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CEGI

Barak (new)
Please Pass Along To:

October 15, 1986

ISRAEL BUSINESS UPDATE

By: Elmer L. Winter, Chairman

Dear Friend:

Let me share with you some interesting experiences as a result of my two weeks in Israel.

This was a trip filled with meetings with over 30 Israeli business executives, Directors of R&D units and top Israeli Government officials. It was an interesting time to be in Israel, (It seems that I always say that!) because of the dramatic and favorable changes in the Israeli economy; the forthcoming changeover in the Prime Minister's Chair; the increasing role of the U.S. in the management of the economy of Israel; etc.

As I moved around Israel and met with business executives, I became even more convinced than ever that **Israel is the "in place for innovation."** Someone has referred to Israel as just one large think tank. The evidence is there for you to see. There are a lot of bright people in Israel developing bright new ideas that will develop into outstanding new hi-tech companies in the future.

I tried to keep my eye on the major ball -- "How can we help Israeli companies expand their exports to the U.S.?" That's the name of the game for us in CEGI.

With the cutbacks in U.S. grants to Israel (\$1 billion plus), the emphasis must be on increasing the exports.

In all of my meetings with Israeli Managing Directors, the question was raised, "Can you help us market our products in the U.S.?" For the most part, my answer was, "Yes . . . but." I tried to point out the need to have unique products -- to fit into a niche and to come in with prices below those that American buyers pay.

While many Israeli companies are market ready, they need a great deal of assistance in tapping in on the American scene -- that's where we fit in. Where they are not ready, they need our advice as to how to prepare for the U.S. market.

I met with a number of Israeli manufacturers who want us to help them sell a range of products such as, medical equipment, consumer goods,

Committee for Economic Growth of Israel

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plastics, chemicals, software, farm equipment, etc., etc. . .the list is long.

There are many new and exciting products coming off the drawing board that, I believe, will find their way into the American market. We need to help these companies make the right contacts to help penetrate the U.S. market.

It was a treat for me to visit "AGRITECH-1986". I was amazed at the large amount of innovative agricultural equipment being manufactured in Israel. Israel is certainly out front in developing hi-tech agriculture equipment. It is no wonder that Israel's hi-tech agricultural products are expected to reach 50% of Israel's \$2 billion of farm exports.

There were 4,000 foreign visitors at AGRITECH and many orders reportedly were placed by Asian, African and Eastern European buyers.

Of great interest was the fact that the Chinese National Institute for Agricultural Research entered into a deal with the Israelis to build a permanent Israeli Exhibit in Beijing. This should provide a good opening into a vast market.

I gave a talk at the Rotary Club meeting in Jerusalem. The subject was "Israel's Economic Development Plan -- How to Move from Economic Stability to Growth." I described the steps that, I believe, Israel must take to increase foreign investments. . .and what more we can do in the U.S. to attract American companies to open factories in Israel to take advantage of the Free Trade Agreement (FTA) between the U.S. and Israel. There were a lot of spirited questions raised at the end of my talk.

HOW IS THE ISRAELI ECONOMY DOING?

From the standpoint of the Israelis, the economy looks very good. Prices and wages are stable. A recent survey showed that 73% of the Israelis supported the Government's economic policy and 71% felt that the Government was moving in the right direction.

Israelis like the fact that the Consumer Price Index rose 1.1% in August, 1986, compared to 3.9% in August, 1985. This represents a total increase in the cost of living of 9.8% since the beginning of the year. That's a significant cutback in the inflation rate. Wage earners will get no additional compensation for the August inflation.

More welcome news --a two-year labor agreement was signed for private sector industry between the Histadruth and the Israeli Manufacturers' Association. The minimum wage has been increased and slight increases in wage rates were provided. It is hoped that this agreement will increase the productivity of Israel's work force.

On the negative side -- Many U.S. electronic companies operating in Israel, are suffering from a combination of a price freeze; an increase

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in wages over the past year; and a reduction in Israeli Government orders. Some companies are showing heavy losses which could be overcome by a devaluation of the Shekel. . .but that remedy doesn't appear to be in the cards.

