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TO KIMMITT FROM PETERSON, R DOCDATE 20 MAR 85

KEYWORDS: ISRAEL INTL TRADE

LEGISLATIVE REFERRAL

SUBJECT: USTR DRAFT RE US - ISRAEL FREE TRADE AREA IMPLEMENTATION ACT & CPY OF FREE TRADE AGREEMENT

ACTION: MEMO KIMMITT TO PETERSON DUE: 25 MAR 85 STATUS S FILES WH

FOR ACTION	FOR CONCURRENCE		FOR INFO
COVEY	MCMINN	ROBINSON	STARK
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2261

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

SPECIAL

March 20, 1985

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer-

Department of Commerce - M. Levitt-377-3151
Department of State- C. Alba-632-0430
National Security Council
Department of the Treasury-A. Intrater-566-8523
Department of Labor-S. Zinman-523-8201
Department of Agriculture- S. Clemans-382-1516
Department of Justice- J. Perkins-898-1539

SUBJECT: USTR draft United States-Israel Free Trade Area Implementation Act and a copy of the Free Trade Agreement.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than

TUESDAY, MARCH 26, 1985.

Questions should be referred to Sue Thau/Tracey Lawler (395-7300) the legislative analyst in this office.

Ronald K. Peterson

RONALD K. PETERSON FOR
Assistant Director for
Legislative Reference

Enclosures
cc: Ed Strait Kate Newman Jim Jukes

SPEC

GIBBON118

HLC

[DISCUSSION DRAFT]
[UNITED STATES-ISRAEL FREE TRADE AREA IMPLEMENTATION ACT]
[3/18/85]

99TH CONGRESS
1ST SESSION

H. R.

IN THE HOUSE OF REPRESENTATIVES

Mr. WRIGHT (for himself and Mr. MICHEL) [or designees] (by request) introduced the following bill; which was referred to the Committee on

A BILL

To approve and implement the free trade area agreement between the United States and Israel.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ``United States-Israel Free Trade Area Implementation Act''.

SEC. 2. PURPOSES OF ACT.

The purposes of this Act are--

(1) to approve and implement the Agreement on the Establishment of a Free Trade Area between the Government of the United States of America and the Government of Israel that was negotiated under the authority of section 102 of the Trade Act of 1974;

(2) to strengthen and develop the economic relations between the United States and Israel for their mutual benefit; and

(3) to establish free trade between the two nations through the removal of trade barriers.

SEC. 3. DEFINITION.

As used in this Act, the term ``Agreement'' means the Agreement on the Establishment of a Free Trade Area between the Government of the United States of America and the Government of Israel, entered into on __________, 1985, and submitted to the Congress on __________, 1985.

SEC. 4. CONGRESSIONAL APPROVAL OF THE AGREEMENT AND PROPOSED ADMINISTRATIVE ACTION FOR IMPLEMENTATION.

In accordance with the provisions of sections 102 and 151 of the Trade Agreements Act of 1979 (19 U.S.C. 2112 and

2191), the Congress approves--

(1) the Agreement; and

(2) the statement of administrative action, submitted to Congress with the Agreement on __________, 1985, proposed to implement the Agreement.

SEC. 5. PROCLAMATION AUTHORITY.

(a) TARIFF MODIFICATIONS.--The President may proclaim such modifications or continuance of any existing duty, such continuance of existing duty-free or excise treatment, or such additional duties as he determines are required or appropriate to carry out the schedule of duty reductions with respect to Israel set forth in Annex 1 of the Agreement; except that no modification may be proclaimed under this subsection [or subsection (b)] to any duty with respect to Israel for any article set forth in paragraph (4) of that Annex.

(b) ADDITIONAL AUTHORITY.--Whenever the President determines that it is necessary to maintain the general level of reciprocal and mutually advantageous concessions with respect to Israel provided for by the Agreement, he may proclaim such withdrawal, suspension, modification or continuance of any duty, such continuance of existing duty-free or excise treatment, or such additional duties, as he determines to be required or appropriate to carry out the Agreement.

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SEC. 6. RELATIONSHIP OF AGREEMENT TO UNITED StATES LAW.

(a) UNITED STATES STATUTES TO PREVAIL IN CONFLICT.--No provision of the Agreement, nor the application of any such provision to any person or circumstance, which is in conflict with [title IV of the Tariff and Trade Act of 1984 (Public Law 98-573, 98 Stat. 3031-3018) or] any other statute of the United States, shall be given effect under the laws of the United States.

(b) IMPLEMENTING REGULATIONS.--Regulations that are necessary or appropriate to carry out actions proposed in any statement of proposed administrative action submitted to the Congress under section 102 of the Trade Act of 1974 to implement the Agreement shall be promulgated. Initial regulations [to implement the Agreement] shall be issued within [one year] after the date of its entry into force with respect to the United States.

(c) STATUTORY CHANGES TO IMPLEMENT THE AGREEMENT.--The provisions of section 3(c) of the Trade Agreements Act of 1979 (19 U.S.C. 2504(c); relating to changes in statutes to implement requirements, amendments, or recommendations of trade agreements) apply to the Agreement and--

(1) no requirement of, amendment to, or recommendation under the Agreement shall be implemented under United States law; and

(2) no amendment, repeal, or enactment of a statute

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of the United States to implement any such requirement, amendment, or recommendation shall enter into force with respect to the United States;

unless those provisions are complied with.

(d) UNSPECIFIED PRIVATE REMEDIES NOT CREATED.--Neither the entry into force with respect to the United States of the Agreement, nor the enactment of this Act, shall be construed as creating any private right of action [or remedy for which provision is not explicitly made under this Act or under the laws of the United States].

SEC. 7. CERTAIN TIME LIMITATIONS ON TRADE AGREEMENT TERMINATIONS NOT APPLICABLE.

