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TRADE POLICY STAFF COMMITTEE

DRAFT Document 82-19

File

SUBJECT:

U.S.-Israel Free Trade Area

SUBMITTED BY:

Office of the United States
Trade Representative

DATE: February 11, 1982

DECLASSIFIED

Authority State Waiver
BY DW NARA DATE 4/10/19

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PROBLEM

During discussions with Ambassador Brock last year, the Israeli Minister of Industry, Trade and Tourism proposed the establishment of a two-way free trade area between the United States and Israel, with possible participation also by Egypt, similar to the arrangement now in effect between Israel and the European Community (EC). That arrangement provides for an industrial free trade area between the parties and currently is scheduled to be fully phased in by January 1, 1987. The Israelis view the proposed free trade area as a more favorable alternative to continued eligibility under the U.S. Generalized System of Preferences (GSP) or as a substitute for GSP should they be graduated from the program.

As stipulated by section 502(b)(3) of the Trade Act of 1974, Israel had to eliminate "reverse preferences" which had or would be likely to have "a significant adverse effect on United States commerce" in order to be designated originally as a beneficiary of the U.S. GSP. Israel was found to have satisfied that requirement following conclusion in 1975 of a bilateral Understanding, under which Israel agreed to reduce MFN tariffs on 133 tariff line items to the rate equal to that for the EC. Israel's obligations under the 1975 Understanding continue as long as Israel retains its eligibility as a GSP beneficiary developing country (BDC). However, Israel's status as an advanced developing country could lead to pressures for graduation during Congressional review of legislation to extend the GSP beyond its current expiration in January 1985. If Israel were graduated from GSP, the United States would have no automatic mechanism, apart from a special bilateral arrangement, by which to gain treatment of its exports in the Israeli market equal to that given EC products. The U.S. could always negotiate a bilateral trade agreement with Israel to reduce duties. However, such an agreement would have to be quite broad to address U.S. concerns and would require the U.S. to make perhaps substantial concessions in return.

The problem is to consider how best to preserve U.S. export interests in Israel in the face of progressive Israeli tariff reductions to zero for EC products by 1987. The TPSC also needs to consider how to respond to the Israeli request for a U.S.-Israel two-way free trade area. This paper presents four options for evaluation: one which continues the status quo, two which presume GSP eligibility for Israel beyond 1985, and one for graduation of Israel from GSP in combination with either a partial or full two-way free trade area.

- I. Graduate Israel from GSP.
- A. Establish a partial free trade area covering only products of significant trade interest to each party.
- B. Establish a full free trade area covering "substantially all trade" between the parties in compliance with GATT Article XXIV requirements.
- II. Make no change in Israel's current GSP status. Defer consideration of the free trade area proposal until such time as GSP graduation of Israel appears imminent. Request a joint review of the 1975 bilateral Understanding to revise product list and criteria to take current trade patterns into account.
- III. Work toward extension of GSP to Israel beyond 1985, based on conclusion of a new bilateral Understanding under which Israel would harmonize tariffs to EC levels for products of interest to the United States.
- IV. Continue Israeli eligibility for GSP beyond 1985 only after conclusion of a substantial bilateral trade agreement. Renegotiate bilateral Understanding as under Option III.

RECOMMENDATION

(None at this time)

DISCUSSION

The EC-Israel Agreement

Building on a series of earlier preferential agreements dating from 1964, the European Community (EC) and Israel in 1975 agreed to establish a bilateral industrial free trade area. The Israeli agreement was the first concrete step in implementation of the Community's overall Mediterranean policy. Under the terms of the agreement, EC imports of industrial products from Israel were granted duty-free entry after July 1, 1977, except for certain sensitive products (refined petroleum products, textiles and certain chemicals), on which full EC concessions were delayed until December 31, 1979. Duty-free treatment for the non-sensitive articles was staged in three steps between July 1975 and July 1977. The EC reserved the right to establish import ceilings for more sensitive products until the full concessions were in place in order to ease the transition to duty-free treatment and prevent market disruption.

Israel, for its part, eliminated tariffs on about 60 percent of its industrial imports from the EC in five stages by January 1, 1980. Duty-free treatment for the remainder was to be staged in by 1985, with two possible two-year extensions granted to Israel at specific stages. Israel asked to apply one of these delays in 1979, thereby extending the earliest possible completion date for the agreement to January 1, 1987. Taking this one delay into account, the timetable of reductions will be as follows:

<u>Date</u>	<u>Extension</u>	<u>Amount of Reduction</u>
July 1, 1977		5 %
July 1, 1978 ^{1/}		20 %
July 1, 1979	July 1, 1981	30 %
July 1, 1981	July 1, 1983	50 %
July 1, 1983	July 1, 1985	80 % ^{2/}
January 1, 1985	January 1, 1987	100 %

Israel was allowed to increase duties on some goods before the 1975 agreement went into effect. This option was allowed on a number of sensitive items representing about 8 percent of Israel's total imports.

1/ Israel in fact accelerated this stage to October 1977, when it reduced tariffs across-the-board by an average of 20 percent as part of its "new economic policy." Israel notified the EC that the October 1977 reduction fulfilled its obligations for reductions scheduled on July 1, 1978.

2/ The second two-year extension can occur at this stage.

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Duty-free treatment then was to be staged in from this new higher level. For products of "new industries" (i.e., those not in existence at the time the agreement entered into force), Israel was allowed to increase or reintroduce duties by up to 20 percent. Duties had to apply to specific products, whose total value could not exceed 10 percent of Israel's total industrial imports. Israel was required to eliminate any such duties no later than January 1, 1989.

In addition to trade in industrial products, the 1975 Agreement also provided for preferential treatment of agricultural and processed agricultural goods traded between Israel and the EC. Despite the limits imposed by the Common Agricultural Policy, the Community agreed to make tariff reductions on about 80 percent of its agricultural imports from Israel. These cuts range from 20 to 80 percent, the duty on 70 percent of the products being reduced by 50 percent or more. Israeli exporters, however, must still comply with the requirements of the CAP and are often faced with the imposition of minimum prices for certain fruits and vegetables, seasonal break-outs, tariff quotas and voluntary restraint agreements. Also, tariff reductions on processed agricultural goods apply only to the protective portion of the duty and not to the "variable levy"--the tax on all agricultural imports subject to the CAP. Israel's tariff concessions on agricultural imports from the EC have been extremely limited; reductions have been made on the order of 15 to 25 percent but only on trade equal to about one percent of total EC exports to Israel.

It should be borne in mind that the EC-Israel agreement is essentially an unbalanced one, under which the EC offered substantially more benefits than it received in return from Israel. In the case of a U.S.-Israel free trade area, however, the opposite situation would apply: the U.S. has less to offer Israel (about 30 percent of our total imports) than we want to gain (concessions on 40 percent or more of Israel's imports). The Israelis naturally would prefer an EC-type agreement with the U.S., under which they would receive more than they offered and at a faster rate. It may be unrealistic for the U.S. to hope to gain more from the agreement than we are willing to offer. Therefore the most realistic outcome is probably a balanced agreement. If less than maximum concessions would be offered to the United States by Israel, our assessment of any gains to be derived from the arrangement would have to be modified accordingly.

1975 Bilateral GSP Understanding

The conclusion of the EC-Israel Agreement raised the possibility that Israel could be barred from eligibility as a GSP beneficiary if it did not take steps to eliminate reverse preferences extended to the EC which had or were likely to have "a significant adverse effect on United States commerce," as provided for under section 502(b)(3) of the 1974 Trade Act. In order to avoid this possibility, the United States and Israel in October 1975 concluded a bilateral Understanding under which Israel

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agreed to lower MFN tariff rates on an unbound basis to the EC level on a number of products of interest to the U.S. The Understanding covered 133 tariff line items and based future Israeli obligations on listed products meeting the following three criteria:

- a. a current MFN duty of not less than 10.5 percent;
- b. U.S. imports in the most recent calendar year for which statistics are available of at least \$375,000 using eight-digit Israeli nomenclature in force on July 1, 1975;
- c. share of Israeli imports from the EC of at least 10 percent during the most recent calendar year.

For listed items not meeting the above criteria, reductions would be made "if United States trade in such items would otherwise be adversely affected in significant measure." Changes in the product list or specified criteria could be considered in joint reviews at the request of either party.

The Understanding was last reviewed in 1978, when the United States requested elimination of margins of preference extended by Israel to the EC on three textile items. Following joint consultations in June 1978, Israel agreed to raise the EC tariff to the MFN level, thereby removing any preferential margin.

Commerce carried out a review of the agreement in 1979, at which time it was found that 54 items (using revised Israeli tariff nomenclature as of November 1978) still met all three of the original criteria. Proposals for changes in product coverage and criteria were formulated but were not presented to the Israelis, as the press of events at the close of the MTN forced a formal review to be delayed. Neither party has requested a full-scale review of the Understanding since 1978.^{1/} Option II of this paper contains a recommendation to request a joint review of the Understanding at this time in order to take current trade patterns into account. (Text of the 1975 Understanding is attached as Appendix III.)

^{1/} The Understanding noted that a review of the 10.5 percent MFN duty criterion could become necessary after the 1980 Israeli concessions to zero for certain products were implemented. Although most products of interest to the U.S. are included on the "40 percent" list, for which reductions are still being staged, the TPSC may want to consider whether a joint review of the current Understanding should be requested. We have received a few complaints from U.S. businessmen about the differential in Israeli tariffs charged the U.S. and the EC. (See Appendix I for examples of specific complaints received.)

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U.S./Israel/Egypt Free Trade Area Proposal

The LDC Subcommittee has carried out extensive analysis of the economic, legal and political aspects of a U.S./Israel/Egypt free trade area, the major aspects of which are contained in this paper. The economic analysis section examines the amount of U.S. imports from Israel and Egypt and the amount of our exports to these countries which potentially could be covered under a free trade area. Thus, assessment of any benefits which could accrue to the United States under such an arrangement is based on the maximum possible trade coverage by all parties concerned. Naturally, any such analysis must be conditioned by the realization that Israel and/or Egypt are likely to be unwilling to make more-than-reciprocal concessions to the United States, that sensitive domestic sectors may have to be excluded from the coverage of any such agreement, and that extension of duty-free treatment to additional Israeli and Egyptian imports will entail some adjustment costs in affected industrial and agricultural sectors. In addition to the economic costs and benefits of a free trade area, the proposal raises rather troublesome trade policy questions, both internationally and domestically. The proliferation of special bilateral relationships, which could lead to disputes in the GATT, has very serious implications for the international trading system. Domestically, the proposal could provoke a heated political reaction, both from Congress and from import-competing sectors.

Summary of Economic Aspects

Most of the following analysis focuses on trade with Israel, although trade with Egypt was reviewed to a limited degree in order to evaluate the effect of duty-free treatment on U.S. imports from Egypt and identify potential U.S. export interests.