I discussed this serious problem with a number of Israeli Government officials. I can't see where much relief will be forthcoming. As a result of the squeeze, a number of U.S. hi-tech companies are cutting back their staff in Israel.

The "Israel Economist", in reporting on the Treasury and Bank of Israel's refusal to compensate industrialists for the weak dollar, pointed out:

"Witness the fierce Treasury and Bank of Israel refusal to compensate industrialists for the weak dollar and other corporate stumbling blocks. These bodies insist that the government is not obliged to solve industry's problems artificially. Therefore, the exchange rate will remain stable and export subsidies will not be forthcoming, even though tariff barriers may indeed be removed in the next few years, opening up protected markets."

The Israeli banks have changed their top management as required by the Bejski Commission. Their financial reports are showing serious declines in profits.

The trade gap in Israel rose 14% in the first seven months of the year. However, in the last four months, there has been a narrowing of the gap. Exports reached \$3.9 billion in the first seven months of the year.

"What economic changes can be anticipated as Yitzhak Shamir takes over the Prime Minister's job from Shimon Peres?"

I discussed this question with a number of Israeli business executives and top Government officials. My conclusion: "There will be more of the same." There appears to be a unanimity of opinion that Israel must now move from economic stability to growth.

Moshe Nissim, Israel's new Finance Minister, is highly regarded in Israel. He apparently will keep the lid on the economy. He has gotten approval of a cut of \$300 million in the budget. He has opposed an immediate tax cut despite heavy pressures to reduce income taxes a la the U.S. Tax Reform Bill.

It is interesting to note that the tax burden has reached an all time record in the last few months in Israel -- according to Bank of Israel figures. The State of Israel receives 58% of every Shekel earned. Many point to the high tax burden as producing sluggish growth and high unemployment.

It appears that foreign exchange controls will continue for the time being. Labor costs may be reduced by cutting the employer's contributions.

Unemployment in Israel is reported to have increased to 7.8% -- up from 7.3% in the first three months of the year.

U.S. Secretary of State George Shultz is playing an important role in building the economy of Israel. He is urging Israel to reform its tax system and capital markets. He has suggested that the Government of Israel sell some of their corporations to the private sector. This ties in with the Israeli Government's policy. It is important to note that little action has been taken to date to denationalize non-defense government-owned companies.

Seven Government Companies were disbanded last year according to the "Israel Economist." It is reported that:

"Last year, seven government companies were disbanded and six more will be this year. Of the 189 firms governed by the Authority, 65 are subsidiaries of government companies and 31 are both state-owned and private. Some 78 of the firms have shifted their original business focus."

"Although a price has still not been established, the government's September 1984 plan to sell its 75% share of Paz gained momentum recently when Nissim decided to pursue the sale, extending the bid-submission deadline. In the past two years, some 36 investors -- 30 of them from Europe, the U.S., or Australia -- have expressed interest in buying Paz, which has 30 subsidiaries and consolidated annual sales of \$100 million to \$200 million."

"Dead Sea Bromine is in the final stages of raising \$40 million in U.S. markets by selling 20% of its equity. The success of this issuance may motivate Elta to follow suit. Meanwhile, the Jerusalem Economic Corporation will soon issue some \$10 million in shares -- approximately one-eighth of its net worth -- on the TASE, hoping ultimately to generate \$50 million. And this July, the Aryeh Ganger group acquired an additional 24% of Haifa Chemicals' refineries for \$14 million, bringing its total ownership to 92%."

"The Authority is also weighing partial sales of Magen and Naptha, and a special government committee is studying a sale of Bezek's assets, worth an estimated \$1.5 billion."

"Ze'ev Refuah, director of the Authority, notes that the flurry of activity is due to a year-old streamlined process whereby once the government has decided to sell and has established a price, no further committee or advisory approval or bureaucratic intervention is necessary."

Peres and Nissim have asked the U.S. Government to cut interest rates on Israel's long-term debt to the U.S. If this reduction could be accomplished, Israel would save about \$200 million per year. The hope has been expressed that the U.S. Government will cut the 10% interest rate to 8.7% on Israel's \$10 billion long-term debt. Some loans from the U.S. carry 12% interest.