Section 125(a) of the Trade Act of 1974 (19 U.S.C. 2135(a); relating to certain time limitations affecting trade agreement terminations) shall not apply to the Agreement.

SEC. 8. LOWERED THRESHOLD FOR GOVERNMENT PROCUREMENT UNDER TRADE AGREEMENTS ACT OF 1979 IN THE CASE OF CERTAIN ISRAELI PRODUCTS.

Section 308(4) (19 U.S.C. 2518(4)) of the Trade Agreements Act of 1979 is amended by inserting after subparagraph (B) the following new subparagraph:

``(C) LOWERED THRESHOLD FOR CERTAIN PRODUCTS AS A CONSEQUENCE OF UNITED STATES-ISRAEL FREE TRADE AREA PROVISIONS.--The term `eligible product´ includes a product or service of Israel having a contract value of $50,000 or more which would be covered for procurement by the United States under the Agreement on Government Procurement as in effect on ______________, 1985, but for the $150,000 threshold provided for in Article I(1)(b) of such Agreement. For purposes of this subparagraph, such Agreement as in effect on such date includes the rectifications, modifications, and amendments thereof that have been accepted by the United States before such date.''.

SEC. 9. TECHNICAL AMENDMENTS.

(a) AMENDMENTS TO 1984 ACT.--Title IV of the Trade and Tariff Act of 1984 is amended as follows:

(1) Section 402(a) is amended--

(A) by amending that part of paragraph (1) that precedes subparagraph (A) to read as follows: ``The reduction or elimination of any duty imposed on any article by the United States may be provided for in a trade agreement entered into with Israel under section 102(b)(1) of the Trade Act of 1974 only if--''; and

(B) by striking out ``be an eligible Israeli article'' in paragraph (2) and inserting in lieu thereof ``meet the requirement under paragraph (1)(A)''.

(2) Section 404(e) is amended--

(A) by amending paragraph (2) by striking out ``vegetable provided for in'' and inserting in lieu thereof ``fresh or chilled vegetable provided for in items 135.10 through 138.42 of'',

(B) by amending paragraph (4) by striking out ``fruit provided for in'' and inserting in lieu thereof ``fresh fruit provided for in items 146.10, 146.20, 146.30, 146.50 through 146.62, 146.90, 146.91, 147.02 through 147.33, 147.50 through 149.21, and 149.50 of'', and

(C) by amending paragraph (6) by inserting ``juice'' before ``provided''.

(3) Section 406 is redesignated as section 405.

(b) AMENDMENTS TO 1974 ACT.--(1) Section 102(b)(3) of the Trade Act of 1974 (19 U.S.C. 2112(b)(3)) is amended by striking out ``paragraph (1)'' and inserting in lieu thereof ``paragraph (2) or (4)(A)''.

(2) Title V of such Act of 1974 (19 U.S.C. 2461 et seq.) is amended by inserting ``or Presidential proclamation'' after ``Executive order'' each place it appears therein.

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AD REFERENDUM

Agreement
on the Establishment of a Free Trade Area
between the Government of the United States of America
and the Government of Israel

[PREAMBLE]

The Government of the United States of America and the Government of Israel,

- Desiring to promote mutual relations and further the historic friendship between them;

- Determined to strengthen and develop the economic relations between them for their mutual benefit;

- Recognizing that Israel's economy is still in a process of development;

- Wishing to contribute to the harmonious development and expansion of world trade;

- Wishing to establish bilateral free trade between the two nations through the removal of trade barriers;

- Wishing to promote cooperation in areas which are of mutual interest;

have decided to conclude this Agreement:

ARTICLE 1

[ESTABLISHMENT OF A FREE TRADE AREA]

The governments of the United States of America and Israel (the Parties), consistent with Article XXIV (8) (b) of the General Agreement on Tariffs and Trade (GATT), establish hereby between them a Free Trade Area and will in accordance with the provisions of this Agreement eliminate the duties and other restrictive regulations of commerce on trade between the two nations in products originating therein.

ARTICLE 2

[ANNEXES]

1. Products of Israel shall, when imported into the customs territory of the United States, be governed by the provisions of Annex 1.

2. Products of the United States shall, when imported into Israel, be governed by the provisions of Annex 2.

3. The rules of origin applicable to this Agreement are set forth in Annex 3.

4. The commitment with respect to export subsidies is contained in Annex 4.

5. The Annexes to this Agreement constitute an integral part thereof.

ARTICLE 3

[RELATIONSHIP TO OTHER AGREEMENTS]

The Parties affirm their respective rights and obligations with respect to each other under existing bilateral and multilateral agreements, including the Treaty of Friendship, Commerce and Navigation between the United States and Israel and the GATT. In the event of an inconsistency between provisions of this Agreement and such existing agreements, the provisions of this Agreement shall prevail.

ARTICLE 4

[NEW RESTRICTIONS ON TRADE]

New customs duties on imports or exports or any charge having equivalent effect and new quantitative restrictions on imports or exports or any measure having equivalent effect may be introduced in the trade between the Parties only if permitted by this Agreement or by the GATT as in effect on the date of entry into force of this Agreement and as interpretated by the CONTRACTING PARTIES to the GATT and insofar as not inconsistent with this Agreement.

ARTICLE 5

[RELIEF FROM INJURY CAUSED BY IMPORT COMPETITION]

1. When a product is being imported in such increased quantities as to be a substantial cause of serious injury or the threat thereof to domestic producers of like or directly competitive products, the importing Party shall consult with the other Party in accordance with Article 18 before taking any action affecting the trade of the other Party.

2. Neither Party shall take an action which provides solely for a suspension of the reduction or elimination of any duty provided for by this Agreement unless the serious injury or threat thereof which is substantially caused by imports to the domestic producers of like or directly competitive products results from the reduction or elimination of a duty provided for by this Agreement.