Of the \$941 million we imported from Israel in 1980, we estimate that \$260 million (28 percent of total imports from Israel) would be covered under a FTA. This figure includes dutiable non-GSP imports as well as the value of imports that actually entered duty free under GSP and those that were excluded because of the competitive need limitations of the GSP program, under the assumption that the FTA would replace GSP eligibility. However, the total excludes textile and citrus imports (valued at about \$17 million).

The value of our exports to Israel that could be affected by a two-way FTA is considerably higher than the value of our imports from Israel. In 1980, we exported \$1.548 billion to Israel, of which we estimate that approximately \$509 million (33 percent) is currently dutiable. If textiles are excluded, this figure drops to \$472 million, or 31 percent of our total exports to Israel.

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The value of our trade with Egypt that could potentially be covered by a FTA area is relatively small. On the import side, it is \$31 million if textiles are included, but only \$2.2 million if they are excluded. Our exports to Egypt in 1980 were \$1.7 billion, but most of these products were sold to state-owned enterprises and were likely not subject to duties.

International Legal Aspects of a FTA

GATT Article XXIV exempts free trade areas from other provision of the GATT and sets out the conditions which a free trade area must fulfill if it is to qualify for this exemption: (1) duties and other regulations of commerce maintained by the parties entering into an FTA may not be higher or more restrictive vis-a-vis third parties than those which the parties had in place prior to the agreement. (2) The agreement must apply to "substantially all" the trade between the parties. (3) Duties and other restrictions which are necessary and imposed under Articles XI, XII, XIII, XIV, XV and XX may be retained. Thus, restrictions taken for balance of payments reasons or to prevent imports from increasing while domestic production is being restrained are permitted. (4) An "interim agreement" can qualify under Article XXIV if it contains a plan and schedule for formation of the FTA "within a reasonable length of time."

If the U.S. sought to enter into a FTA which did not meet these requirements, it would have to seek a GATT waiver under XXV:5, as is planned for the CBI. However, it is likely that the U.S. could encounter some difficulty in getting a Working Party to approve the agreement, particularly since the U.S. has refused consistently to accept the EC's association agreements as being consistent with Article XXIV. Our attempt to enter into a similar FTA would undermine the efforts of those Contracting Parties which have sought to limit the EC's agreements in the past.

If the United States entered into a FTA which was not approved by the GATT, an injured party could bring a case under Article XXIII and get the U.S. to modify the FTA or pay compensation. However, finding that a FTA was consistent with Article XXIV or permissible under a Article XXV:5 waiver would not prevent an injured party from attempting to seek compensation under Article XXIII, although such a challenge would be difficult to maintain.

The FTA also has implications for Israeli accession to the multilateral non-tariff measure codes negotiated during the MTN, most notably:

- Subsidies. Full duty-free treatment by the U.S. of all imports from Israel would make possible provision of an "injury test" to Israel without it being necessary for Israel to sign the Subsidies Code. Israel thereby... could receive the benefits of the Code without having to submit a commitment under Article 14.5 and would avoid having to discipline its use of export subsidies.
- Aircraft. If the United States entered into FTA with Israel, presumably that agreement would provide duty-free treatment for aircraft and the United States would not have as much incentive to get Israel to join the Code. However, if Israel does not join the Code the United States would lose the leverage the Code provides to discipline Israel's use of subsidies, offsets, and government involvement in trade in civil aircraft.

-- Government Procurement. A FTA alone would not open up the Israeli government's purchasing to outside suppliers, although the U.S. could seek this benefit in an agreement. However, the Israelis are very interested in increasing non-military sales to the U.S. government, and we would probably want to encourage reciprocal liberalization by them apart from the FTA. 10

Since Israel's membership in the above three Codes would offer certain benefits for the United States which we could not obtain in the context of a simple FTA, the United States might want to negotiate within the context of the FTA an agreement that Israel join these Codes.

Non-tariff measures.

The Subcommittee recognized that removal of tariffs by Israel and Egypt on U.S. exports under a FTA could still leave substantial non-tariff measures in place. Article XXIV stipulates that parties entering into a free trade agreement also should dismantle other barriers to commerce, although certain safeguards are permissible. Under the EC-Israel agreement, for example, Israel liberalized 95 percent of its industrial imports from the EC from coverage under quantitative restrictions. Quantitative restrictions on the remaining 5 percent are to be removed in five equal stages between 1980 and 1985. As pointed out in the discussion of the agricultural coverage of the EC-Israel agreement, the EC gave Israel concessions on some products but left CAP rules intact. In return, Israel offered the EC small tariff cuts (15-25 percent) on a small proportion (1 percent) of the EC's agricultural exports to Israel.

The Subcommittee briefly reviewed the import regimes of Israel and Egypt. Officials in Jerusalem are preparing information on Israel's tariff treatment of U.S. exports. The Subcommittee is prepared to request more detailed information on non-tariff barriers should it be decided to continue work on the free trade area proposal.

Apart from tariffs, goods imported into Israel are subject to a number of taxes, including a purchase tax, valued added tax, port charge and stevedoring charge. All imports must comply with certain labelling requirements, and labelling for certain specific products must conform to particular regulations. Food and beverage products must clearly display ingredients and nature and quantity of preservatives used, if any.

The majority of Israel's imports are free from licensing and administrative or quantitative restrictions. However, imports of some products, such as textiles, pharmaceuticals, foodstuffs, electrical equipment, and automobiles, require licenses in order to "protect the public's health and safety." In addition, from time to time, Israel imposes import surcharges for balance of payments reasons.

Egypt levies a number of taxes on imports in addition to tariffs. These taxes include a levy for the "Consolidation of Economic Development," excise taxes on certain goods, a "pavement duty," statistics tax, marine duty and portage duty. Egypt has made efforts to eliminate many of these charges on imports of food-

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stuffs, raw materials, construction materials, and capital equipment and intermediate goods used for investment purposes. At the current time, all imports require licenses as a measure to regulate foreign exchange which is now in short supply. Some goods may only be imported by the public sector.

Domestic Legal Aspects

Domestically, the FTA would require specific implementing authority, which could be sought under three possible options. The first option is new legislation following the usual course of a tariff bill (presumably originating in the House as a revenue measure). The process is fairly lengthy, permits amendments by Congress, and allows unlimited political debate.

The second option would arise if section 124 of the Trade Act, which expired on January 3, 1982, is reinstated and extended. Such legislation is presently under consideration. As it was written, section 124 was somewhat limited in scope, but did provide negotiating authority on duties to the President. Duties could not be reduced to less than 80 percent of duties during the MTN, which would seem to disallow new duty-free treatment. The value of articles to which agreements under section 124 can apply is restricted to two percent of the last year's total U.S. imports. Therefore, this option could not be used to implement the FTA since tariffs could not be reduced to zero and the limitation on trade value may interfere. A new version of section 124 might contain the same or different limits, so the feasibility of using it for a FTA is impossible to evaluate at this time.

The third option is for the President to submit the FTA as a trade agreement under section 102 of the Trade Act of 1974, which was extended through 1988 by the Trade Agreements Act of 1979. This approach has procedural advantages, but political and legal difficulties may prevent its use in the present situation. Sections 102 and 151 provide for non-amendable legislation which would move through Congress on a "fast track" basis. Prior consultation with Congress is specifically required under section 102.

Congress may have intended that Section 102 apply only to nontariff agreements. Nevertheless, a number of section 102 agreements approved by the Congress at the end of the Tokyo Round contained exclusively or mostly tariff provisions. These agreements were submitted as a package with other nontariff agreements, so their precedent might not be sufficient justification for submission of a purely tariff-related agreement standing alone. Interestingly, the 1974 Senate Report discourages packaging together agreements which do not deal with comparable barriers.

Even if a "mixed" agreement including tariff and nontariff barriers was acceptable as part of the overall package negotiated in the Tokyo Round, it does not necessarily follow that a similar agreement would succeed under section 102, as extended by the 1979 Trade Agreements Act. The legislative history contains some ambiguity,

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but generally does not seem to favor use of section 102 to reduce tariffs. The 1979 House Report notes flatly that the 1979 Act "does not include any provisions to extend the authority of the President to reduce or increase tariffs." It is not entirely clear whether this language is intended to prohibit even tariff reductions incidental to nontariff 102 agreements. Of course, ultimately political, rather than purely legal, considerations may dictate whether Congress accepts a FTA as a section 102 agreement.

An issue to be resolved is whether any additional safeguard provisions would be included in a FTA, beyond existing law. In addition any safeguards would have to be reciprocal and therefore could undermine some of the benefits to the U.S. If a safeguard provision is included in the FTA agreement, legislative authority will be required to implement it.

Origin rules are a necessary component of a FTA to prevent trans-shipment through the free trade area of merchandise manufactured in outside countries and therefore provisions for rules of origin must be included in the implementing legislation.

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OPTIONS

OPTION I: Graduate Israel from GSP when the program is renewed.

Pros:

- Leaves Administration free to graduate other advanced developing countries from GSP, if desired.
- Encourages Israel to assume obligations in the international trading system commensurate with its development level.

Cons:

- Such an action would be likely to have an adverse effect on U.S.-Israeli political relations.
- Frees Israel from any obligation under the 1975 GSP Understanding to harmonize tariffs to EC levels.
- Graduation of Israel from GSP leaves a special bilateral preferential relationship (of some nature) as only mechanism for complete U.S./EC tariff harmonization by Israel.

OPTION IA: Graduate Israel completely from GSP in January 1985. Establish a partial free trade area with Israel and/or Egypt, covering only products of significant trade interest to each party. Arrangement could be notified either as an interim agreement leading to a full free trade area, as provided for under GATT Article XXIV:10, or as an agreement requiring a special GATT waiver (as was decided for the Caribbean Basin Initiative) under Article XXV:5.

Pros:

- Provides long-term alternative to GSP, perhaps with greater coverage for more products of primary interest to each party.
- Provides U.S. with a mechanism to protect major export interests in Israel while offering concessions on only major Israeli products.
- If an interim agreement, allows for a transitional period to evaluate effects of agreement before opening up domestic markets completely.

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Cons:

- If notified to GATT as an "interim agreement", the agreement must contain a definite plan and schedule providing for establishment of a full free trade area within a reasonable period of time.
- Products of major export interest to Israel are likely to be sensitive items such as textiles, chemicals and citrus.
- Other GSP graduates could press for treatment at least equal to that given Israel.
- May require U.S. to request a GATT waiver (which we may not be successful in obtaining), perhaps facing criticism from other Contracting Parties similar to that U.S. has voiced against other such agreements in the past.
- Even a partial FTA would be a departure from past U.S. trade policy.

OPTION IB. : Full free trade area covering "substantially all trade" between Israel and the U.S. in compliance with GATT Article XXIV requirements.

Under this option, the United States and Israel would agree to lower duties to zero for "substantially all" of each other's goods. Israel would be graduated from GSP, as the new arrangement would substitute for duty-free treatment extended by the U.S. under that program. Procedures applying to trade agreements under Section 102 of the 1974 Trade Act as amended would be followed in formulating the agreement and legislative authority would be sought from Congress in order to implement the agreement's provisions.

