

## **TRADE POLICY REVIEW MECHANISM**

### **Review of Israel, 19-20 December 1994**

#### **GATT Council's Evaluation**

The GATT Council conducted its first review of Israel under the trade policy review mechanism (TPRM) on 19-20 December 1994. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in due course as the complete trade policy review of Israel and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 & 1993), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 & 1994), Israel (1994), Japan (1990 & 1992), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990 & 1994), Switzerland (1991), Thailand (1991), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uruguay (1992) and Zimbabwe (1994).

## **CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL**

The Council has now conducted the first review of Israel's trade policies and practices. These remarks, made on my own responsibility, summarize salient points raised during the discussion. They are not intended to substitute for the Council's collective evaluation and appreciation of Israel's trade policies and practices. Details of the discussions will be reflected in the minutes of the meeting.

Following Israel's opening statement, the Council's discussions fell under four main headings:

### **The economic restructuring programme**

Council members congratulated Israel on its economic performance and welcomed the structural reforms undertaken since 1991 which covered a number of areas such as trade liberalization, privatization and deregulation, and were supported by sound macroeconomic policies. Noting that the privatization process was relatively slow, certain members asked for more information about the future of the programme. The reforms had contributed positively to Israel's overall economic performance; however, their effects might be felt gradually and were also likely to be influenced by external factors, such as the implementation of the Uruguay Round and the peace process in the region.

Questions were asked about recent geopolitical developments and their implications for the Israeli economy and trade, including changes in the Arab boycott. Members noted that the achievement of the peace process would result in better conditions for all trading partners in the region and would improve Israel's access to new markets. Following the Casablanca Conference, some participants sought Israel's view on the possibility of creating a regional common market.

In response, the representative of Israel noted the small size of the Israeli market and limited access to neighbouring countries, as well as the high expenditure on defence and limited raw materials. Under the Economic Stabilization Programme the Government had reduced its involvement in the economy, cutting budget expenditure; the deficit was expected to be just over 1 per cent in 1994, below what had been expected. Direct involvement in economic activity had been reduced through the sale of government-owned activities, although 1994 had been a disappointing year for privatization due to the fall in the stock market. The Government had also acted to open competition, including in capital markets, telecommunications and aviation. Israel had also made progress in its aim of making the New Israeli Shekel fully convertible, and in 1993 accepted Article VIII, Sections 2, 3 and 4 of the IMF Agreement. Further liberalization of currency transactions had taken place in August 1994. These policies had been implemented while Israel had received about 600,000 new immigrants, as well as trying to cut unemployment and counter growing trade and current account deficits. Regional developments could not be ignored; Israel was deepening and formalizing its relations with its neighbours and realized it was also in its interests to assist their economic development, playing a constructive rôle in the region.

### **The pattern of trade liberalization**

Participants noted that Israel had concluded free trade agreements with the European Union, the United States and the EFTA countries and was in the process of negotiating several others; their effects on trade patterns had varied. Questions were asked about developments in existing FTAs, new negotiations, differential tariffs as between FTA and m.f.n. sources, rules of origin and their effects, and the evolution of trade with FTA partners.

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Members also welcomed Israel's moves to reduce discrimination by cutting trade barriers on an m.f.n. basis, including reductions in import licensing and steady lowering of tariffs. Clarification of the timetable for tariff reduction was sought.

Members noted that Israel's Uruguay Round commitments reinforced the pattern of m.f.n. trade liberalization. Although high protection to certain sectors, in particular agriculture, would remain, the implementation of the commitments would significantly change and consolidate Israel's trade régime.

In replying, the representative of Israel reviewed the main features of the 1991 trade liberalization programme. This had been designed to allow time for structural adjustment of affected sectors. Tariffs, to replace discretionary licensing and quantitative restrictions, had been set at relatively high levels to prevent disruption of domestic industry, but a clear time schedule had been set for duty reductions to 8 per cent for raw materials and 12 per cent for intermediate and final goods. Most products would reach these goals by September 1996, while for textiles the goal would be achieved by September 2000. The impact of the programme was already being felt and was expected to increase as the programme deepened. Israel was negotiating an additional free-trade agreement with Canada and exploratory talks were being held with other countries. Israel had expected a larger expansion of exports to the EU and a new, more comprehensive agreement was being negotiated. There had been various reasons for the slow growth of exports, including the effects of the "secondary" and "tertiary" boycotts, but it was hoped that there would be positive changes as a consequence of the peace process, including current negotiations with Jordan and, in the future, for a regional agreement with neighbouring countries. Written responses to a number of detailed questions were distributed.