3. When, in the view of the importing Party, the importation of a product from the other Party is not a significant cause of the serious injury or threat thereof referred to in paragraph 1, the importing Party may except the product of the other Party

from any import relief that may be imposed with respect to imports of that product from third countries, taking into account the objective of achieving bilateral free trade as embodied in this Agreement, the domestic laws and international obligations of the Parties.

ARTICLE 6

[IMPORT RESTRICTIONS ON AGRICULTURE]

Import restrictions, other than customs duties, including, but not limited to, quantitative restrictions and fees, based on agricultural policy considerations may be maintained by the Parties.

ARTICLE 7

[GENERAL AND SECURITY EXCEPTIONS]

Article XX and XXI of the GATT are hereby incorporated into and made a part of this Agreement.

ARTICLE 8

[SPECIAL EXCEPTION FOR KASHRUTH]

This Agreement shall not preclude the adoption or enforcement by either Party of measures relating to prohibitions on religious or ritual grounds provided that they are applied in accordance with the principle of national treatment.

ARTICLE 9

[HEALTH]

1. The Parties shall review their current and future rules on veterinary and plant health matters to insure that these rules are applied in a non-discriminatory manner, and that these rules do not have the effect of unduly obstructing trade.

2. With reference to the matters in paragraph 1, the Parties shall consult on any difficulties that may arise in their trade in agricultural products and shall seek to provide solutions which will allow trade in agricultural products insofar as they do not endanger animal and plant health.

3. To insure harmonious development of trade in agricultural products, the Joint Committee shall establish a working group, in accordance with subparagraph 3 (b) of Article 17, which shall convene at the request of either Party to consider matters relating to paragraphs 1 and 2 of this Article.

ARTICLE 10

[INFANT INDUSTRY]

1. Insofar as its industrialization and development make protective measures necessary Israel may through December 31, 1990, after consultation within Joint Committee, and after that date, upon agreement within the the Joint Committee, introduce, increase or re-introduce ad valorem customs duties not exceeding 20 percentage points above the level that would otherwise be in effect. The total value of the products for which these measures can be applied may not exceed 10% of the total value of Israel's imports from the United States in 1984.

2. These measures may be taken only if they are necessary to protect and favor the development of new processing industries not already existing in Israel on the date of the entry into force of the Agreement; they may be applied only with respect to the production of specific goods.

3. Twenty-four months after introducing, increasing or re-introducing customs duties, Israel shall reduce the tariffs by at least 5% per year in respect of imports of the products in question originating in the United States. The abolition of such duties must be completed by not later than January 1, 1995.

ARTICLE 11

[BALANCE OF PAYMENTS]

1. (a) A Party may apply temporary trade measures when it is threatened by, or suffers from, a serious balance of payments situation. A Party may impose temporary trade measures only to provide time for macroeconomic adjustment measures to correct its balance of payments problems to take effect. Temporary trade measures permitted by this paragraph may not be used to protect individual industries or sectors.

(b) A serious balance of payments situation would be indicated by one or more of the following: a substantial deterioration in the trade and current account positions, significant pressure on the exchange rate, or a substantial fall in net reserves, as projected either in a decrease of reserves or in an increase of short term debt.

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2. Temporary trade measures which may be applied under paragraph 1 are:

(a) an import surcharge in the form of import duties;

(b) an import deposit; or

(c) quantitative restrictions.

3. (a) Whenever practicable the Parties will prefer the use of the temporary measures specified in subparagraphs 2 (a) and 2 (b). Quantitative restrictions will be imposed when measures 2(a) and 2(b) would be inadequate in terms of their balance of payments effects. Quantitative restrictions may not be imposed in order to protect individual industries or sectors.

(b) Whenever practicable, the Parties will avoid applying more than one of the measures specified in paragraph 2 to any single product at the same time.

4. A temporary trade measure applied under paragraph 1 may remain in force for a period not exceeding 150 days unless extended by the appropriate legislative body of the Party concerned for a subsequent period of 150 days. Quantitative restrictions may be extended only for one additional period of 150 days.

5. Temporary trade measures applied under paragraph 1 will be consistent in duration and effect with the severity of the balance of payments problem experienced by the Party imposing the measures and will be progressively relaxed consistent with improvements in that Party's balance of payments situation.

6. In the event that temporary trade measures are applied under paragraph 1, consultations will be held between the Parties on the balance of payments situation, to consider, inter alia, other economic measures which might be taken to deal with the balance of payments problems to permit early elimination of the temporary trade measures. Significant intensification of trade measures may be a cause for consultations between the Parties.

7. In applying temporary trade measures, the Parties will accord treatment no less favorable to imports originating in the other Party than to imports originating in third countries, and will not impair the relative benefits accorded to the other Party under this Agreement.

8. Temporary trade measures specified under subparagraphs 2 (a) and 2 (b) shall apply to all imports, except that certain imports may be excluded if their exclusion improves the effectiveness of the measures consistent with the purposes stated in paragraph 1.

9. Notification and disputes relating to the operation of this Article shall be subject to the procedures of Articles 18 and 19. It is understood that notification for balance of payments reasons will generally be provided under paragraph 3 of Article 18.

ARTICLE 12

[LICENSING]

1. Neither Party shall impose import licensing requirements on items exported by the other Party, unless licenses issued under such requirements are:

(a) automatically approved;

(b) necessary to administer a quantitative ceiling on imports justified under this Agreement or under the GATT insofar as it is not inconsistent with this Agreement; or

(c) necessary to administer restrictions in conformity with this Agreement or under the GATT insofar as it is not inconsistent with this Agreement.

2. Each Party shall answer within thirty days all reasonable inquiries from the other Party with regard to criteria employed by its respective licensing authorities in granting or denying import licenses. In addition, the Parties recognize the desirability of publication of such criteria.