Pros:

- Provides a clear alternative to continued eligibility for Israel as a beneficiary under the GSP.
- Prevents U.S. industry from losing market share in the Israeli market in those products that are also supplied by the EC and where the EC will enjoy a tariff differential once the EC-Israel agreement is in place.
- Besides protecting U.S. market share vis-a-vis the EC, a U.S.-Israeli FTA could lead to an increase in total Israeli demand for many products, as a result of lower prices brought about by the removal of the tariff. U.S. industry would probably succeed in capturing at least part of that additional demand.

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- Because of the significant proportion of Israeli imports currently provided by U.S. industry, there is an existing network of U.S. producer-Israeli buyer relationships. The existence of this network reduces "transaction costs" and makes it relatively easy for Israeli buyers to increase orders from U.S. suppliers if Israeli demand does increase as a result of the FTA.
- Currently, the highest value U.S. exports to Israel fall into some of the U.S. industrial sectors most troubled by falling sales due to recession and a loss in international competitiveness--specifically, the steel industry and motor vehicle industry. An Israeli-U.S. FTA could provide a market for additional sales.
- Positive U.S. response to Israeli request could enhance overall U.S. political relations with Israel.

Cons :

- Even if the aggregate expansion of Israeli exports to the U.S. is relatively small, certain sectors of U.S. industry may experience a disproportionately large import penetration.
- There are some industries, such as gloves and handbags, with very low start-up costs. If tariff protection was removed through an FTA in these industries, the U.S. industry would very likely be faced with a large increase of imports of these items.
- An Israeli-U.S. FTA will lead to pressure from other countries, such as Taiwan and Korea, for an FTA with the U.S. These other countries could present much greater import competition in U.S. import-sensitive industries.
- Given Israel's small size, additional demand for U.S. goods may be limited.
- An Israeli-U.S. FTA may give an incentive for the EC or other developed countries to conclude similar bilateral FTA arrangement with other countries. Such bilateral agreements would harm U.S. industry as U.S. exports would not be able to compete in developed countries that established bilateral agreements with other developing countries.

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- Dutiable U.S. agricultural imports from Israel and Egypt fall in generally import sensitive commodities, such as cotton, citrus and cut roses.
 - Establishment of a FTA would undermine any case we might pursue against the EC on citrus or other products.
 - The small amount of imports covered by a FTA in the case of either Israel or Egypt (especially if textile and apparel are excluded) makes it doubtful that the U.S. could gain very significant concessions on a wide range of products.
 - Establishment of a FTA removes significant incentives for Israel to accede to the MTN non-tariff measure codes, particularly on subsidies, aircraft and possibly government procurement.
 - Congress, the private sector and organized labor likely would express concern about the adverse effect which the proliferation of bilateral arrangements would have on the international trading system. They would question the benefits of entering into such an arrangement in view of the United States' long-standing objection, in principle, to such association agreements.
 - The United States would face criticism internationally and in the GATT for contributing to the "bilateralization" of international trade.
 - Failure to respond positively to Israel on this proposal could impair other U.S. foreign policy objectives in the Middle East.

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OPTION II: Make no change in Israel's current GSP status. Defer consideration of the free trade area proposal until such time as GSP graduation for Israel appears imminent. Request a joint review of the 1975 bilateral Understanding to revise product list and criteria to take current trade patterns into account.

Pros:

- Assures Israel that status quo will be maintained.
- Allows U.S. to resolve immediate concerns on U.S. exports encountering discrimination in the Israeli market.
- Does not entail new economic or political "costs" for the United States.

Cons:

- Does not provide Israel with any greater degree of access to U.S. market than it presently enjoys under GSP.
- Opening up the 1975 Understanding for a joint review at this time could strengthen Israeli arguments for desirability of a FTA.
- A joint review would surely lead to Israeli requests for changes in the criteria which, if implemented, could be less advantageous than the current criteria.

OPTION III: Work toward extension of GSP eligibility for Israel based on a new bilateral Understanding, under which Israel would agree to reduce tariffs (on a MFN basis) to zero on products of specific interest to the United States.

Under this option, Israel would remain a beneficiary of the U.S. GSP program, provided that a new bilateral Understanding containing Israeli concessions on items of current trade interest to the United States could be concluded prior to January 3, 1985. Israel would have to agree to reduce MFN tariffs to zero (presumably on an unbound basis) at the same time that it grants duty-free treatment on imports of items from the EC.

Pros:

- For the time being, allays Israeli concerns about abrupt graduation from the U.S. GSP program.
- Allows deferral of the free trade area proposal until such time as GSP graduation for Israel appears imminent.
- Provides substantial protection of U.S. exporter interests on major U.S. export items where EC is a competitive supplier.

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- Provides a mechanism for ongoing consultation should changes in product coverage or specific aspects of the Understanding become necessary.
 - Does not require a major departure from past U.S. policy concerning special bilateral preferential arrangements.
 - Builds upon previous Understanding with Israel and "good faith" that difficulties can be satisfactorily resolved as they arise.

Cons:

- Complicates future graduation policy toward other advanced developing countries whose per capita GNP levels, for example, are considerably lower than that of Israel.
- Emphasizes impression of Israel as a "special case" if it is treated differently with respect to graduation than other advanced GSP beneficiaries.
- Continued GSP eligibility for Israel may be unpopular with critics of the GSP in Congress and the private sector.
- The U.S. may encounter considerable Israeli resistance to lowering MFN tariffs on a large number of products to zero, even on an unbound basis. For example, Israel in 1978 raised the EC rates on the textile items requested by the U.S. to eliminate the preferential margin because it was concerned that a MTN reduction in the tariff would encourage a flood of imports from Far Eastern suppliers.
- Israeli reductions probably would be unbound, raising questions as to changes in tariffs vis-a-vis the U.S. if Israel's GSP status is modified or terminated.
- The value of Israel's GSP benefits alone (currently about one-quarter of the total value of U.S. imports from Israel) may not be sufficient leverage with which to obtain the concessions needed to protect U.S. export interests in the Israeli market.

OPTION IV: Continue Israel as eligible for GSP only after conclusion of a substantial bilateral trade agreement in order to defuse criticism of continuation of GSP treatment. Renegotiate bilateral Understanding as in Option I.

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Pros:

- Could defuse criticism of continued GSP eligibility for Israel by demonstrating that Israel is willing to assume greater obligations commensurate with its development level by making substantial tariff concessions on products of interest to the U.S.
- Allows the U.S. to press Israel to bind tariffs at zero on products of major interest, particularly where the U.S. and EC combined supply most of Israel's imports of an item.
- Provides the U.S. an opportunity to request liberalization of Israeli non-tariff measures at the same time we pursue significant tariff concessions.
- Reduces number of unbound Israeli tariff concessions contained in a bilateral Understanding, thereby reducing uncertainty for U.S. exporters if Israel's GSP status should change in the future.
- Allows Israel to obtain tariff concessions on items outside of the U.S. GSP product list.

Cons:

- Israel may be reluctant to offer bound tariff reductions if they think they can achieve same outcome with unbound concessions in the context of a bilateral GSP understanding.
- Failure to conclude section 124 negotiations with Israel would make continued eligibility for GSP more difficult to defend.
- U.S. may have to make tariff concessions on import-sensitive items and that would be difficult to get Congressional approval.

APPENDIX I



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TELEPHONE: AREA 704, NO. 877-2139,
2642, 2643, 2138

INTERNATIONAL MARKETING

January 6, 1982

Lewison Company Ltd.
P. O. Box 131
Tel Aviv, Israel

Attention: Mr. I. A. Harari, Managing Director

Gentlemen:

After my recent visit to Israel in October of 1981, we have given a great deal of thought covering the sale of cellophane to Israel. Due to the fact that we, Olin Corporation, an American Company, cannot be competitive in your market with the Europeans due to a 15% duty assessed our good Israeli customers for using our products is very disheartening. It brings us to the threshold as to whether we can continue as a viable supplier from an economic standpoint. We have trouble understanding why your laws have given the Europeans an advantage in cellophane over a U. S. made product. You, as our authorized agent, have done an excellent job for us in the face of this situation, but under the current duty structure, we can see no opportunity for growth in new or old business on our regular cellophane products. We hope that some relief can be found to help us both continue in your market.

We are sending a copy of this letter to the Israeli Embassy/Commercial Section in Washington seeking aid from them. We are not asking for an advantage, only the opportunity to compete with the Europeans on an equal footing.

We offer our best wishes for the New Year.

Sincerely,

R. P. Weslake
Regional Manager
International Marketing

RFW/pg

cc: Israeli Embassy/Commercial Section
3514 International Drive, N.W.
Washington, D. C. 20008

O L I N C O R P O R A T I O N

INFO OCT-00 ADS-00 EB-08 NEA-06 TRSE-00 ITC-01 /028 W
-----154274 181556Z /45
R 181312Z JAN 82
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 2340
USDOC WASHDC
INFO USMISSION GENEVA

~~LIMITED OFFICIAL USE~~ TEL AVIV 00794

DEPT PASS USTR
USDOC FOR OCM/CAGNE/245/KKEIM

E. O. 12065: NA
TAGS: ETRD, BEXP, IS
SUBJECT: EC TARIFF DIFFERENTIAL

1. (UNCLASSIFIED) ISRAELI AGENT OF RUBATEX CORPORATION OF BEDFORD, VIRGINIA, MANUFACTURER OF FLEXIBLE TUBING INSULATION AND SHEETING FOR REFRIGERATION AND AIR-CONDITIONING PIPING, HAS REQUESTED EMBASSY ASSISTANCE CONCERNING DAMAGING EFFECT TO SALES OF U. S. PRODUCT AS RESULT OF E. C. TARIFF PREFERENCE. RUBATEX PRODUCT, IMPORTED UNDER BTN 39.02, SUBPARAGRAPH 5599, BEARS 14 PERCENT TARIFF. IDENTICAL PRODUCT UNDER SAME BTN FROM E. C. SOURCE BEARS 11 PERCENT DUTY. ACCORDING TO AGENT, THE RUBATEX PRODUCT IS BEGINNING TO LOSE ITS SHARE OF THE MARKET AND WILL BE FURTHER DISADVANTAGED WITH THE NEXT REDUCTION IN TARIFFS FOR E. C. IMPORTS.

2. (UNCLASSIFIED) INFORMATION ON TARIFF DIFFERENTIAL AND DECLINE OF U. S. EXPORTS AS PRESENTED BY RUBATEX IS CORRECT. EMBASSY'S QUICK REVIEW OF IMPORTS OF THIS ITEM IN 1979 AND 1980 INDICATES THAT IMPORTS FROM ALL SOURCES TOTALED 1,808 MILLION DOLLARS IN 1979, RISING TO 2,307 MILLION DOLLARS IN 1980. HOWEVER, IMPORTS FROM THE U. S. DECLINED FROM 917 THOUSAND DOLLARS IN 1979 TO 619 THOUSAND DOLLARS IN 1980 (A LOSS OF ABOUT 32.7 PERCENT) WHILE IMPORTS FROM GERMANY, THE U. K. AND FRANCE ROSE FROM 649 THOUSAND DOLLARS IN 1979 TO 1.09 MILLION DOLLARS IN 1980 (A GAIN OF ABOUT 68 PERCENT).