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Israelis step up their spending. Figures released by the Finance Ministry show that Israelis have stepped up their purchases of imported cars, TV sets, etc. There has been an increase of 57% in the import of foreign cars and 246% in TV sets. The number of Israelis travelling abroad in August totalled 80,000 which was one-third more than in August, 1985.

The full Senate Appropriations Committee approved the administration's request for \$3 billion of aid to Israel (\$1.8 billion military and \$1.2 billion economic) -- all in the form of grants.

WHAT'S NEW WITH THE FREE TRADE AGREEMENT?

Ariel Sharon, Minister of Industry and Trade, recently reported that few concrete achievements from the Free Trade Agreement could be reported to date. He pointed out that Israeli exports to the U.S. had increased only 10% in the first six months from 1985 levels to \$1.6 billion. By comparison, Sharon reported that exports had increased 31% in 1985 and 23% in 1984.

Without the export of diamonds, overall Israeli sales to the U.S. would have declined 5% in the first half of 1986. Sharon attributed the problem to a worldwide slump in the sale of electronics; a drop in the dollar price of chemicals and the 30% decline in the value of the dollar.

Philip Van Heusen Corporation has entered into an arrangement with Polgat of Israel to produce 1.8 million shirts a year for the U.S. market. Van Heusen has taken advantage of the FTA between the U.S. and Israel. The U.S. company entered into a contract with Polgat of Israel to produce Van Heusen shirts for the U.S. market.

Polgat reportedly will spend \$3 million to expand an existing plant in Sderot especially for the Van Heusen line. The plant will begin production in April 1987 and at full capacity, will employ 500 workers and produce 1.8 million shirts per year. Hopefully, this will attract other U.S. clothing manufacturers to have their products made in Israel.

BIRD F flying high. The U.S.-Israel Binational R&D Foundation (BIRD F) has financed many joint R&D products in Israel that have resulted in important breakthroughs. I met with Dr. Mlavsky and was impressed with the work this agency is doing. They can fund an additional 25-30 U.S.-Israeli R&D projects. Talk up the 50% grants BIRD F provides when you meet with business executives in your community. I would be glad to send you a copy of the recent BIRD F report at your request.

How is Scitex doing? Scitex announced that its unaudited revenues from the second quarter of 1986 were \$29,929,420 compared with \$30,759,086 the second quarter of 1985. The net loss for the quarter was \$9,868,302 compared to net income of \$2,159,769 for the same quarter a year ago.

What's new at Elscint? I met with Uzia Galil, Chairman of Elron (parent company of Elscint). He told me of the substantial changes that have

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been made in Elscint's financial structure. Some \$80 million of debt has been cancelled by the banks in return for warrants. Elron has invested \$20 million in Elscint.

Elscint billings continue at a rate of \$10 million per month. The company reported that the U.S. Food and Drug Administration recently authorized the purchase of Elscint's magnetic resonance imaging (MRI) equipment for regular hospital and clinic use.

AMEX adds Koor. The "Israel Economist" reported: "On June 27, Koor Industries Ltd. listed \$105 million of debt on the American Stock Exchange (AMEX), joining six other Israeli-affiliated companies -- Laser Industries Ltd., Etz Lavud Ltd., American Israeli Paper Mills Ltd., Alliance Tire and Rubber Company Ltd., PEC Israel Economic Corp., and Ampal-American Israel Corp. -- that have made the AMEX their financial home."

Arnon Gafny is appointed Chairman of the Board of Koor Ltd. I met with Arnon Gafny who has taken on the responsibility of serving as Chairman of the Board of Koor. This is an important job and I know that Arnon will be equal to the task. I have worked with him for the past ten years and found him to be creative, well directed and a strong leader.

Elco Ltd. is reported to be raising money in the U.S. capital markets through Elco Robotics, its U.S. subsidiary.

American Israeli Paper Mills, Ltd. reports a 115% profit increase. American Israeli Paper Mills Ltd. posted a net profit of \$2.25 million for the second quarter of fiscal 1986, a whopping 115% increase over the same period last year. Sales jumped 24%, to \$33.45 million.