3. The Parties shall provide each other with a list of items subject to licensing requirements which shall specify whether each item is entitled to automatic or non-automatic import licensing. Notification of changes in this list shall be made on a timely basis and shall include a justification for each addition.

4. If an import license is denied for an item specified in the list prepared pursuant to paragraph 3 as being entitled to automatic licensing, then such item shall be considered to be subject to non-automatic licensing. Notification and justification for the action shall be provided within sixty days by the Party which has made such denial.

5. In the administration of automatic and non-automatic licensing requirements, the Parties shall adhere to the provisions of the Agreement on Import Licensing Procedures. For the purposes of this Agreement the reporting requirements provided in the Agreement on Import Licensing Procedures between the Contracting Parties of said agreement shall only apply to the United States and Israel.

ARTICLE 13

[TRADE-RELATED PERFORMANCE REQUIREMENTS]

Neither Party shall impose, as a condition of establishment, expansion or maintenance of investments by nationals or companies of the other Party, requirements to export any amount of production resulting from such investments or to purchase locally-produced goods and services. Moreover, neither Party shall impose requirements on investors to purchase locally-produced goods and services as a condition for receiving any type of governmental incentives.

ARTICLE 14

[INTELLECTUAL PROPERTY]

The Parties reaffirm their obligations under bilateral and multilateral agreements relating to intellectual property rights, including industrial property rights, in effect between the Parties. Accordingly, nationals and companies of each Party shall continue to be accorded national and most favored nation treatment with respect to obtaining, maintaining and enforcing patents of invention, with respect to obtaining and enforcing copyrights, and with respect to rights in trademarks, servicemarks, tradenames, trade labels, and industrial property of all kinds.

ARTICLE 15

[GOVERNMENT PROCUREMENT]

1. The Parties agree to endeavor to eliminate all restrictions relating to government procurement.

2. The United States shall waive all Buy National restrictions with respect to government agency purchases of a contract value of $50,000 or more which would be subject to the Agreement on Government Procurement at the time of entry into force of this Agreement but for the threshold provided for in Article I(1)(b) of the Agreement on Government Procurement.

3. Israel shall waive all Buy National restrictions with respect to purchases of a contract value of $50,000 or more by government agencies which would be subject to the Agreement on Government Procurement at the time of entry into force of this Agreement but for the threshold provided for in Article I(1)(b) of the Agreement on Government Procurement and by the Ministry of Defense subject to exceptions comparable in character and extent to those included in the United States' entity list of the Agreement on Government Procurement.

4. In implementing paragraphs 2 and 3 of this Article the Parties shall apply the provisions of the Agreement on Government Procurement.

5. Israel shall relax offset requirements on purchases by government agencies other than the Ministry of Defense.

6. The provisions of this Article with respect to offset requirements and to purchases by government agencies other than Israel's Ministry of Defense and the United States Department of Defense shall be effective one year from the date of entry into force of this Agreement or one year from the completion by Israel of a list of the exceptions referred to in paragraph 3, whichever is later.

7. The Parties agree to consider promptly further trade liberalizing measures in regard to both government procurement and offset requirements in the context of the Joint Committee established by this Agreement. In particular it is agreed that should the entity coverage of the Agreement on Government Procurement be expanded, priority consideration will be given to expanding this Agreement to apply to those purchases.

ARTICLE 16
[TRADE IN SERVICES]

The Parties recognize the importance of trade in services and the need to maintain an open system of services exports which would minimize restrictions on the flow of services between the two nations. To this end, the Parties agree to develop means for cooperation on trade in services pursuant to the provisions of a Declaration to be made by the Parties.

ARTICLE 17

[JOINT COMMITTEE]

1. A Joint Committee is hereby established to supervise the proper implementation of this Agreement and to review the trade relationship between the Parties.

2. The functions of the Joint Committee shall include, inter alia:

(a) reviewing the general functioning of this Agreement;

(b) holding consultations with respect to any matter affecting the operation and the interpretation of this Agreement, as provided in Article 18;

(c) reviewing the results of this Agreement, the experience gained during its functioning, and the objectives defined therein, and considering ways of improving trade relations between the Parties, including possible improvements in this Agreement. The adoption of any amendments shall be subject to the domestic legal requirements of both Parties;

(d) reviewing the Declaration on Trade in Services.

3. (a) The Joint Committee shall be composed of representatives of the Parties and shall be headed by the United States Trade Representative and Israel's Minister of Industry and Trade or their designees.

(b) The Joint Committee may establish working groups and delegate its powers to them.

4. Each party shall preside in turn over the Joint Committee, which shall convene at least once a year in regular session in order to review the general functioning of the Agreement. Special meetings of the Joint Committee shall also be convened within 21 days at the request of either Party. Regular sessions of the Joint Committee shall be held alternately in the two countries. The Joint Committee shall establish its own rules of procedures.

ARTICLE 18

[NOTICE AND CONSULTATION]

1. (a). Before either Party takes any trade measure with respect to products traded between the Parties, it shall provide prior written notice to the other Party as far in advance as may be practicable. The notice shall include a description of the circumstances leading to the proposed action.

(b). Before either Party commits itself to take any action, unilaterally or by agreement, which would reduce the barriers to trade applicable to third countries, including those with whom that Party intends to enter into a customs union, free trade area, arrangement for frontier trade or those to whom that Party intends unilaterally to grant trade concessions, it shall provide prior written notice to the other Party as far in advance as may be practicable.

2. If the Party affected by the proposed measure referred to in paragraph 1 requests consultations with regard to such measures, the Party proposing the measure shall afford adequate opportunity for consultations regarding the proposed measures.

3. In special circumstances, where delay or prior notice would cause damage which would be difficult to remedy, action may be taken without prior notice or consultation, provided that notice and an opportunity to consult in accordance with paragraphs 1 and 2 are provided as soon thereafter as practicable.