3. (LOU) IF DEPARTMENT AGREES, EMBASSY WISHES TO RAISE ISSUE WITH MINISTRY OF INDUSTRY AND TRADE. APPRECIATE RECEIVING DEPARTMENT'S ASSESSMENT AND ADVICE. LEWIS

~~LIMITED OFFICIAL USE~~

DECLASSIFIED
Authority State Waiver
BY *fn* DATE 4/10/89

DRAFTED BY USTR: MCOYLE: TJJ
APPROVED BY USTR: DCOOPER
COMMERCE: FBOVE
STATE: RRAPHEL (SUBS)
COMMERCE: FBOVE

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O 160044Z JAN 82
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TO AMEMBASSY TEL AVIV IMMEDIATE
INFO USMISSION GENEVA IMMEDIATE

~~LIMITED OFFICIAL USE~~ STATE 011059

PLEASE PASS USTR GENEVA

E. O. 12065: N/A
TAGS: ETRD, IS, USTR

SUBJECT: TARIFF TREATMENT OF ISRAELI IMPORTS OF FIBERGLASS
REINFORCEMENTS FROM U. S.

1. ED JAFFE OF WASHINGTON OFFICE OF PPG INDUSTRIES MET WITH USTR OFFICIALS LATE LAST YEAR TO EXPRESS PPG'S CONCERN ABOUT THEIR INABILITY TO COMPETE WITH FIBERGLASS IMPORTS INTO ISRAEL FROM THE EC. FIBERGLASS SHIPMENTS FROM THE EC ENTER FREE OF DUTY UNDER PROVISIONS OF THE ISRAEL-EC TRADE AGREEMENT WHILE ENTRIES FROM THE U. S. ARE SUBJECT TO A 8 PERCENT RATE OF DUTY PLUS RELEVANT TAXES AND A 13 PERCENT DEPOSIT REQUIREMENT. PPG REPORTED LOSING SIGNIFICANT SALES IN ISRAELI MARKET AS A RESULT.
2. USTR CONTACTED DAN DRACH AT ISRAELI EMBASSY IN WASHINGTON. HIS ASSESSMENT OF SITUATION WAS THAT GOI WAS LOCKED INTO TERMS OF EC-ISRAEL AGREEMENT AND WOULD HAVE NO FLEXIBILITY ON RATE OF DUTY APPLIED AGAINST IMPORTS FROM OTHER SOURCES.
3. JAFFE CONTACTED USTR AGAIN IN EARLY JANUARY TO RELAY CONTENTS OF A LETTER FROM SHLOMO GOTTFRIED, MANAGING DIRECTOR OF JUDEA-EXPORT LTD., TEL AVIV, WHO IS PPG'S AGENT IN ISRAEL. LETTER, DATED DECEMBER 21, REPORTS THAT GOI HAS GRANTED DUTY-FREE TREATMENT TO IMPORTS OF FIBERGLASS REINFORCEMENTS FROM THE U. S. DRACH, RECENTLY RETURNED FROM TEL AVIV, SAID HE HAD NO KNOWLEDGE OF ANY SUCH ACTION BY HIS GOVERNMENT.
4. ACTION REQUESTED: PLEASE VERIFY CURRENT TARIFF TREATMENT OF IMPORTS OF FIBERGLASS FROM THE U. S. IF DUTY STILL IN PLACE FOR U. S. PRODUCTS, PLEASE DISCUSS WITH APPROPRIATE GOI OFFICIALS POSSIBILITY OF MODIFYING TARIFF OR EQUALIZING TARIFF TREATMENT FOR EC AND U. S. FIBERGLASS PRODUCTS. FYI: IN VIEW OF CURRENT EXPIRATION OF NEGOTIATING AUTHORITY UNDER SECTION 124, AT THE MOMENT USTR HAS NO AUTHORITY TO ENTER INTO TRADE NEGOTIATIONS. HOWEVER, EXPRESSION OF USG INTEREST AT THIS TIME IN GOI TARIFF TREATMENT OF FIBERGLASS WOULD STILL BE APPRECIATED. END FYI. HAIG

~~LIMITED OFFICIAL USE~~

DECLASSIFIED

State Waiver
BY RW 4/10/19

PPG INDUSTRIES, INC./ONE GATEWAY CENTER/PITTSBURGH, PENNSYLVANIA 15222/U. S. A.

October 28, 1981

International Sales & Licensing
Fiber Glass Division

Mrs. Melissa Coyle
Office of the United States
Trade Representative
Executive Office of the President
600 17th Street N.W.
Winder Building
Washington, D.C. 20506

Dear Mrs. Coyle:

Thank you for meeting with me and Mr. Jaffee on the Israeli Import Duty issue on October 20. We are looking forward to your report and recommendations on the matter.

It has been brought to my attention that should Israel become a fiber glass producer, they could export to the U.S. duty free as ordered by the Generalized System of Preferences established by the Trade Act of 1974. If you could confirm this information, it should add strength to our request for lowering of current import duties levied by Israeli Customs.

Your cooperation is greatly appreciated.

Sincerely yours,

Manuel A. Agudo
International Marketing

MAA/kar

cc: Ms. P. Bonanno
Mr. E. Jaffee
Mr. R. Loeffler

REF: MAA-81.220

PPG INDUSTRIES, INC./ONE GATEWAY CENTER/PITTSBURGH, PENNSYLVANIA 15222/U. S. A.

October 23, 1981

International Sales & Licensing
Fiber Glass Division

Ms. Phyllis O. Bonanno
Director
Office of Private Sector Liaison
Executive Office of the President
600 17th St. N.W.
Winder Building
Washington, D.C. 20506

Dear Mr. Bonanno:

Please accept my appreciation for the time you spent meeting with me and Mr. Jaffee on the Israeli tariff issue and its effects on PPG fiber glass exports.

We will await with much interest Mrs. Coyle's report on the feasibility of pursuing this matter further, together with her comments on the proper strategy to follow towards a successful resolution of the issue.

Please extend my thanks to Mrs. Coyle, as well as Ms. Springer and Ms. Dwoskin for their kind attention. Ms. Dwoskin's contact at the State Department, Mr. Mullen, was most cooperative and quite able to answer our questions on the AID Program.

Thank you again for your assistance.

Sincerely yours,

Manuel A. Agudo

Manuel A. Agudo
International Marketing

MAA/kar

cc: Mr. E. Jaffee
Mr. R. Loeffler

REF: MAA-81.218



Date: October 19, 1981

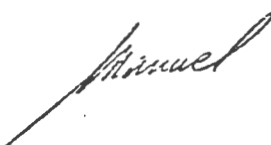
From: Fiber Glass International

Location: 16 North, #3

Subject: EEC Classification Numbers

To: Mr. E. Jaffee

7020.610 Yarns (except Rovings) treated for adhesion to Elastomers
7020.690 Yarns (except rovings) not treated for adhesion
7020.700 Continuous Textile Glass Fiber Rovings
7020.730 Fabrics made from rovings
7020.770 Narrow Woven Fabrics (less than 30 cm wide)
7020.790 Broad Woven Fabrics (more than 30 cm wide)
7020.800 Continuous Textile Glass Fiber Mats


Manuel A. Agudo
International Marketing

MAA/kar

cc: Mr. R. Loeffler

REF: MAA-81.216

Judea Export - Import Ltd.

19. HAZEVIRA STREET
TEL-AVIV. ISRAEL

TELEPHONE: { 334487
337510
785748

CABLE ADDRESS JUDEX TEL-AVIV
TELEX 341118 DXTV IL
FOM 3230 (JUDEA EXPORT IMPORT)



יהודה יצוא ויבוא בינלאומי (1971) כ"א

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פקס למברקים יודקס תל-אביב
ת.ד. 28236

OUR REF 15780-2

מספרנו

RECEIVED

15th of July, 1980

YOUR REF.

מספרכם

PPG Industries Inc.
One Gateway Center
Pittsburgh, PA. 15222
USA

FIBER GLASS
DIVISION

Att. Mr. Vaughn Kohanek, Manager International Sales
Fiberglass Division

Dear Vaughn,

RE: NEWMANN PLASTICS.

Thank you for your telex of July 14 offering price of \$1.20/kilo for 526 roving.

We have discussed Mr. Newmann's requirements and understand that he will be taking approximately 100 tons of material over the next year. We have one big problem. Due to the EEC-Israel Trade Agreement all fiberglass shipments coming in from the EEC today are free of duty. Not only do they save 8% customs duties which are placed on USA shipments, but they also save financing of an import deposit which must be left with the authorities for 6 months. All in all, on a landed basis with FOB prices being equal our material is 16% higher in cost than the same material coming from the EEC countries. This is solely due to custom tariff discrimination against USA products. I wrote you some time ago about the problems we have been running into due to this tariff discrimination and we now have an extremely large margin between USA produced fiberglass textile reinforcements and EEC products. I am certain that we are going to lose Pas Gon's business as soon as they get wind of this new development. This new tariff differential came into force on April 1.

I would therefore strongly urge you to contact the Department of Commerce and very strenuously push to obtain the same customs tariff benefits as are given to the EEC products. <The relative Brussels Tariff Nomenclature is 70.20 subparagraph 1000, and 2000 and 3000>

Regarding Mr. Newmann's requirements. He is using 2400 Tex roving for fillament winding producing small diameter piping masts for surf boards. He has received a very large order for masts from a USA firm who is taking a very large anual quantity from him. He needs the material with an outside takeoff. Alternatively he will accept inside takeoff but needs to have a material which will not twist when going over from one cheese to the next. He has run into problems with the inside takeoff and therefore wants to go over to the outside takeoff. What material would you suggest for these applications? I look forward to your earliest reply.

Sincerely yours,
JUDEA EXPORT IMPORT LTD.
Shlomo Gottfried,
Managing Director.

SG/ng

September 17, 1980

Ms. Phyllis Bonanno
United States Trade Office
Executive Office of the President
1800 G Street N.W.
Washington, D.C. 20506

Dear Ms. Bonanno:

We would like to express our appreciation for the time you, Mr. Williams and Mr. Lande spent with us in discussing Israel-EEC Preferential Trade and Middle East Boycott Clauses.