Inter-Pharm Laboratories Ltd. increases sales by 54%. The "Israel Economist" reported: "Inter-Pharm Laboratories Ltd.'s sales soared to \$1.5 million during the second quarter of 1986, up 54% over the same period last year. Net profits were some \$200,000."

"In 1986's first half, sales increased by 91%, to \$2.8 million (as opposed to \$1.1 million last year), and profits rose to \$403,300, compared with \$245,000 losses in 1985."

Optrotech Ltd. sales up -- profits down. The "Israel Economist" reported: "Optrotech's sales during the first half of 1986 were \$12.4 million, compared to \$8.6 million in the same period last year. Yet profits were \$203,000 and \$1.3 million, respectively, due to the crisis in the electronics industry worldwide and to heavy competition."

Israel has developed new ties abroad which should increase her exports. Israel has restored diplomatic ties with Cameroon. It is anticipated that this will start a renormalization between Israel and a number of African countries. This should lead to an expansion of exports from Israel.

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Zaire and the Ivory Coast have restored ties with Israel. It is anticipated that Nigeria and Togo will follow suit.

Another bit of good news: Poland and Israel are discussing barter arrangements for Israeli agricultural products.

Expansion of exports to Japan predicted. JTA reported: "Shinichi Yanai, the Deputy Foreign Minister of Japan, said that his country would welcome increased and diversified imports from Israel. He spoke at a meeting with Israeli Deputy Foreign Minister Ronni Milo, who said his guest's remarks were a positive development in trade relations between the two countries."

"Japan, which exports everything from cars to microchips all over the world has kept a low profile with respect to trade with Israel. It is heavily dependent on Middle East oil. Yanai said, however, that Japan looks with favor on the efforts of some of its large trading companies to help Israeli companies find local partners for joint industrial ventures."

South American investors and Clal Ltd. are reported to be investing \$100 million in Israel according to Gad Yaacobi, Minister of Economy and Planning.

What's new on the development of the Lavi? In my meeting with Moshe Arens, Minister without Portfolio, he stressed the importance of the Lavi, not only from the standpoint of the improvements in their best fighter plane, but the new electronic developments of the Lavi that will spill over into many other areas of production.

The U.S. Government, while recently releasing \$67 million to Israel for the Lavi, is reported to have offered Israel the right to manufacture 300 updated F16 fighter jets in Israel under license with the U.S. Government. This offer was supposedly made in the context of U.S. efforts to persuade Israel to drop the Lavi fighter project and accept an alternative that it would ultimately be less costly.

HOW IS OPERATION INDEPENDENCE TASK FORCE DOING?

This question was asked of me by a number of people both in Israel and the U.S. I am pleased to report that the Task Force program is picking up steam and will be a major factor in helping to build the economy of Israel.

I attended the meetings of the Task Force of Operation Independence held in Israel September 17th & 18th. At the meetings a new marketing vehicle was announced to expand the exports of Israeli food products to the U.S.

Murray Lender -- the "new boy in town" and a name to remember -- outlined plans for the establishment of an independent commercial marketing com-

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pany that will market and sell only Israeli products to the North American food trade. The company will be owned by a group of North American and Israeli investors. This marketing approach, developed by Charles Bronfman with the assistance of Ephraim Brecher, will serve as a pilot for possible application to other Israeli consumer and industrial products deemed appropriate for the North American market.

Attorney Paul Berger (Washington, DC) and Moshe Shamir, Managing Director of Vishay Israel, presented a legislative report to the Task Force. They called for the establishment of a "one-stop" agency that would apply clear rules and procedures to new ventures. The Committee urged the adoption of a new taxation policy and the removal of foreign currency controls in Israel.

David Hermelin reported on a variety of tourism projects launched by Operation Independence through the Israel Bonds Organization.

I met with Alan Wurtzel, the newly appointed Chief of Operations for the Task Force in the U.S. He is the Chairman and former CEO of Circuit City Stores. I am confident that Alan will do a fine job in mobilizing the business community of the U.S. to help reach the goals of Operation Independence.

