

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

1962 CONSULTATIONS ON BALANCE-OF-PAYMENTS MEASURES WITH

I S R A E L

Basic Document for the Consultation<sup>1</sup>

## 1. Legal and administrative basis of restrictions

The Import, Exports and Customs Powers (Defence) Ordinance of 1939, vests in the Government the power to regulate the importation of all goods into Israel. The Licensing of Imports Order promulgated in pursuance of these powers in the same year prohibits the importation of all goods unless covered by an import licence.

Import licences are issued by officials of the Ministries of Commerce and Industry, Agriculture, Transport, Health, Labour, Ports and Finance, specially appointed for this purpose and known as "Competent Authorities".

With the introduction of a general import liberalization programme following the reform of the exchange system carried out on the 9 February 1962, Free Import Orders are being promulgated. These orders permit the import of a wide and growing range of goods without an import licence.

Each financial year the Government adopts a Foreign Exchange Budget which presents by sources, an estimate of all receipts of foreign exchange and a forecast of expenditures on the purchase of imported goods and services, specifying the amount of foreign exchange allocated to each Ministry for that purpose. As quantitative restrictions are imposed only on a small part of total imports, the expenditures indicated in that budget serve merely as a framework and the "Competent Authorities" are not bound by the amounts specified therein. A summary of foreign exchange expenditure during the financial year 1961/62 and preliminary information on 1962/63 are included in the Annex to this document.

Every licence issued by the import licensing authorities requires the countersignature of the Department of Foreign Exchange Control in the Ministry of Finance. The counter-signature ensures that the foreign exchange required for that import will be placed at the disposal of the importer on date and terms specified in the licence.

Dealers in foreign exchange have been authorized by the Department of Foreign Exchange Control to remit freely payments in respect of imports affected under Free Import Orders.

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<sup>1</sup>Revision supplied by the Israeli authorities.

## 2. Methods used in restricting imports

Procedures for the issue of import licences in respect of goods not covered by Free Import Orders fall into two categories:

- (a) Automatic Approval System - Import licences in respect of a large number of commodities included under this system, are issued automatically provided the importers undertake to import certain minimum quantities and that prices are competitive.
- (b) Individual Licensing System - Approval of licences for goods in this category is subject to the discretion of the "Competent Authorities". In exercising this discretion the following points are taken into consideration: the needs of the prospective importer, the requirements of the foreign exchange budget, price of the commodity from alternative sources of supply, its availability from local resources, size of stocks, etc.

During the current financial year imports under Free Import Orders and under the Automatic Approval System will account for about 80 per cent of total imports. The remaining 20 per cent are licensed under the Individual Licensing System, which is operated in order to safeguard the balance of payments and to reduce the deficit on the balance of trade which amounted to about \$314 million in 1961.

## 2. Treatment of imports from different sources

Import restrictions and import licensing procedures are the same for all imports irrespective of their country of origin. The choice of the source of supply is left to the discretion of the prospective importer, and the licensing authority intervenes in that choice only in the following three instances:

- (i) Agricultural surpluses: In respect of agricultural products available under foreign surplus disposal schemes priority is accorded to such sources.
- (ii)  earmarked sources: The import of capital equipment depends to a large extent on the availability of special sources of financing, such as the AID, the Export and Import Bank, and other foreign long-term loans. Insofar as purchase under such arrangements is restricted to specific sources of supply, the choice of the importer is limited accordingly.
- (iii) Bilateral agreements: Imports under bilateral and payments agreements will amount to approximately \$25,000,000 in 1962/63. The terms of this agreement reflect closely the normal pattern of Israel's trade and the criteria guiding import licensing in these cases are substantially the same as those for imports from other sources.

#### 4. Group of commodities affected by the various forms of restrictions

The following are the main commodities or groups of commodities covered by the Free Import Orders and by the Automatic Approval System:

- (i) Free Import Orders: coffee, tea, wheat, soya beans, castor seeds, sugar, sulphur, asbestos, iron ores, coal, chemical and pharmaceutical raw materials, timber for citrus crates, rubber, natural cork, pulp for paper manufacture, jute, canvas, non-ferrous metals (tin, aluminium, copper), lead, office machinery, electric motors over 150 h.p., parts for manufacturing postal equipment, railway locomotives, carriages and waggons, ships, aeroplanes (except for agricultural purposes), boats and pianos.
- (ii) Automatic Approval System: cocoa beans, cocoa cakes, butter, oil and copra seeds, cocoa, preserved and frozen meat, milocorn, edible oil and fats, raw hides and skins, polymerised products, uncarded sheep and lambs wool, books, wrapping paper for fruits, raw cotton, rayon yarns, synthetic fibres, raw diamonds, steel strips for manufacturing irrigation pipes, uncoated sheets and plates, vehicles and spare parts, heavy mechanical equipment, ferrous ores, spirits, cinema films, pulp and pulp products, tanning extracts, citrus cases, crude petroleum, heavy fuel oil, lubricating oils, aviation gasoline, some industrial equipment and machinery.

#### 5. Use of State trading or government monopolies in restricting imports

State trading import activities are limited to those of the Food Division of the Ministry of Commerce and Industry. The Food Import Division serves as the sole importer of a number of staple food stuffs, the main items being: sunflower seeds, cotton seed oil, soya bean oil, frozen meat, meat preserves. All commodities imported by these enterprises are freely available in sufficient quantities to meet the demand of all prospective consumers, and State-trading enterprises are not used to restrict imports.