ARTICLE 19
[DISPUTE SETTLEMENT]

1. (a). Whenever a dispute arises concerning the interpretation of this Agreement, or whenever a Party considers that the other Party has failed to carry out its obligations under this Agreement,

the dispute settlement mechanism described in this Article may be invoked. In addition, the dispute settlement mechanism may also be invoked if one Party considers that measures taken by the other Party, including a violation of the Annex on subsidies, severely distort the balance of trade benefits accorded by this Agreement or substantially undermine fundamental objectives of this Agreement. This paragraph shall not apply to the imposition of antidumping or countervailing duties.

(b). When a dispute arises, the Parties shall make every attempt to arrive at a mutually agreeable resolution through consultations.

(c). If the Parties fail to resolve the dispute through consultations, either Party may refer the matter to the Joint Committee, which shall be convened and shall endeavor to resolve the dispute.

(d). If a dispute referred to the Joint Committee has not been resolved within a period of sixty days after the dispute was referred to it, or within such longer period as the Joint Committee has agreed upon, either Party may refer the matter to a conciliation panel. The conciliation panel shall be composed of three members: each Party shall appoint, within fifteen days of the date of referral, one member, and the two appointees shall choose, within forty-five days of the date of referral, a third who will serve as the chairman. The panel shall establish its own rules of procedure.

(e). The panel shall endeavor to resolve the dispute through agreement of the Parties. If the panel fails to reach such a resolution, it shall, within three months after the first member is appointed, present to the Parties a report containing findings of fact, its determination as to whether either Party has failed to carry out its obligations under the Agreement or whether a measure taken by either Party severely distorts the balance of trade benefits accorded by this Agreement or substantially undermines the fundamental objectives of this Agreement, and a proposal on the settlement of the dispute. The report of the panel shall be non-binding.

(f) If the conciliation panel under this Agreement or any other applicable international dispute settlement mechanism has been invoked by either Party with respect to any matter, the mechanism invoked shall have exclusive jurisdiction over that matter.

2. After a dispute has been referred to a panel and the panel has presented its report the affected Party shall be entitled to take any appropriate measure.

ARTICLE 20

[SPECIFIC DUTIES]

1. In the event that the value of the currency of the United States of America, measured in Special Drawing Rights of the International Monetary Fund, decreases by more than twenty percent, specific duties and charges imposed by the United States of America and expressed in the currency of the United States of America may be increased by no more than the amount needed to maintain the value of the specific duty in accordance with Annex 1, measured in Special Drawing Rights. The decrease in value shall be calculated from the date of the most recent increase in specific duties.

2. In the event that the value of the currency of Israel, measured against the currency of the United States of America, decreases by more than twenty percent, specific duties and charges imposed by Israel and expressed in the currency of Israel may be increased by no more than the amount needed to maintain the value of the specific duty in accordance with Annex 2, measured against the currency of the United States of America. The decrease in value shall be calculated from the date of the most recent increase in specific duties.

ARTICLE 21

[NOMENCLATURE CHANGES]

In the event that either Party changes its tariff schedules, it shall notify the other Party prior to the effective date of such change. In the case of a change other than a major revision that change shall not adversely affect the tariffs applicable to any product as set forth in Annexes 1 and 2 of this Agreement. In the case of a major revision the balance of tariff concessions set forth in Annexes 1 and 2 shall be preserved. The Joint Committee shall modify the tariff nomenclature of the relevant annexes to conform to such change.

ARTICLE 22

[ENTRY INTO FORCE]

1. The entry into force of this Agreement will be subject to the completion of necessary domestic legal procedures by each Party.

2. This Agreement shall enter into force on the date on which both Parties have provided written notification to each other that such procedures have been completed.

ARTICLE 23

[TERMINATION]

1. The Agreement shall remain in force unless terminated in conformity with paragraph 2.

2. Either Party may terminate this Agreement by written notification to the other Party. This Agreement shall expire twelve months after the date of such notification.

In Witness Whereof, the respective representatives, having been duly authorized, have signed this Agreement.

Done in duplicate, in the English and Hebrew languages, both equally authentic, at , this day of (date) , which corresponds to (date).

ANNEX 1

Implementation of Duty-Free Treatment for United States Imports of Products of Israel

Notes:

The product descriptions and the articles provided for in each of the tariff items listed in this annex are the product descriptions and articles provided for in the same numbered item or statistical subdivision(s) of such item in the 1985 Edition of the Tariff Schedules of the United States Annotated (TSUSA), as published on November 16, 1984, and effective January 1, 1985.

Notwithstanding the provisions of paragraphs 2 and 3 below, to simplify the computation of the amount of duty imposed the rates of duty provided for in subparagraphs 2b and 3a, b, c, d, e, f, and g shall be rounded to the nearest 0.1 percent ad valorem or, if the duty rate is expressed in monetary units, to the nearest 0.1 cent, in accordance with the following rule:

> The rate shall be rounded up to the nearest 0.1 percent or 0.1 cent if the duty rate provided for in paragraph 2 or 3 has the number 5 or above as the second digit to the right of the decimal point; the duty rate shall be rounded down to the nearest 0.1 percent or 0.1

cent if the rate provided for in paragraph 2 or 3 has the number 4 or below as the second digit to the right of the decimal point.

1. Articles not covered by the provisions of paragraphs 2, 3, or 4 below shall be free of duty effective July 1, 1985.

2. Articles provided for in the items included in List A shall be subject to the following tariff treatment:

a) Effective July 1, 1985, the duty rate listed opposite the item;

b) Effective January 1, 1987, a duty rate which is 40 percent of the listed rate;

c) Effective January 1, 1989, free of duty.