To confirm our mutual conclusions regarding these subjects, we have agreed to:

1. To delay a few months in vigorously attempting to affect the Israeli posture on the duties levied against fiber glass. We will, instead, try to verify through our agent and through the assistance of Mr. Drack the idea that the fiber glass reinforced plastics market in Israel is mainly defense and export oriented. If this is true, then we assume any protest against the preferential agreement is irrelevant.
2. Mr. Williams will discuss the example of the boycott clause we encountered with people at the Treasury Department. We would appreciate any information you may gain regarding the prospects of the liberalization of our trade positions with the Middle East Muslim States. We assume that liberalization will occur at a point soon after the new Congress convenes.

Thank you once again for the time you took to listen to our trade problems.

Very truly yours,

C. Vaughn Kahanek
Manager
International Sales

CVK/kar

REF: CVK-80.313

cc: Mr. M. Gleeson

September 17, 1980

Mr. Dan Drack
Assistant Economic Minister
Embassy of Israel
1621 22nd Street N.W.
Washington, D.C. 20008

Dear Mr. Drack:

I would like to take this opportunity to thank you for taking the time to discuss the Israeli tariff situation on U.S. imported continuous fiber glass products.

Although we cannot agree with the preferential treatment of EEC imported continuous fiber glass products, we recognize the dilemma you face in your relationship with the EEC. We will pursue, at your suggestion, the military and export fiber glass reinforced plastic applications in Israel, and will await your assistance in identifying some of those potential clients.

Meanwhile, we are enclosing our "RP by Design" brochure in which the products we make are identified. The basic end use market areas for reinforced plastics are as follows:

- Transportation (automobile and truck parts)
- Marine
- Construction (corrugated panel, shower stalls, building facades)
- Corrosion Resistant (sewer pipe, chemical pipe and tanks)

You will also note we have included two other brochures that describe end use products in transportation and electrical applications of fiber glass reinforced plastics.

Once again, thank you for your hospitality and we look forward to meeting you again.

Very truly yours,

C. Vaughn Kohanek
Manager
International Sales

CVK/kar

REF: CVK-80.315

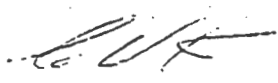
BCC: Mr. M. Gleeson

September 17, 1980

Visit to U.S. Trade Office
Washington, D.C.

Ms. Phyllis Bonanno, Representative Specialist Israel & Egypt
Mr. Stephen Lande, Asst. USTR for Bi-lateral Trade
Mr. Irv Williams, Trade Counsel

- Our purpose of visiting the Trade Office was two fold: 1) to register our complaint about the Israeli EEC preferential duty on fiber glass and enlist the Trade Office support in negotiating the U.S. duty downward 2) to see what could be done about eliminating the trade restrictions placed upon us by the ambiguities inherent in the U.S. policy regarding "Israeli-Boycott Statements".
 - 1.a. Lande explained how the margin between the duty levied on imported EEC fiber glass vs. imported U.S. fiber glass became so large. Basically, there were non-specific trade-offs made during negotiations by way of semantics and unfortunately, fiber glass reinforcements got caught in the semantics game.
 - b. The Israeli position on U.S. fiber glass is negotiable i.e. Israeli cheese for U.S. fiber glass. The Trade Office has agreed to pursue this problem but requested we first consult with our agent to see if the majority of the Israeli FGRP market is military and export oriented as Mr. Drack of the Israeli Embassy believes. If it is, then we really should not be affected by the tariff differentials.
 - c. We are to inform the Trade Office on what we learn regarding our correspondence with our Israeli Agent.
- 2.a. Irv Williams will discuss our specific boycott clause example with the Treasury Department.
- b. There is great interest on behalf of the U.S. Trade Office in getting Congress to repeal their legislation regarding Middle East Boycott issues and have been working in this direction.
- c. It is clearly anticipated that these restrictions will be removed no matter who wins the Presidency, but it will not be done until after the elections.


C. Vaughn Kohanek

CVK/kar

cc: Mr. J. Brownell
Mr. M. Gleeson
Mr. R. Loeffler
Mr. H. Paulus

3)
Cable
Unclassified
Routine

To: AmEmbassy Tel Aviv

Subject: Tariff Complaint from Hudson Wire Company

Ref: Tel Aviv 06742, USDOC 07800

Pass USTR (D. Dowskin) and State (~~Spillane~~ Spillane)

DOC, State and USTR concur that issue discussed in DOC reftel should be raised informally with appropriate GOI officials. We leave it to Embassy discretion whether or not to raise issue before June elections.

Cleared: D. Busigo, DOC/IEPR

D. Dwoskin, USTR

J. Spillane, State/NEA

INFO CCEN-01 ABC-02 /003 A0

RR RUEHIV
DE RUEHOC *7808 1112219
ZNR UUUUU
R 212217Z APR 81
FM USDOC WASHDC
TO AMEMBASSY TEL AVIV
BT
UNCLAS USDOC 07808

USDOC

EO 12065 N/A

TAGS: BEXP, IS

SUBJECT: TARIFF COMPLAINT FROM HUDSON WIRE COMPANY

1. A.E. COMBS, MANAGER OF MARKETING AND SALES, HUDSON WIRE COMPANY, OSSINING, NEW YORK 10562, PHONE: 914-941-8500 CONTACTED DOC CONCERNING DUTIES ON COPPER WIRE. MR. COMBS CONTENDS THAT HIS PRODUCT (BTN 74.03.1120) IS AT A DIS-ADVANTAGE COMPARED TO HIS WEST GERMAN COMPETITION DUE TO ISRAEL'S CURRENT DUTY STRUCTURE. HIS WIRE IS ASSESSED A DUTY OF 4 PERCENT WHILE THE DUTY ON WIRE FROM THE EC IS 3 PERCENT. ALTHOUGH THE DIFFERENCE IS SLIGHT, THIS FACT TOGETHER WITH THE STRENGTHENING OF THE DOLLAR HAS MADE SALES DIFFICULT FOR HUDSON. THE COMPANY DOES NOT HAVE AN ISRAELI AGENT, BUT HAS BEEN ATTEMPTING TO MAKE SALES IN CONNECTION WITH THE AIRBASE PROJECT.
2. INITIAL RESEARCH DISCLOSES NO GATT BINDING OR U.S. - ISRAELI AGREEMENT AFFECTING DUTY OR PREFERENCE LEVELS OF THIS ITEM.
3. DOC WOULD APPRECIATE EMBASSY COMMENTS ON THIS SITUATION AND ADVISABILITY OF RAISING PREFERENCE ISSUE FORMALLY OR INFORMALLY WITH GOI OFFICIALS.
4. LETTER AND COMPANY BROCHURE FROM COMBS POUCHED TO EMBASSY/GRAHAME. (OCM/CAGNE/245/KKEIM)

BT
*7808

UNCLASSIFIED

ACTION OFFICE 245-02
INFO CCEN-01 172-01 175-01 251-01 EG-00 /006 A2 118

RR RUEHDC
DE RUEHTV #6742 1181516
ZNR UUUUU ZZH
R 281502Z APR 81
FM AMEMBASSY TEL AVIV
TO USDOC WASHDC
BT
UNCLAS TEL AVIV 06742

FOR OCM/CAGNE/245/KKEIM

E. O. 12065: N/A
TAGS: BEXP, IS
SUBJECT: TARIFF COMPLAINT FROM HUDSON WIRE COMPANY

REF: USDOC 07808

1. ISRAEL CUSTOMS AUTHORITY HAS CONFIRMED THAT IMPORT DUTY ON EC SOURCED COPPER WIRE (BTN 74.03.1120) IS 3 PERCENT. DUTY FROM OTHER SOURCES, INCLUDING THE U. S. IS 4 PERCENT.
 2. ISRAEL IMPORTED 1 MILLION DOLLARS WORTH OF COPPER WIRE (BTN 74.03.1120) IN 1979, INCLUDING 218,000 DOLLARS WORTH FROM US AND 398,000 DOLLARS WORTH FROM GERMANY WHILE GERMAN SALES WERE ALMOST DOUBLE US SALES. GERMANY HAS ADVANTAGE OF LOWER TRANSPORTATION COSTS IN ADDITION TO 1 PERCENT DUTY DIFFERENTIAL. EMBASSY BELIEVES THAT DUTY DIFFERENTIAL HAD MINIMAL IMPACT ON US EXPORTS. HOWEVER, EMBASSY BELIEVES IT WOULD BE USEFUL TO RAISE PREFERENCE ISSUE WITH GOI OFFICIALS.
 3. PLEASE ADVISE. LEWIS.
- BT
#6742

UNCLASSIFIED

PAGE 01
ACTION OFFICE 245-02

INFO CCEN-01 143-01 172-01 175-01 251-01 300-01 340-01 410-01
402-01 412-01 416-01 418-01 CAS-00 /014 A2 120

RR RUEHDC

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ZNR UUUUU ZZH

R 300521Z APR 81

FM AMEMBASSY TEL AVIV

TO USDOC WASHDC

BT

UNCLAS TEL AVIV 06829

FOR OCM/CAGNE/245/KKEIM

E.O. 12065: N/A

TAGS: BEXP, IS

SUBJECT: TARIFF COMPLAINT FROM HUDSON WIRE COMPANY

REF: TEL AVIV 06742

1. REFTEL, PARA 2. SHOULD READ:

"ISRAEL IMPORTED 1 MILLION DOLLARS WORTH OF COPPER WIRE

(BTN 74.03.1120) IN 1979. RPT 1979. LEWIS

BT

#6829

UNCLASSIFIED

INFO OCT-00 ADS-00 NEA-07 COME-00 L-03 STR-11 AS-01
/030 R

DRAFTED BY EB/OT/GCP:JBAY
APPROVED BY EB/OT/GCP:JBAY
COMMERCE:DRYAN
USTR:DDWOSKIN
NEA/ECON:JKRAMER

R 170059Z JUL 81
FM SECSTATE WASHDC
TO AMEMBASSY TEL AVIV

UNCLAS STATE 187799

E.O. 12065: N/A

TAGS: ETRD, EEC, IS, BEP

SUBJECT: ISRAEL PREFERENTIAL TARIFFS ON EC IMPORTS

REF: TEL AVIV 6742

1. DEPARTMENT HAS RECEIVED A COMPLAINT FROM THE PAKO CORPORATION IN MINNEAPOLIS, MINNESOTA REGARDING ISRAELI PREFERENCES TO THE EC ON IMPORTS OF GRAPHIC ARTS PROCESSORS (BTN 90.10.99012) AND X-RAY FILM PROCESSORS (BTN 90.10.4000-16). PAKO STATES TARIFFS OF SIXTEEN PERCENT AND EIGHT PERCENT RESPECTIVELY ARE LEVIED ON U.S. PROCESSORS AND THAT SIMILAR EC PROCESSORS FROM THE EC ENTER ISRAEL DUTY-FREE. ACCORDING TO PAKO, 1980 EXPORTS OF THESE ITEMS TO ISRAEL TOTALLED ABOUT 100,000 DOLLARS.