#### **Agricultural policies and practices**

Participants noted that Israel still maintained certain strict protective measures in the agricultural sector, which was not, in general, included in the trade liberalization programme. Questions were raised about the status of remaining import restrictions and their phasing out, conditions for the importation of meat, and health, sanitary and phytosanitary requirements, including Kosher rules. Information was sought about changes in agricultural legislation, including tariffication, to accommodate Israel's Uruguay Round commitments, administrative arrangements for agricultural products under quota, and plans to improve transparency in the calculation of variable levies. Concerns were expressed about remaining import restrictions on certain animal and dairy products and on export subsidies granted to certain agricultural products. Members encouraged Israel to further liberalize its agricultural trade régime by lifting existing barriers and eliminating export subsidies.

In response, the representative of Israel indicated that Israel intended to open up imports in all agricultural sectors. For most products, non-tariff measures would be replaced with tariffs bound at ceiling levels, without minimum access commitment; for a limited number of products, restrictions would be tariffied with minimum access commitments; and for certain products, such as processed cheeses and milk powder with a high fat content, Israel would apply special treatment and establish minimum access with lower tariffs, to be tariffied after six years. Details were provided on the administration of quotas and the representative affirmed that remaining restrictions would be abolished for imports from all sources by September 1995. Preferential arrangements for imports of tariffied goods from FTA partners were under discussion. By implementing the Uruguay Round commitments, the problem of transparency would also disappear. Export subsidies were granted for export-oriented crops in the form of R&D or regional support. No agricultural board, except the Poultry Marketing Board, intervened in the market, being mainly concerned with training and technical assistance; the Poultry Marketing Board still fixed production quotas to some extent. State-trading had been privatized for imports of frozen beef. Kosher certification was issued by the Chief Rabbinate in accordance with

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religious laws for the protection of religious consumers; importation of non-kosher frozen meat was prohibited.

### **Specific trade policy issues**

Members noted that Israel's tariff was complex and relatively non-transparent, with many specific and combined rates. Tariff escalation and high tariff levels persisted. Israel was encouraged to improve the transparency of its tariff régime. Questions were also asked about customs valuation methods and the use of the HARAMA and TAMA uplift for calculation of customs duties and purchase tax.

Participants raised questions about government procurement practices, including price preferences, counterpurchase and offset requirements. Technical regulations and standards were another area of concern; in this regard, Council members highlighted homologation procedures and the high number of samples required for testing, differences in the enforcement system which might benefit domestic products, and marking, labelling and packaging requirements.

Other questions raised included the product coverage of export and import prohibitions, customs valuation and taxation practices, import surcharges, wharfage and port fees, internal taxes levied on imports, additional criteria for granting import licences, and the powers of the Ministry of Industry and Trade to impose trade restrictions against other countries. Participants asked if Israel remained committed to eliminate import restrictions maintained for balance-of-payments reasons.

In reply, the representative of Israel distributed written responses on tariffs, wharfage fees, standards and labelling requirements, government procurement, the HARAMA adjustment of declared customs values, and the TAMA adjustment of domestic taxes to import prices at wholesale levels. Israel applied the Brussels Definition of Value, to be replaced by the GATT Code for which legislation was being prepared. Where an amount had to be added to the declared value to bring this to the open market price, the supplementary amount was referred to as HARAMA. For ease of administration, purchase taxes based on retail prices were collected from importers or producers, based either on an adjustment of the wholesale price, as declared, or by adjusting the import value using a coefficient -the TAMA system. The latter option was only available to importers, but was not discriminatory and Israel saw no need to change the existing structure.

Under the liberalization programme, tariffs would be simplified, with specific rates being eliminated and escalation being considerably reduced to maintain reasonable effective rates. The wharfage fee was being gradually reduced and the burden on imports and exports equalized. Israel would disinvoke balance-of-payments provisions before September 1995.

International standards were the basis of Israeli standards - most of which were voluntary - and a special committee was being established to ensure fulfilment of obligations under the TBT Agreement. Foreign manufacturers could seek national certification, and bilateral agreements on mutual recognition were to be negotiated. Regarding government procurement, Israel did not apply the 15 per cent preference to products and entities covered by the Government Procurement Agreement. Buy-back conditions would in future be defined in accordance with Israel's commitments.

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**Conclusion**

Members congratulated Israel for its multilateral trade liberalization efforts and encouraged it to maintain the momentum of the process. Commitments undertaken in the Uruguay Round Agreements would benefit Israel by supporting its autonomous liberalization and by further increasing the transparency of tariff and other trade regulations and procedures. However, a number of areas still required further action, especially in the agricultural sector, for Israel to become more fully integrated into the world economy. The Council expressed the hope that the peace process would have a positive effect on the economies of the countries in the region and promote the expansion of trade with all Israel's partners.

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