3. Articles provided for in the items included in List B shall be subject to the following tariff treatment:

a) Effective July 1, 1985, the duty rate which is 80% of the TSUS column 1 rate of duty on that date.

b) Effective January 1, 1986, a duty rate which is 70 percent of the TSUS column 1 rate of duty on that date.

c) Effective January 1, 1987, a duty rate which is 60 percent of the TSUS Column 1 rate of duty on that date.

d) Effective January 1, 1988, a duty rate which is 50 percent of the TSUS Column 1 rate of duty on that date.

e) Effective January 1, 1989, a duty rate which is 40 percent of the TSUS Column 1 rate of duty on that date.

f) Effective January 1, 1990, a duty rate which is 30 percent of the TSUS Column 1 rate of duty on that date.

g) Effective January 1, 1992, a duty rate which is 10 percent of the TSUS Column 1 rate of duty on that date.

h) Effective January 1, 1995, free of duty.

4. Articles provided for in the items included in List C shall be subject to the TSUS column 1 rate of duty for the respective item until January 1, 1990. The rates of duty to be applied on and after January 1, 1990, shall be determined after consultations between the Governments of Israel and the United States. Effective January 1, 1995, all such articles shall be free of duty.

ANNEX 2

Implementation of Duty-Free Treatment for Israeli Imports of Products of the United States of America

Notes:

The product descriptions and the articles provided for in each of the tariff items listed in this annex are the product descriptions and articles provided for in the same numbered item or statistical subdivision(s) of such item in the Tariff Schedules of Israel (TSI), as published in the Customs Tariff and Exemption Order (Substitution of Schedule), 5744-1984, and as effective January 1, 1985.

Notwithstanding the provisions of paragraps 2 and 3 below, to simplify the computation of the amount of duty imposed the rates of duty provided for in subparagraphs 2b and 3a, b, c, d, e, f, and g shall be rounded to the nearest 0.1 percent ad valorem, or if the duty rate is expressed in monetary units, to the nearest lowest currency value specified in the TSI, in accordance with the following rule:

> The duty rate shall be rounded up to the nearest 0.1 percent or the lowest currency value specified in the TSI if the duty rate provided for in paragraph 2 or 3 has the number 5 or above as the second digit to the right of the decimal point; the duty rate shall be rounded down to the nearest 0.1 percent or 0.1 shekel if the duty rate provided for in paragraph 2 or 3 has the number 4 or below as the second digit to the right of the decimal point.

1. Articles not covered by the provisions of paragraphs 2, 3 and 4 below shall be free of duty effective July 1, 1985.

2. Articles provided for in the items included in List A shall be subject to the following tariff treatment:

   a) Effective July 1, 1985, the duty rate listed opposite the item;

   b) Effective January 1, 1987, a duty rate which is 40 percent of the listed rate;

c) Effective January 1, 1989, free of duty.

Provided, however, that the duty rate will not be lower than the duty rates applied to imports originating in the European Economic Community.

3. Articles provided for in the items included in List B shall be subject to the following tariff treatment:

a) Effective July 1, 1985, a duty rate which is 80 percent of the general duty rate of the TSI on that date;

b) Effective January 1, 1986, a duty rate which is 70 percent of the general duty rate of the TSI on that date;

c) Effective January 1, 1987, a duty rate which is 60 percent of the general duty rate of the TSI on that date;

d) Effective January 1, 1988, a duty rate which is 50 percent of the general duty rate of the TSI on that date;

e) Effective January 1, 1989, a duty rate which is 40 percent of the general duty rate of the TSI on that date;

f) Effective January 1, 1990, a duty rate which is 30 percent of the general duty rate of the TSI on that date;

g) Effective January 1, 1992, a duty rate which is 10 percent of the general duty rate of the TSI on that date;

h) Effective January 1, 1995, free of duty.

Provided, however, that the duty rates will not be lower than the duty rates applied to imports originating in the European Economic Community.

4. Articles provided for in the items included in List C shall be subject to the general duty rate of the TSI for the respective item until January 1, 1990. The rates of duty to be applied on and after January 1, 1990, shall be determined after consultations between the Governments of the United States and Israel. Effective January 1, 1995, all such articles shall be free of duty.

ANNEX 3

[Rules of Origin]

1. The duty treatment provided by this Agreement shall apply to any article if:

(a) that article is wholly the growth, product, or manufacture of a party or is a new or different article of commerce that has been grown, produced, or manufactured in a Party;

(b) that article is imported directly from one Party into the customs territory of the other Party; and

(c) the sum of (i) the cost or value of the materials produced in the exporting Party, plus (ii) the direct costs of processing operations performed in the exporting Party is not less than 35 percent of the appraised value of the article at the time it is entered into the other Party.

2. No article shall be considered a new or different article of commerce under this Agreement and no material shall be eligible for inclusion as domestic content under this Agreement by virtue of having merely undergone (1) simple combining or packaging operations or (2) mere dilution with water or with another substance that does not materially alter the characteristics of the article or material.

3. For the purposes of this Agreement, the expression "wholly the growth, product, or manufacture of a Party" refers both to any article which has been entirely grown, produced, or manufactured in a Party and to all materials incorporated in an article which have been entirely grown, produced, or manufactured in a Party, as distinguished from articles or materials imported into a Party from a non-participating country, whether or not such articles or materials were substantially transformed into new or different articles of commerce after their importation into the Party.

4. For the purposes of this Agreement, "country of origin" requires that an article or material, not wholly the growth, product, or manufacture, of a Party, be substantially transformed into a new and different article of commerce, having a new name, character, or use, distinct from the article or material from which it was so transformed.

5. For purposes of determining the 35 percent domestic content requirement under this Agreement, the cost or value of materials which are used in the production of an article in one Party, and which are products of the other Party, may be counted in an amount up to 15 percent of the appraised value of the article. Such materials must in fact be products of the importing Party under the country of origin criteria set forth in this Agreement.