2. PLEASE CONFIRM THAT: ISRAEL CHARGES TARIFFS OF: SIXTEEN PERCENT ON U.S. IMPORTS OF FILM PROCESSORS; EIGHT PERCENT ON U.S. IMPORTS OF X-RAY FILM PROCESSORS; ZERO FOR SIMILAR PRODUCTS FROM THE EC. IT WOULD ALSO BE USEFUL TO HAVE THE MOST RECENT ISRAELI IMPORT DATA (INCLUDING SUPPLIER POSITIONS) FOR THESE PRODUCTS.

3. AS IN THE HUDSON WIRE CASE, WE MAY WANT TO HOLD CONSULTATIONS WITH THE GOI ON THESE PREFERENCES AT AN EARLY DATE.
HAIG

UNCLASSIFIED

July 25, 1980

Department of Commerce
Economic Development Division
International Trade Administration
Room 20230

Kay Thompson
Room 4026

made to my conversations with Kay Thompson and
Commerce Department representatives approximately
. Reference is also made to the letter forwarded
D. E. Kletter, General Manager of our Compaction
July 12, 1979.

sions and correspondence had to do with import
into Israel under BTN Classification 84.09/5 of
Tariff Nomenclature. As I indicated in that
duty rate on compactors imported into Israel from
states was 16 percent. On the other hand, vibratory
imported from the EEC was only 3 percent.

reewith a letter received from our distributor in
Engineering & Manufacturing Company Limited, which
at the import duty rate on compactors from the
Israel has been eliminated.

appreciate the fact that the Commerce Department
has been actively involved in recent years with the Multilateral
Trade Negotiations and that, for various political reasons,
discussions with Israel have not proceeded with
speed. However, as a very practical matter, our
company is virtually excluded from the Israeli market and
it is strongly felt that something should be done.

appreciated if you would advise me of the time-
discussions with Israel which, I understand, will
be on a bilateral basis.

ch for your assistance in this matter.

John D. X. Corcoran
Manager
Customs and Immigration

Kletter
nager
Division

ser
International Accounts
ernational

very much for your assistance in this matter.

John D. X. Corcoran
Manager
Customs and Immigration

D. E. Kletter
General Manager
Compaction Division

r. M. Seker
Manager, International Accounts
& M International

the U.S. and
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ECONOMIC ANALYSIS

Imports from Israel

In 1980, we imported \$941 million from Israel, of which 97 percent was industrial items and 3 percent was agricultural products. Of the \$917 million in industrial imports, almost one half accounted for by imports of cut diamonds. On January 1, 1980, the U.S. reduced the MFN tariff on diamonds to zero. Imports of diamonds are therefore treated as if they had been duty-free since 1980. Although dutiable imports, excluding diamonds, were only \$44 million, or 5 percent of total imports, the value of imports that would be affected by a FTA is \$277 million if we include GSP items that enter duty-free as those excluded by competitive need restrictions. Imports covered under a FTA would be \$256 million of all industrial imports from Israel; agricultural imports would be on the order of \$21 million, which is 1 percent of agricultural imports from Israel. If we include apparel from the total trade coverage, the value of imports that would be affected by a FTA is \$263 million. When imports of citrus are included, the value of trade covered by a FTA is \$284 million.

Our large industrial imports that fall into four major categories: textiles, machinery, products and electronics. With respect to textiles, Israel accounted for 1 percent of the total U.S. imports of these products from all suppliers of these products from all countries. On the agricultural side, citrus, fruits, vegetables,

U.S. Exports to Israel

The U.S. has a surplus of \$607 million in merchandise trade with Israel. Exports of goods and concessional food aid, our exports to Israel total \$1.1 billion. Industrial goods accounted for 80 percent of exports and agricultural products for 20 percent. We arrive at an estimate of what proportion of U.S. exports to Israel are currently dutiable and would be affected by a FTA. We took a sample of our exports to Israel and calculated the duty rate applied to each of the items in the sample. The sample consisted of all line items in the Israeli Import and Export Trade Statistics for which U.S. exports exceeded \$1 million in 1980--about 85 percent of total U.S. exports to Israel.

Thank you very much for your assistance in

dw
Enclosure
cc: Mr. D. F.
Gener.
Cor.

AD

If we divide the sample into industrial and agricultural products, we find that 46 percent of our industrial exports in the sample are subject to a duty and that only 5.4 percent of our agricultural exports are dutiable. Taking all exports as a whole, 28 percent of U.S. exports to Israel in the sample were dutiable. If we then assume that 28 percent of U.S. exports to Israel outside the sample are also dutiable, we find that \$509 million worth of U.S. exports to Israel would be affected by a free trade area.

If we assume that textiles would be excluded from a FTA, the value of our dutiable exports to Israel is somewhat reduced. In 1980, we exported \$36.7 million worth of textiles to Israel. Consequently, the value of our exports that would be affected by a free trade area drops to \$472.4 million, or 31 percent of the value of total U.S. exports to Israel.

Our major industrial exports to Israel are chemicals, steel, machinery and tools, motor vehicles and textiles. We supply Israel with a significant proportion of their imports of these products. Taking a sample of our top thirty industrial exports to Israel, we find that the EC is a major third country supplier to Israel of virtually all of these products. This implies that without some sort of agreement with Israel, the U.S. is likely to lose market share to the EC in the high value export items once the Israel-EC preferential arrangement is fully in place. Only about \$22 million of our large agricultural exports are subject to a duty in Israel; these exports include certain nuts, same, tobacco and cigarettes.

Imports from Egypt

Total imports from Egypt in 1980 were valued at \$451 million. By far the largest item in this trade is petroleum. Petroleum currently is duty-free under duty-suspension legislation. For the purposes of this analysis, therefore, it was considered to be duty-free and was not included in the value of our imports from Egypt that would be affected by a FTA. Taking dutiable imports (excluding petroleum) and GSP duty-free imports, the trade coverage is small - \$31 million or 7 percent of total imports from Egypt. We estimate that a FTA would affect approximately \$30 million worth of industrial imports and \$0.9 million worth of agricultural imports. If textiles and apparel are excluded, however, the value of our industrial imports from Egypt that would be covered by a FTA drops to \$2.2 million.

U.S. Exports to Egypt

Although U.S. exports to Egypt in 1980 were \$1.7 billion, a large proportion of these exports are either concessional food aid or military assistance. Our ability to identify the amount of our dutiable exports to Egypt is extremely limited because a substantial portion of our exports there is purchased by the state. However, we assume that significant shipments could be covered by a FTA.

APPENDIX II, TABLE 1

TOTAL U.S. IMPORTS FROM ISRAEL

1980 (\$1,000)

I	Total Imports	941,054
	Total Agricultural Imports	24,420
	(% of total imports)	(3%)
	Total Industrial Imports	916,634
	(% of total imports)	(97%)
II	MFN Free Imports(% of total imports)	646,203.7 (69%)
	Diamonds (% of total imports)	440,559 (47%)
	MFN Dutiable Imports (% of total imports)	44,474.3 (5%)
	GSP Eligible Imports (% of total imports)	250,376 (27%)
III	Total Value of Imports that would be affected by a FTA	
	--MFN Dutiable Imports	44,474.3
	--GSP Free Imports	230,769.1
	--GSP Competitive Need Exclusions	2,146
	TOTAL (% of total imports)	277,389.4 (29%)
IV	Textile Imports (% of total imports)	14,203 (1.5%)
	Total Imports affected by a FTA if textiles are excluded	
	(% of total imports)	263,186.4 (28%)
V	Citrus Imports (% of total Imports)	2,766 (0.29%)
	Total Imports affected by a FTA if citrus is excluded (% of total imports)	260,420.4 (27%)

APPENDIX II, TABLE 2

U.S. INDUSTRIAL IMPORTS FROM ISRAEL

1980 (\$1,000)

I	Total Industrial Imports	916,634
	MFN Free Industrial Imports	644,568.7
	(% of total industrial imports)	(70%)
	Diamonds (% of industrial imports)	440,559 (48%)
	MFN Dutiable Industrial Imports	36,192.3
	(% of industrial imports)	(4%)
	GSP Eligible Industrial Imports	235,873 (26%)
	(% of industrial imports)	
II	Total Value of Industrial Imports that would be affected by a FTA	
	--MFN dutiable industrial imports	36,192.3
	--GSP free industrial imports	220,101.8
	--GSP industrial competitive need exclusions	147
	TOTAL (% of industrial imports)	256,441.1 (28%)
III	Textile Imports (% of industrial imports)	14,203 (1.5%)
	Total Industrial Imports affected by a FTA if textiles are excluded	
	(% of industrial imports)	242,238.1 (26%)

		1980 Imports U.S. \$1000	as % of Tot. U.S. Imports		
30966	Waste of manmade fibers	202	4%	2.5%	Canada, Germany, Mexico
31050	Yarns of noncontinuous manmade fibers, plied	132	0%	3¢/lb. + 12.5% ad. val.	Japan, Canada, Philippines
31091	Yarns for handwork	157	2%	22%	France, Canada, Belgium
33660	Wool woven fabrics	129	0%	37.5¢/lb. + 38% ad. val.	Japan, UK, Italy
34770	Narrow fabrics	141	3%	12¢/lb. + 9.5% ad. val.	France, Switzerland, Japan
38006	Men's or boys' wearing apparel, knit, of cotton	603	0%	21%	Hong Kong, Taiwan, Japan
38061	Other men's or boys' wearing apparel	320	1%	37.5¢/lb. + 20% ad. val.	Hong Kong, UK, China
38204	Women's, girls', infants' lace or net wearing apparel	222	0%	42.5%	Taiwan, Philippines, Hong Kong
38206	Women's, girls', infants' wearing apparel, of cotton, knit	490	0%	21%	Hong Kong, Japan, Macao
38278	Women's, girls', infants' wearing apparel of manmade fibers	10,630	1%	25¢/lb. + 32.5% ad. val.	Taiwan, Korea, Hong Kong
3356	Derivatives of phenols or phenol-alcohols	380	12%	1.4¢/lb. + 19.4% ad. val.	UK, Germany

APPENDIX II, Table 3 (cont'd)

40360	Cyclic or benzenoid organic chemicals	2,401	1%	11.9% (TSUS 40361)	Germany, Japan UK
40860	Benzenoid compounds	475	10%	3.5¢/lb. + 22.5 % ad. val. (1980 rate)	Switzerland, Japan, Netherlands
42928	Ethylene dibromide	165	100%	1¢/lb. + 5.4% ad. val.	No other third country
45234	Lemon Oil	115	0%	8.5%	Argentina, Italy, Brazil
60783	Plates and sheets of iron and steel	294	0%	8%	Japan, Germany, France
61032	Iron or steel pipes and tubes welded	4,168	1%	3¢/lb.	Japan, Korea, Canada
61049	Iron or steel pipes and tubes	1,097	0%	10.5%	Japan, Spain, Germany
64211	Wire Strand	197	0%	6.9%	Japan, Belgium, So. Africa
64626	Nails, brads, and similar articles	386	0%	0.5%	nada
68511	Monochrome & color TV	262	0%	5%	on, Korea, Japan
68518	Cabinets, antennas, etc.	104	0%		. Japan, re
68580	Electric capacitors	232	0%		xico, Taiwan
68610	Resistors	6,040			'co, Canada
68758	Electronic tubes	256			ngapore, Japan
68840	Electrical articles				, Hong Kong

APPENDIX II, Table 3
Israel-1 Imports
of Ttl.
rtsMFN
Duty

2.5%

+ val.