#### 6. Measures taken in the past year in relaxing restrictions

In the framework of an extensive liberalization programme introduced at the time of the reform of the exchange system Free Import Orders have been introduced. The list of commodities so far included under this Order will cover an estimated volume of imports of \$120 million. The main items concerned are mentioned in paragraph 4. The full list of items as well as any additional lists to be issued at a later stage will be transmitted to the contracting parties in due course. There was also progress in the de facto liberalization of imports so that in practice about 80 per cent of current imports are no longer restricted as compared with about 60 per cent at the time of the last consultation.

Wheat, sugar and oil seeds, which were formerly imported only by the Food Import Division are now covered by the Free Imports Orders.

Since the beginning of 1961 the bilateral payments agreements with Iceland, Norway and Finland were terminated.

The volume of imports transacted within the framework of bilateral agreements decreased from about 35 million dollars in 1960/61 to about 28 million dollars in 1961/62.

7. Effects of Restrictions on Trade and General Policy in the use of Restrictions for Balance-of-Payments Reasons

1. During recent years the value of imports into Israel has been maintained at a consistently high level. In 1961 imports reached a new peak, while imports per capita (US \$257) were amongst the highest in the world. The following table shows the continuous increase in imports during the last three years:

<u>Year</u>	<u>Value of Imports c.i.f.</u> (million of US \$)
1959	426
1960	496
1961	568

2. While the value of imports has increased, the balance of payments position on current account has deteriorated:

<u>Year</u>	<u>Deficit on current account</u> (million of US \$)
1959	316
1960	336
1961	397

Furthermore, net indebtedness, (i.e. the excess of debts in foreign exchange over foreign exchange reserves) has further increased:

<u>Year</u>	<u>Net indebtedness</u> (million of US \$)
1959	672
1960	675
1961	702 (provisional)

Taking the foregoing figures into account, it is apparent that the import restrictions maintained are appropriate to the country's foreign exchange position and are necessary to safeguard its foreign exchange reserves.

3. On 9 February 1962, the Government of Israel introduced a reform of the exchange system and adopted a new programme for economic stabilization<sup>1</sup>. It is the declared policy of the Government, within the framework of the new programme, to eliminate progressively all quantitative restrictions on imports and to simplify administrative procedures in respect of foreign trade.

<sup>1</sup>Particulars of the new programme were brought to the notice of the CONTRACTING PARTIES in Document L/1727.

4. A "Free Imports Order", made in pursuance of this policy was promulgated on 24 April 1962. The Order contains a list of goods which may be imported without licence and covers an estimated annual volume of imports of US \$120 million. Extensions to this list are in preparation and will be published in the near future. In all, the free lists will include about 800 items - an annual volume of imports of approximately US \$300 million. Thus 50 per cent of total imports in 1962/63, estimated to reach US \$600 million, will be freed from all restrictions. It is envisaged that all imports still being licensed under the Automatic Approval System (i.e. a further 30 per cent of total imports) will ultimately be included under the Free Imports Order.

5. It is planned to lower gradually the barriers of protection of local production against imports. In order to place the branches of industry and agriculture on a basis of cheap and efficient production, it is the intention to limit the ceiling of protective customs and to abolish quantitative restrictions on imports. Outside the sphere of protection, local goods will have to face competition with imported goods. First steps to implement this policy have already been taken.

6. Long-term foreign trade policy provides for an improvement in the balance of payments not through restrictive measures on imports, but rather through an overall expansion of foreign trade, both of exports and imports. A preliminary forecast, still subject to correction in the light of the effects of the exchange reform, foresees an increase of imports to US \$650 million and exports to US \$400 million by 1965. Within the framework of its liberalization measures further efforts will be made to conduct foreign trade on a multilateral basis and to eliminate bilateral arrangements, except with state-trading countries. The Government of Israel is confident that these efforts will not be hampered by the maintenance or imposition of discriminatory import arrangements by its trading partners.

ANNEX

Foreign Exchange Expenditures 1961/62  
(Provisional - in \$ 000)

<u>Services</u>	<u>232,000</u>
<u>Consumption</u>	<u>202,500</u>
Fuel	32,000
Maintenance and repairs	21,000
Health and education	9,000
Food	61,000
Raw materials for agricultural production	35,500
Raw materials for industrial production	36,000
Other consumer goods	8,000
<u>Imports for exports</u>	<u>110,000</u>
<u>Investments</u>	<u>196,500</u>
Agriculture and irrigation	21,500
Industry, power and development projects	75,000
Transport and communications	92,500
Health and education	5,500
Building	2,000
<u>Imports of papers wood etc.</u>	<u>50,000</u>
<u>Repayments of debts and increase in reserves</u>	<u>54,000</u>
T o t a l	<u>845,000</u>

Foreign Exchange Expenditure  
1962/63

(Note: In view of the recent reform of the exchange system the Foreign Exchange Budget for 1962/63 has not yet been approved. An Interim Budget provides for the following expenditures during the months of April and May 1962)

<u>Services</u>	<u>40,000</u>
<u>Imports of Goods</u>	<u>90,000</u>
Live animals and animal products	1,800
Vegetable products	10,000
Animal and vegetable fats and oils	1,600
Prepared foodstuffs	1,550
Mineral products	5,700
Products of the chemical industry	4,260
Artificial resins, rubber and plastics	2,250
Raw hides, skins and leather	700
Wood, articles of wood, cork	4,600
Paper and paper-making materials	2,750
Textiles and textile articles	4,900
Footwear and headwear	60
Articles made of mineral products	380
Diamonds and precious metals	5,100
Base metals and articles thereof	6,800
Machinery and electrical equipment	16,250
Transport equipment	17,850
Scientific and medical instruments, watches and musical instruments	2,000
Arms and ammunition	60
Miscellaneous manufactured articles	280
Works of art and antiques	110
Reserve and change in balances	<u>20,000</u>
T o t a l	<u>150,000</u>