6. (a) For the purposes of this Agreement, the cost or value of materials produced in a Party includes:

(i) The manufacturer's actual cost for the materials;

(ii) When not included in the manufacturer's actual cost for the materials, the freight, insurance, packing, and all other costs incurred in transporting the materials to the manufacturer's plant;

(iii) The actual cost of waste or spoilage (material list), less the value of recoverable scrap; and

(iv) Taxes and/or duties imposed on the materials by a Party, provided they are not remitted upon exportation.

(b). Where a material is provided to the manufacturer without charge, or at less than fair market value, its cost or value shall be determined by computing the sum of:

(i) All expenses incurred in the growth, production, or manufacture of the material, including general expenses;

(ii) An amount for profit; and

(iii) Freight, insurance, packing, and all other costs incurred in transporting the material to the manufacturer's plant. If the pertinent information needed to compute the cost or value of a material is not available, the appraising officer may ascertain or estimate the value thereof using all reasonable ways and means at his disposal.

7. For the purposes of this Agreement, direct costs of processing operations performed in a Party mean those costs either directly incurred in, or which can be reasonably allocated to, the growth, production, manufacture, or assembly, of the specific article under consideration. Such costs include, but are not limited to, the following to the extent that they are includible in the appraised value of articles imported into a Party:

(a). all actual labor costs involved in the growth, production, manufacture, or assembly, of the specific article, including fringe benefits, on-the-job training, and the cost of engineering, supervisory, quality control, and similar personnel;

(b). dies, molds, tooling and depreciation on machinery and equipment which are allocable to the specific article;

(c). research, development, design, engineering, and blueprint costs insofar as they are allocable to the specific article; and (d). costs of inspecting and testing the specific article.

Those items that are not included as direct costs of processing operations are those which are not directly attributable to the articles under consideration or are not costs of manufacturing the product. These include, but are not limited to:

(i). profit; and

(ii).general expenses of doing business which are either not allocable to the specific article or are not related to the growth, production, manufacture, or assembly, of the article, such as administrative salaries, casualty and liability insurance, advertising, and salesmen's salaries, commissions, or expenses.

8. For the purposes of this Agreement, "imported directly" means:

(a). direct shipment from one Party into the other Party without passing through the territory of any intermediate country; or

(b). if shipment is through the territory of an intermediate country, the articles in the shipment do not enter into the commerce of any intermediate country and the invoices, bills of lading, and other shipping documents, show the other Party as the final destination; or

(c). if shipment is through an intermediate country and the invoices and other documents do not show the other Party as the final destination, then the articles in the shipment, upon arrival in that Party, are imported directly only if they

(i) remain under the control of the customs authority in an intermediate country;

(ii) do not enter into the commerce of an intermediate country except for the purpose of a sale other than at retail, provided that the articles are imported as a result of the original commercial transaction between the importer and the producer or the latter's sales agent;

(iii) have not been subjected to operations other than loading and unloading, and other activities necessary to preserve the article in good condition; and

(iv) comply with the origin requirements for articles exported to a Party from the other Party under this Agreement as stated in the documents required under the certification procedure.

9. All articles to be entered under this Agreement shall be documented by a certificate, a specimen of which is given in the attachment to the Annex, signed by the exporter. In the case of U.S. exports the certificate will be notarized and certified by the appropriately constituted local business organization, such as chambers of commerce and boards of trade. The certificate should contain sufficient information to identify the articles described on the certificate as the articles to be exported and a statement as to the percentage of value added in a Party and that the articles comply with the country of origin requirements set forth in this Agreement. The certificate will be presented to the Customs authorities of the importing Party in accordance with its internal regulations.

Notwithstanding the above, either Party may waive production of the certificate on a case by case basis for articles imported into such Party and for which the benefits of this Agreement are claimed, if the Party is otherwise satisfied that the imported articles comply with the country of origin requirements set forth in this Agreement.

The exporter or person signing the certificate of origin shall be prepared to submit a declaration setting forth all pertinent details, concerning the production or manufacture of the articles, which were used to prepare the certificate of origin. The information on the declaration should contain at least the following pertinent details:

A. a description of the article, quantity, numbers and marks of packages, invoice numbers, and bills of lading;

B. a description of the operations performed in the production of the article in a Party and identification of the direct costs of processing operations;

C. a description of any materials used in production of the article which are wholly the growth, product, or manufacture of either Party, and a statement as to the cost or value of such materials;

D. a description of the operations performed on, and a statement as to the origin and cost or value of, any foreign materials used in the article which are claimed to have been sufficiently processed in a Party so as to be materials produced in that Party; and

E. a description of the origin and cost or value of any foreign materials used in the article which have not been substantially transformed in a Party.

This declaration shall be prepared and submitted upon request by a Party. A declaration should only be requested when a Party has reason to question the accuracy of the statements on a certificate of origin, or when a Party randomly verifies certificates of origin.

10. In order to further the administration of this Agreement, the Parties agree to assist each other in obtaining information for the purpose of reviewing transactions made under this Agreement in order to verify compliance with the conditions set forth in this Agreement.

11. The Parties will consult from time to time on the interpretation of these provisions and on practical problems which may arise with a view to prevent unnecessary barriers to trade which are inconsistent with the objectives of this Agreement. In this connection, amendments of the present rules could be proposed.

[ATTACHMENT TO ANNEX 3: EXAMPLES OF FORMS]

ANNEX 4

[Commitment on Subsidies]

Dear Ambassador Brock:

Our two governments have just concluded a historic agreement establishing a Free Trade Area between Israel and the United States of America.

One of the fundamental objectives of the agreement is to remove trade barriers and other non-tariff distortions to trade, including the elimination of export subsidies. In furtherance of these objectives, I am honoured to propose the following agreement by the Government of Israel with regard to major programs which contain or have contained export subsidy elements.