Other Major Third
Country Suppliers

Canada, Germany, Mexico

Japan, Canada, Philippines

France, Canada, Belgium

UK, Italy

land, Japan

X

APPENDIX II, Table 3 (cont'd)

69220	Autos, truck, and motor bus chassis	597	0%	4% (1980 rate)	Japan, Brazil, France
79174	Wearing apparel of leather	321	3%	6%	Canada, UK, Korea, Taiwan, Italy, Hong Kong

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APPENDIX II, TABLE 4

U.S. AGRICULTURAL IMPORTS FROM ISRAEL

1980 (\$1,000)

I	Total Agricultural Imports	24,420
	MFN Free Agricultural Imports	1,635
	(% of agricultural imports)	(7%)
	MFN Dutiable Agricultural Imports	8,282
	(% of agricultural imports)	(34%)
	GSP Eligible Agricultural Imports	14,503
	(% of agricultural imports)	(59%)
II	Total Value of Agricultural Imports that would be affected by a FTA	
	--MFN Dutiable Agricultural Imports	8,282
	--GSP Free Agricultural Imports	10,667.3
	--GSP Agricultural Competitive Need Exclusions	1,999
	TOTAL (% of agricultural imports)	20,948.3 (86%)
III	Citrus Imports	2,766
	(% of agricultural imports)	(11%)
	Total Agricultural Imports affected by a FTA if citrus is excluded	18,182.3
	(% of agricultural imports)	(74%)

APPENDIX II, Table 5

Major Agricultural Imports from Israel, CY 1980
Top 30 and Principal Suppliers

TSUS	Description	Value	Israel Ex. as % of US		Major Third Country Suppliers	US Evaluat
			Total Imports	MFN Duty		
19245*	Licorice extract (flavoring extract)	\$3,164,095	58%	6%	Spain, Switz., Japan	
18220	Biscuits, cakes, wafers	2,567,337	3%	2.6	Canada, Denmark, UK	
16730	Still wines from grapes	1,867,321	0%	3.7¢ per gal	Italy, FRG, France	
14717	Grapefruit	1,643,021	62%	0.6¢ per lb.	Israel, Mexico, So. Africa	
19217	Fresh cut miniature spray carnations	1,250,766	47%	7%	Israel, Colombia, Dom.Republic	
14731	Oranges, except mandarins & kumquats	1,123,319	12%	1¢ per lb.	Mexico, Spain, Turkey	
11788	Cheese	1,022,653	1%	10%	Denmark, France, New Zealand	
15710	Candy, and other confectionery, nspf.	945,736	1%	7%	FRG, Brazil, Netherlands	
12710	Garden & Field seeds	828,431	5%	1.5¢ per lb.	Mexico, Netherlands, Taiwan	
15630	Chocolate	824,043	3%	5%	Canada, UK, Ireland	
14166	Tomatoes	793,989	9%	14.7%	Italy, Spain, Israel	
16515	Apple/pear juice	741,819	2%	Free	Argentina, So. Africa, France	
11767	Pecorino cheese	580,924	5%	12%	Romania, Greece, Bulgaria	
12515	Narcissus bulbs	520,454	9%	\$2.10 per 1,000	Netherlands, Israel, UK	

APPENDIX II, Table 5 (cont'd)

12661	Onion seed	446,753	14%	Free	So. Africa, Israel, Netherlands
18252	Soups, soup rolls	420,666	2%	7%	Switzerland, Japan, FRG
14145	Onions	395,207	28%	8%	Netherlands, Israel, Bel.-Lux.
14165	Tomato paste & sauce	339,442	4%	13.6%	Mexico, Portugal, Israel
14177	Vegetables, packed in salt and brine	332,791	10%	12.0%	Taiwan, Mexico, Korea
14850	Olives	286,449	0%	5.4%	Spain, Morocco, Canada
14056	Vegetables, nspf, dried, desiccated	274,501	3%	13.4%	Mexico, PRC, Switzerland
12534	Bulbs, roots	266,315	2%	5.5%	Netherlands, Canada, So. Afr.
19219	Fresh cut flowers	223,275	1%	8%	Colombia, Netherlands, Canada
14700	Citrons, fresh, dried or in brine	191,781	100%	0%	Israel
11765	Cheese from sheeps' milk	190,877	10%	9.1%	Italy, Romania, others
18305	Edible prep.	173,862	0%	10%	Japan, Taiwan, Hong Kong
19221	Fresh cut flowers	149,622	0%	8%	Colombia, Netherlands, Canada
14075	Vegetables, reduced to flour	146,699	3%	13%	Portugal, Mexico, Japan
14054	Carrots, dried, desiccated or dehyd.	131,224	48%	10%	Mexico, Dom. Rep., Taiwan
14705	Grapefruit, prep/pres	128,887	30%	2.4%	Mexico, Israel, Hong Kong, Ecuador

Supplier position based on 1980 import data for TSUS or Commodity Group

Top 30

U.S. Ag. Imports from Israel Valued at \$100,000 or OverMFN Duty Free

<u>TSUS</u>	<u>Description</u>	<u>Value</u>	<u>% of Total Imports</u>
14700	Citrons, fresh, dried brine	191,781	100%

GSP Duty Free

<u>TSUS</u>	<u>Description</u>	<u>Value</u>	<u>% of Total Imports</u>
19245	Licorice exct.	3,164,095	58%
19217	Fresh cut min. spray carnations	1,250,766	47%
14145	Onions, packed in salt/ brine	395,207	28%
14054	Carrots, dried, dessicated, dehydrated	131,224	48%

Dutiable Items

<u>TSUS</u>	<u>Description</u>	<u>Value</u>	<u>% of Total Imports</u>
16730	Still wines from grapes	1,867,321	0%
14717	Grapefruit	1,643,021	62%
14731	Oranges, except mandarin.	1,123,318	12%
11788	Cheese*	1,022,653	1%
14166	Tomatoes	793,989	9%
14165	Tomato paste & sauce	339,442	13.6%
14850	Olives	286,449	0%
19219	Fresh cut flowers	223,275	1%
14075	Vegetables, reduced to flour	146,699	
14705	Grapefruit, prep/pres	128,867	30%

*quota

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APPENDIX II, TABLE 7

TOTAL U.S. IMPORTS FROM EGYPT

1980 (\$1,000)

I	Total Imports	450,874.5
	Total Agricultural Imports	4,328.7
	(% of total imports)	(1%)
	Total Industrial Imports	446,545.8
	(% of total imports)	(99%)
II	MFN Free Imports (% of total Imports)	419,947.5 (93%)
	Petroleum (% of total imports)	410,284 (91%)
	MFN Dutiable Imports (% of total imports)	28,376 (6%)
	GSP Eligible Imports (% of total imports)	2,551 (1%)
III	Total Value of Imports that would be affected by a FTA	
	--MFN Free Imports	28,376
	--GSP Free Imports	2,199
	--GSP Competitive Need Exclusions	----
	TOTAL (% of total imports)	30,576 (7%)
IV	Textile Imports (% of total imports)	27,466 (6%)
	Total Imports affected by a FTA if textiles are excluded	
	(% of total imports)	3,109 (0.7%)

APPENDIX II, TABLE 8

U.S. INDUSTRIAL IMPORTS FROM EGYPT

1980 (\$1,000)

I	Total Industrial Imports	446,545.8
	MFN Free Industrial Imports	416,632.8
	(% of industrial imports)	(93%)
	Petroleum (% of industrial imports)	410,284 (92%)
	MFN Dutiable Industrial Imports	28,209
	(% of industrial imports)	(6%)
	GSP Eligible Industrial Imports	1,704
	(% of industrial imports)	(0.5%)
II	Total Value of Industrial Imports that would be affected by a FTA	
	--MFN Dutiable Industrial Imports	28,209
	--GSP Free Industrial Imports	1,481
	--GSP Industrial Competitive Need Exclusions	-----
	TOTAL (% of total industrial imports)	29,690 (7%)
III	Textile Imports	27,466
	(% of industrial imports)	(6%)
	Total Industrial Imports affected by a FTA if textiles are excluded	
	(% of industrial imports)	2,224 (0.5%)

<u>TSUS</u>	<u>Product</u>	1980 Imports <u>U.S. \$1000</u>	Egyptian Imports as % of Ttl <u>U.S. Imports</u>	<u>MFN Duty</u>	<u>Other Major Third Country Suppliers</u>
30015	raw cotton	568	60%	3.5¢/lb.	Peru
30110	Yarn of cotton	4,776	95%	4.84%	No other major suppliers
30120	Yarn of cotton	1,956	69%	6.44%	Peru, Korea
30130	Yarn of cotton	6,910	77%	9.64%	
30210	Yarn of cotton	176	43%	base rate +3.25% ad. val.	Mexico
30220	Yarn of cotton	239	62%	base rate +3.25% ad. val.	No other major suppliers
30230	Yarn of cotton	486	56%	base rate +3.25% ad. val. (TSUS 30228)	Peru, UK
32000	Woven cotton fabrics	485	1%	5.9% (TSUS 32001)	Hong Kong, Peru, Singapore
32010	Woven cotton fabrics	8,056	6%	7.61%	Hong Kong, Peru, Pakistan
32020	Woven cotton fabrics	1,091	3%	9.51%	China, Korea, Colombia
32080	Woven cotton fabrics	137	84%	3.8¢/lb. + 21% ad. val.	No other major suppliers
36015	Floor coverings	496	0%	5.1%	India, China Pakistan
38024	Men's or boys' pajamas	175	1%	8%	Dominican Republic, Hong Kong, Nicaragua

APPENDIX II, Table 9 (cont'd)

38027	Men's or boys' shirts	1,361	1%	21%	Hong Kong, Taiwan, China
38233	Other women's, girls', infants' apparel of cotton	106	0%	16.5%	Hong Kong, India, Taiwan
40650	Colors, dyes, stains from benzenoid products	103	0%	20% (1980 rate)	Germany, Switzerland, Japan
70607	Leather handbags	344	0%	10%	Hong Kong, Korea, Dominican Republic

APPENDIX II, TABLE 10

U.S. AGRICULTURAL IMPORTS FROM EGYPT
1980 (\$1,000)

I	Total Agricultural Imports	4,328.7
	MFN Free Agricultural Imports	3,314.7
	(% of agricultural imports)	(77%)
	MFN Dutiable Agricultural Imports	167
	(% of agricultural imports)	(4%)
	GSP Eligible Agricultural Imports	847
	(% of agricultural imports)	(20%)
II	Total Value of Agricultural Imports that would be affected by a FTA	
	--MFN Dutiable Agricultural Imports	167
	--GSP Free Agricultural Imports	719
	--GSP Agricultural Competitive Need Exclusions	---
	TOTAL (% of agricultural imports)	886 (20%)