TOURISM TO ISRAEL

UJA brought a large mission to Israel. They showed their willingness to come to Israel and not be diverted by the possibility of terrorism.

Horwath & Horwath International, a network of independent accounting and management consultants, brought 300 of their members to Israel. Horwath & Horwath came close to cancelling their annual convention which was scheduled for Israel; however, the company finally decided to go to Israel. They stated, "We were not going to let terrorists dictate what we were going to do."

Comprehensive FTA book is now available from the Israel-America Chamber of Commerce & Industry. This 870-page directory contains information about the business advantages afforded by FTA: annual tariff reductions; information concerning the possible sale of Israeli products to the U.S. Department of Defense; international joint ventures; a survey of import taxes and regulations; etc. Cost is \$98.00 including airmail shipping costs. Order this booklet from the Israel-America Chamber of Commerce & Industry, 35 Shaul Hemelech Blvd., P. O. Box 33174, Tel Aviv, Israel; telex 32139 BETAM IL.

Israel has scheduled an international congress and exhibition on security, defense and anti-terrorism (S.E.D.A.T.) to be held in Tel Aviv June 7-11, 1987. The exhibition will feature Israeli, as well as foreign products, used for security and anti-terrorism purposes. I would be pleased to send a copy of the brochure on S.E.D.A.T. to you at your request.

A chocolate war is about to take place in Israel. For those of you who are chocoholics (and I am one), you will be interested in knowing that

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a unit of Koor Ltd. will now be manufacturing chocolate in Israel in competition with Elite Ltd.

This division of Koor invested \$10 million in a highly mechanized plant with some of the funds and knowhow coming from Switzerland. The chocolate to be offered will be "Swiss quality chocolate at Israeli chocolate prices." Count me in as a regular customer.

Increase in Taxi Fares. When you go to Israel, you can expect an increase in the taxi fares. The minister of Transportation has announced that the intra-city taxi rates will go up 31% while meter rates per kilo will go up 7%.

* * *

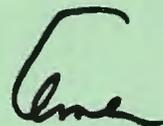
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This newsletter is distributed to 1,600 influentials worldwide.

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PS: Again, let me urge you to attend the Israel-America Trade Week in Tel Aviv, November 16-21, 1986. A very interesting program has been planned for you. If you wish a copy of the brochure, please contact the American-Israel Chamber of Commerce & Industry, Inc., 500 Fifth Avenue, New York, NY 10110; telephone 212-354-6510.



GOOD MORNING

HAVE YOU MADE YOUR DINNER RESERVATION FOR TONIGHT?

We recommend dining in the regal splendor of the hotel's

King Solomon Grill

Dial 2, and we'll reserve your table and tell you a little about our famous a la carte menu and this week's Israeli Gourmet Menu

ENJOY YOUR DAY!

TEL AVIV HILTON

Israeli Economy

THE P

Sunday, September 28, 1986 The Jerusalem Post

Report of 'Israel N-bomb' doubted

By DAVID HOROVITZ

Jerusalem Post Correspondent
LONDON. — A South American journalist's claim, reported in a newspaper here today, that Israel has manufactured five neutron bombs, has immediately been challenged by scientists and expert observers.

According to today's *Sunday Mirror*, Oscar Edmon do Guerero has been selling photos purportedly showing components of the devices inside the Dimona nuclear power plant. Guerero claims that Israel has five neutron bombs, — capable of wiping out life-forms with a massive dose of radiation while leaving buildings intact.

Guerero, *The Mirror* reported, offered his story first to *The Sunday Times*, but claimed that they had tried to cheat him out of credit. He then approached *The Mirror* with what he called "the biggest story since Watergate," which he offered to sell for £200,000.

Guerero, *The Mirror* reported, said that his source of information about the story was a Prof. Mordechai Vananu, a scientist who had left Israel's nuclear programme and gone to Australia because he was "disenchanted with Israel's aggressive stance."

Two top British scientists, however, have cast serious doubts on the story, saying that the photos with which Guerero backs up his tale could have been taken "in a laboratory anywhere in the world."

