Committee pointed out that there appeared to be some discrepancy in the figures since calculations, based on the statistics provided by the Government of Israel, resulted in a self-sufficiency figure of 20 per cent. The representative of Israel explained that it was necessary to take into account the variable factor of wheat which was deducted as unsuitable for human consumption. This resulted in the self-sufficiency estimate of 15 to 18 per cent already mentioned. Last year there had been a transfer of land from barley to wheat cultivation. While it was true that the Government offered irrigation services to increase domestic wheat production, the policy of encouraging such production had been discontinued, thus it was expected that it would remain stable over the next few years.

28. Another member of the Committee, referring to the provisions of Article XVII:1(b) of the General Agreement, asked what criteria was actually used in making purchases of wheat from other countries. He asked if Israel had undertaken any bilateral commitments to purchase wheat, and enquired whether the principle of most-favoured-nation treatment was maintained by the Government for such purchases in relation to the provisions of Article XVII:1(b). The representative of Israel replied that imports of wheat were handled by the Food Import Division of the Government. In recent years approximately one half of the country's total wheat supplies had been imported from the United States within the framework of the United States surplus disposal operations under PL 480. The balance of imports was acquired through normal commercial transactions. In this connexion, it was noted that it was a condition of United States sales of surplus wheat that Israel should continue to purchase its usual requirements through normal commercial channels: recently these purchases had exceeded the amount provided under the provisions of PL 480. When asked whether his Government intended to continue purchases under PL 480, the representative of Israel replied that it hoped to continue to import surplus wheat from the United States so long as prevailing conditions warranted such action. These imports helped Israel to develop its economy, and through loans and grants of counterpart funds augmented sums available for development of the country.

Sugar

29. A member of the Committee noted that the importation of lump sugar was liberalized and expressed an interest as to whether or not there were imports of lump sugar into Israel. The representative of Israel confirmed the fact that imports of such sugar were liberalized and that this type of sugar was in fact imported into Israel.

Vegetable oils

30. A member of the Committee noted that import duties were imposed on imports of certain vegetable oils; he asked whether import licences were issued freely for these oils. The representative of Israel replied that the most important

product under this category that was imported into his country was oilseeds which were needed to make oil-cakes. High rates of duty were thus imposed for vegetable oils as such.

Fruit

31. A member of the Committee enquired about the market potential for apples and pears in Israel. He asked whether these products were produced in any quantity in Israel. He was of the understanding that imports were severely restricted, and expressed the view that imports of such items should not be totally restricted but that token imports should at least be permitted. The representative of Israel explained that in view of Israel's severe balance-of-payments problems this was not a realistic approach; these were considered to be luxury items, and, at the present time, the balance-of-payments position only warranted the importation of essentials. He pointed out that Israel had an ample supply of fruit and vegetables and was in fact among the world's highest per capita consumers of these products. Moreover, in relation to fruit and vegetable requirements, Israel had recently undertaken experimental exportation of tomatoes and early grapes, but insufficient time had elapsed to draw any conclusions from these experimental farms.

32. Concerning citrus exports, clarification was sought with respect to the operations of the Citrus Marketing Board. The representative of Israel explained that no State monopoly existed with respect to trade in citrus products. The Board was composed of farmers who controlled their export activities, while the Government acted simply as an observer and/or adviser. The price received for citrus on the international market was considerably higher than the local internal price due to the fact that the quality of exported citrus was superior and that exports required greater marketing and transportation costs. The representative of Israel drew to the attention of the Committee a recent FAO study concerning the citrus market. This study envisaged a drop of about 30 per cent in the price of citrus over the next decade. At the present time Israel exports 9-10 million cases of citrus annually; it was estimated that this would be increased to 16 million cases in five years time. It was the opinion of the Government of Israel that citrus consumption in Europe would expand considerably, and that there were potentially very large markets still to be exploited.

Eggs

33. A member of the Committee, noting that an exchange premium of 50 to 85 agoroths was granted for the export of agricultural products in respect to every dollar of net added value, asked for information on the rate of this net added value for eggs. The representative of Israel stated that the guaranteed price was calculated on a basis of an added value of 60 per cent.

34. Another member of the Committee asked if a supplementary exchange premium for the export of eggs was provided in addition to the guaranteed domestic producer price. Noting that Government contributions under the egg marketing scheme amount of I£1.4 million in 1957/58 and I£1.9 million in 1958/59 and that these payments were considered as a refund of the contribution to the equalization fund imposed on the feedingstuffs imported for use by poultry farms, the member was of the understanding that a price difference between domestically produced and imported feedingstuffs would also be refunded. He asked if the representative of Israel could provide the Committee with an explanation in relation to the remarkable increase in the export of eggs from Israel over the period 1957/58. He also requested more precise information regarding any measures that had been taken to restrict the production of poultry and dairy products. In response to these questions, the representative of Israel stated that the calculated equivalent of the exchange premium was a part of the guaranteed domestic producer price; it was, therefore, not granted over and above the guaranteed price. Poultry was a very successful branch of agriculture, and in certain seasons (from October to March) Israel had some advantage in the European market, because prices were lower than those for like products from other countries. It was, however, not the intention of the Government of Israel to encourage further development of poultry production. Certain controls had been instituted in order to restrict egg production; the Government had taken legislative and administrative measures, for instance, quotas for production had been established by the Production and Marketing Board.

35. In response to a question concerning the domestic wholesale price of eggs as compared to the export price in the last year, the representative of Israel informed the Committee that the wholesale price of eggs on the domestic market was about 8 to 9 agoroths per egg, while the price on the European market rated from US\$.022 to US\$.03 representing about 5.5 agoroths.