APPENDIX II, TABLE 11

U.S. EXPORTS TO ISRAEL
(U.S. \$1,000)

I. Total exports	1,548.2
(excluding military assistance and concessional food aid)	
Agricultural exports (% of total)	433 (28%)
Industrial exports (% of total)	1,115.2 (72%)
II. Sample of major exports - value of exports exceeding \$1 million	1,316.9
(% of total exports)	(85%)
III. Value of dutiable items in sample	432.8
(% of total items in sample)	(33%)
Value of total dutiable exports assuming 33% of items outside the sample are also dutiable	509.1
(% of total imports)	(33%)
IV. Value of textile exports	36.7
(% of total)	(2.4%)
Value of total dutiable exports, excluding textiles	472.4
(% of total exports)	(31%)

1980

(U.S. \$ million)

Ttl Imports from the U.S. 1980	\$1,548.2	
Ttl Ag. <u>1</u> / Imports from the U.S. (total)	433	(28%)
Ttl Industrial Imports from the (% of Ttl.)	1,115.2	(72%)
or industrial U.S. exports		
U.S. industrial exports, exceeding million in 1980 (% of ttl. U.S. industrial exports)	894.4	(80%)
sample		
of dutiable items in sample (% of total)	410	(46%)
ossible dutiable items		
of dutiable items, assuming all industrial outside sample are dutiable (% of Ttl. exports).	631	(57%)
of dutiable items, assuming all indus. outside sample are non-dutiable (% of indus. exports)	410	(37%)
of dutiable items, assuming same portion of industrial goods outside are dutiable (% of ttl. industrial ts).	513	(46%)

ap. 1 through 24 and chap. 41 of Israeli tariff schedule.

II, TABLE 12(cont'd)

lysis, excluding textiles 2/

Ttl. industrial exports from U.S. excluding
textiles

1078.5

0) Value of sample, excl. the textile items

869.3

1) Value of dutiable items in sample, excl.
textiles (% of sample, excl. textiles)

391.3 (45%)

2) Value of dutiable items, assuming all
non-textile items outside sample are
dutiable (% of ttl. exports excl. textile)

600.5 (56%)

13) Value of dutiable items, assuming all
non-textile outside sample are non-dutiable
(% of ttl. exports excl. textile)

391.3 (36%)

(14) Value of dutiable items, assuming same
proportion of non-textile items outside
sample are dutiable (% of ttl. exports,
excl. textile)

485.3 (45%)

Coverage ratio if textiles are excluded

(15) Value of dutiable items in sample

410

(15) Value of dutiable items in sample, excl.
dutiable textiles (% ttl. dutiable items
in sample)

391.3 (95%)

Includes chap. 1 through 24 and chap. 41 of Israeli tariff schedule.

Textiles are considered chapters 50 through 63 in the Israeli tariff
schedule, except chap. 41.

APPENDIX II, TABLE 13

Top Thirty dutiable U.S. industrial exports to Israel 1980 (U.S. \$1000)

<u>Israel Item No.</u>	<u>Product</u>	<u>U.S. Exports to Israel 1980</u>	<u>U.S. Exports as % of total Israel imports</u>	<u>Major Third Country Suppliers</u>
87029930	Motor vehicles, diesel	24,718	71%	Sweden, EC
84530000	Auto statistical machines	42,706	43%	EC, Sweden, Canada
48013090	Kraft paper	22,706	76%	Finland, Portugal, Sweden EC
87069900	Parts for motor vehicles	4,990	25%	EC, Japan, Sweden
90281090	Elec. measuring apparatus	12,829	66%	EC, Switzerland, Japan
39011040	Polyamides	3,651	59%	EC
39021010	Polyethylene	7,601	37%	EC, Japan, Canada
90179900	Medical instruments	7,084	45%	EC, Japan Singapore
90299900	Measure check instru. parts	5,439	60%	EC, Switzerland
51011090	Synthetic yarn	5,364	18%	EC, Switzerland
73329900	Bolts, nuts, screws	7,526	57%	EC, Switzerland, Japan
74079900	Tubes, pipes	4,128	39%	Canada, EC, Japan
76029990	Aluminum wrought bars	5,839	63%	EC, Switzerland
76039900	Wrought plates, sheets	8,554	62%	EC, Austria
82056000	Punches, dies for wire drawing	4,783	84%	EC, Switzerland
84011010	Steamers	5,751	27%	Canada, EC, Sweden
84069990	Engine parts	3,911	46%	EC

APPENDIX II, Table 13

84159900	Refrigerators	4,996	36%	EC, Sweden
87029919	Light transport vehicles	4,301	46%	EC
84225090	Cranes, conveyors	6,928	48%	EC
84239900	Earth excavating machines	11,688	67%	EC, Switzerland
84552000	Machine parts	7,707	50%	EC, Sweden
84614000	Taps, cocks, valves	7,591	46%	EC, Switzerland, Canada
87071018	Lift, other	5,369	44%	EC, Switzerland
85019990	Electric goods	3,874	65%	EC
85132090	Parts elec. line	7,437	42%	Switzerland, EC, So. Africa
85151000	Radio, tele equip.	9,404	85%	EC, Canada
85199990	Other electrical appliances	20,198	48%	EC, Switzerland, Japan
85239990	Insulated elec. cables	6,118	49%	EC, Switzerland
87021019	Passenger cars	5,062	30%	EC, Sweden

US Agricultural Exports to Israel

\$1,000

Total:

\$433

Major agricultural exports
(over \$ 1 million)

422.5

% of total agricultural trade

98%

dutiable exports

5.4%

USDA
Eval-
uation

<u>Item</u>	<u>Description</u>	<u>Value</u>	<u>Rate</u>	<u>Third Country</u>	<u>Suppliers</u>	<u>USDA Eval- uation</u>
0201000	Meat	5.304	D	Argentina, Australia, Romania		
08059900	Nuts	2.45	D	USA, Portugal, U.K.		
10010000	Wheat & meslin	109.751	E	USA and others		
10030000	Barley	4.209	E	USA, Switzerland, others		
10050000	Maize	89.136	E	USA		
10061000	Rice	2.019	E	Australia, Uruguay, USA		
10079900	Millet/sorghum	58,389	E	USA, So. Africa, Argentina		
12012500	Sesame	1.704	D	Mexico, Switzerland, USA		
12015500	Soybeans	123.466	E	sole supplier USA		
15071031	Soybean oil	5.916	E	USA, Netherlands		
17019900	Beetsugar & cane	6.806	E	Netherlands, So. Africa		
20079900	Fruit & veg. juice	2.565	D	Brazil, USA, FRG		
23079900	Animal Food	1.007	D	USA, Switzerland, FRG		
24010000	Tobacco	3.584	D	So. Africa, USA, Switzerland		
24021000	Cigarettes	5.087	D	USA, UK, France		
4101100	Hides, Buffalo	1.134	D	USA, So. Africa, France		

D= dutiable, e = exempt

I. Overall Data

- (1) Ttl. U.S. exports to Egypt, including food aid and military equip. 1,742
- (2) Ttl. U.S. ^{ag.} exports to Egypt, including ag. specified programs (% of total) 770 (44)
- (3) Ttl. U.S. indus. exports to Egypt including military equip. (% of total) 972 (56)

II. Overall Data, excluding food aid

- (1) Ttl. U.S. exports to Egypt, excluding ag. specified programs 1,341
- (2) Ttl. U.S. ag. exports to Egypt, excluding ag. programs (% of ttl. exports excluding ag. programs) 369 (28%)
- (3) Ttl. U.S. industr. exports to Egypt (% of ttl. excluding ag. programs) 972 (72%)

Source: Bureau of the Census
U.S. Foreign Ag. Trade Stat. Report, CY 1980

Text of Bilateral GSP Understanding

Ministry of Foreign Affairs - Jerusalem

The Ministry of Foreign Affairs ^{presents} its compliments to the Embassy of the United States of America and has the honour to address the Embassy as follows in the context of the Joint Statement issued at the conclusion of the meeting in 18 May of the United States-Israel Joint Committee for Investment and Trade:

It will be recalled that the Committee discussed the provisions of the Trade Act of 1974 concerning the generalized system of preferences and agreed that the two Governments would consult together at an early date with a view to extending such preferences to Israel consistently with those provisions.

The consultations were duly held in Washington between 24 and 27 June. As a result of them, the Ministry is now in a position to inform the Embassy of the following assurances by the Government of Israel to the Government of the United States of America:

1. Within its overall plan, to reduce its import duties on a most-favored-nation basis, and with a view to eliminating preferential margins that presently exist affecting United States exports to Israel, the Government of Israel will reduce duties, as indicated in the accompanying list, on that basis, on or before 1 January 1976.
2. Furthermore, it is the intention of the Government of Israel to avoid any significant adverse effects in the future on United States exports to Israel that result from the Agreement made on 11 May between the European Community and Israel. To that end, and also bearing in mind the proscriptions of Section 502 (B)

of the Trade Act, the Government of Israel will, at least for the duration of the extension to Israel of the United States generalized system of preferences, reduce duties on a most-favored-nation basis to the extent permitted by the said agreement of May on all tariff items (eight digits) appearing in the accompanying list which meet the following criteria:

- a. That the most-favored nation duty current is not less than 10.5% . (This criterion would be subject to joint review in the light of the Israeli tariff of import duties prevailing from 1980 onwards.)
- b. That imports from the United States in the recent calendar year for which ~~st~~ statistics are available exceeding^{ed} 375,000. on the basis of the eight-digit Israeli nomenclature in force on July, 1975.
- c. That the share of the European Economic Community in the total of Israeli imports was at least 10 per cent during the most recent calendar year.

These reductions of duty shall be implemented within three months of publication of Israel's official import trade statistics for the previous year, beginning with the publication of such statistics for the calendar year 1976 and each year thereafter.

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3. Import duties on all items which may be of particular interest to the United States but which do not qualify for reduction on a most-favored-nation basis under paragraph 2 above, will be reduced if United States trade in such items would otherwise be adversely affected in significant measure. Such reductions shall be implemented within three months of publication of Israel's official import trade statistics for the previous year, beginning with the publication of such statistics for the calendar year 1976 and each year thereafter.

Furthermore, at the request of either country, joint reviews will be held to consider the addition of products to the accompanying list or their removal from it. Likewise, at the request of either country, discussions will be held on such other relevant factors as the interpretation of the above-mentioned requirements of the Trade Act and the possible impact of inflation on the criteria enumerated.

The Ministry of Foreign Affairs avails itself of this opportunity to renew to the Embassy of the United States of America the assurances of its highest consideration.

Jerusalem, 15 October 1975.

Embassy of the United States of America in Israel.