I am pleased to inform you that the Government of Israel will accede to the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade no later than the effective date of this Agreement.

In the meeting of July 11, 1984 between Minister Patt and yourself it was agreed that export subsidy elements exist in the following major programs for encouraging exports maintained by Israel:

Programs for financing exports or processing for exports

(a) Export Shipment Fund

(b) Export Production Fund

(c) Imports for Export Fund

(d) Medium Term Capital Goods Export Credits

I am honoured to inform you that the Government of Israel commits itself, pursuant to Article 14 of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade (the Subsidies Code), and relating to exports of products other than certain primary products,[1] not to institute any new export subsidy programs, and not to increase the level of subsidization[2] in these programs above their level as existed on July 11, 1984, and to eliminate the subsidy elements in these programs as follows:

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[1]"Certain primary products" shall be defined in accordance with footnote 29 to Article 9 of the Subsidies Code.
[2]"Level of subsidization" shall be defined, for the purposes of this letter, as the percentage point spread between the lending rates for each program and the rates which the Government of Israel(or special institutions controlled by and/or acting under the authority of the Government of Israel) actually has to pay for the funds so employed (or, if applicable, would have to pay if it borrowed on international capital markets in order to obtain funds of the same maturity and denominated in the same currency as the program funds).

- With regard to the Export Shipment Fund and the foreign currency portion of the Export Production Fund, the Government of Israel will continue its current practice of providing no export subsidy elements.

- With regard to local currency financing under the Export Production Fund, Israel will freeze the export subsidy element for four years from the date of accession to the Subsidies Code, and will eliminate the export subsidy element by six years from the date of accession to the Subsidies Code.

- With regard to the Imports for Export Fund, Israel will freeze the export subsidy element for one year from the date of accession to the Subsidies Code, and will eliminate the export subsidy element by two years from the date of accession to the Subsidies Code.

- With regard to the Medium Term Capital Goods Export Credits or any other officially-sanctioned export financing with a maturity of two years or more, Israel will apply the interest rates provisions of the Arrangement on Guidelines for Officially Supported Export Credits of the Organization for Economic Cooperation and Development for any loans granted on and after the effective date of this Agreement.

On and after April 1, 1985, neither Party shall impose requirements to export as a condition for receiving any type of investment incentive.

It is understood that the parties will consult upon request of either party, or whenever special circumstances so require including balance of payments circumstances concerning the functioning of this agreement.

Sincerely,

Ariel Sharon

Declaration on Trade in Services

Preamble

The Governments of the United States of America and Israel,

RECOGNIZING the significance of trade in services to their economic and social progress and to the world economy;

NOTING the importance of open international markets for trade in services;

ACKNOWLEDGING that the Treaty of Friendship, Commerce and Navigation between their two nations establishes bilateral rights and obligations which provide for open trade in a broad range of services;

RECOGNIZING that other bilateral and multilateral agreements for certain services sectors are in effect;

Declare that, although the principles set forth below shall not be legally binding, they shall endeavor to the maximum extent possible to conduct their policies affecting trade in services between them in accordance with those principles;

Express their desire to work toward international acceptance of these principles in trade in services.

Principles

1. Definition: Trade in services takes place when a service is exported from the supplier nation and is imported into the other nation.

Services encompass, but are not limited to, transportation; travel and tourism services; communications; banking services;[1] insurance; other financial activities; professional services, such as consulting in construction, engineering, accounting, medicine, education, and law, and the providing of other professional services such as management consulting; computer services; motion pictures; advertising.

2. Each Party will endeavor to achieve open market access for trade in services with the other nation, taking into account the different regulatory regimes for specific service sectors in the two nations.

3. Each Party will endeavor to assure that trade in services with the other nation is governed by the principle of national treatment. Each Party will endeavor to provide that a supplier of a service produced within the other nation is able to market or distribute that service under the same conditions as a like service produced within the first nation, including situations

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[1]For the purposes of this Declaration, commercial banking services are limited to the activities of representative offices.

where a commercial presence within the nation is necessary to facilitate the export of a service from the other nation or is required by that Party.[2]

4. In situations where services are regulated by political subdivisions, the authorities of each Party responsible for overseeing the operation of this Declaration will consult with such political subdivisions in an effort to assure that such regulations are consistent with the principles of this Declaration.

5. Each Party will endeavor to assure that its regulatory agencies will accord national treatment to suppliers of the service from the other nation, to the extent that such treatment is consistent with those agencies' legal authority, including their exercise of discretion in fulfilling their statutory mandates. The authorities of each Party responsible for implementing this Declaration shall consult with their own regulatory agencies in an effort to achieve consistency with the principles of this Declaration.

6. Each Party recognizes that there may be established public monopolies in the service area with reserved special rights. Nonetheless, each Party will endeavor to provide that, subject to their reserved special rights, such monopolies shall make their purchases and sales of services involving either imports

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[2] For example, in the area of commercial banking, the concept of a commercial presence refers to the activities of representative offices, but not to agencies, branches or subsidiaries of commercial banks.

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or exports affecting the commerce of the other nation in accordance with the principles of this Declaration.

7. Each Party will make public its domestic laws and regulations affecting trade in services and notify the other Party of laws and regulations which discriminate against a service exported from the other nation. Each Party will provide to the nationals and companies of the other nation reasonable access to established domestic review and judicial proceedings relative to regulations on trade in services.

8. Each Party agrees to consult with the other periodically to discuss specific problems that arise concerning trade in services between the two nations and to review existing regulatory regimes of the two Parties as they affect trade in services.

9. The Parties will review the effectiveness of this Declaration not later than eighteen months from the date that this Declaration is signed. In this review, the Parties will explore further opportunities to strengthen open trade in services between the two nations, including the possibility of transforming the provisions of this Declaration into legally binding rights and obligations.