Another expert added that if the materials for the manufacture of a neutron bomb were arranged as Guerero's pictures suggested, "the plant would probably blow sky high."

The press attache at the Israel Embassy here said that "there is not,

(Continued on Page 2, Col. 3)

Zealots assault elderly couple

An elderly secular couple was beaten up on Friday by six ultra-Orthodox youths who came to their home soliciting contributions for a "bridal fund."

Simha and Yitzhak Nahshon, who



Israel Foreign Minister Yitzhak Shamir greets his Hungarian counterparts in New York. The talks centred on steps

Israel's point of view accepted

U.S. goes easy on tax-reform call

By SHLOMO MAOZ

Jerusalem Post Correspondent
WASHINGTON. — The U.S. administration will not insist on Israel's implementing any tax reform quickly, due to a lack of resources needed to finance the measures, *The Jerusalem Post* has learned.

Finance Minister Moshe Nissim, now on his first visit here, made it clear at a press conference on Friday that the administration has accepted his point of view, that the political and economic situation in Israel does not permit bold initiatives of this sort.

Nissim referred to a letter sent several months ago to Prime Minister Peres by Secretary of State George Shultz in which he called for more stringent measures to revive Israel's economy. The need for tax-reform was stressed in this message as a way to stimulate growth.

But it seems that the administra-

tion has changed its stance, and is now ready to accept a slower pace of implementation for the tax reform which was to start this coming January.

At the same time, Nissim assured Treasury Secretary James Baker that Israel plans to abolish tax breaks that have been given for years to special groups.

Nissim said that two other steps in the economic plan would be implemented as scheduled, namely the reduction of government intervention in the capital market and the selling of government firms to the private sector. The aim of these steps is to promote economic growth.

He stressed that the administration has not dictated to Israel how to carry out the economic plan, but both sides see it as the best path for the Israel economy to follow.

In an interview with *The Post*,

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CEGI

Israel's
Economy

Please Pass Along To:

October 24, 1985

LET'S TALK BUSINESS - ISRAELI BUSINESS

By: Elmer L. Winter, Chairman
Committee for Economic Growth of Israel

FIRST, some quick facts about the economy of Israel:

- 1] Inflation Rate - Indications are that the inflation rate will be under 5% a month. (Remember the threat of 1000% annual inflation last year?)
- 2] Exports for the first nine months of 1985 totalled \$4,247 million (a 6% increase). There was a similar reduction in imports.
- 3] Israel's trade deficit shrank by \$620 million in the first nine months compared to the same period last year.
- 4] Wages in the Public Sector will be stabilized until April 1986. The Government of Israel and Histadrut signed an agreement allowing for an increase in starting salaries -- but postponing all other wage increases until next April. This agreement includes professional unions.
- 5] Tourism to Israel increased 19% from January through July, 1985, compared to the same period last year.
- 6] Interest rates will be dropped 2% by the Government of Israel.

I'd say these are encouraging figures.

Laser Industries raised \$10,250,000 on Wall Street. Drexel Burnham Lambert, Inc., and Swergold Chefitz and Sinsabaugh, Inc., managed a stock offering for Laser Industries that produced net proceeds of \$10,250,000. Laser Industries also announced that it has concluded a transaction resulting in the disposition of its stock interest in Metalworking Lasers International.

Laser Industries Announces Two New Products. Laser Industries announced the introduction of the Sharplan 2100, a continuous wave Yag coagulator laser system, primarily for use in hospital operating rooms; and the Sharplan 1020, a portable carbon dioxide sealed-off surgical laser system, primarily for use in doctors' offices.

The Sharplan 2100 is a fully computerized CW Yag system with a power output of over 100 watts on tissue, which is delivered through flexible

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fibers to the operation site. It offers efficient coagulation and hemostasis, enabling both control of internal hemorrhaging and thermal necrosis of tumors.

An update on Elscint -- After five years of straight and dramatic increases in profits, Elscint had its first loss year. However, as of June 30, 1985, it was reported that Elscint's shareholder equity is \$47,910,000 and its 2500 employees are manufacturing, selling, and servicing its full line of medical diagnostic imaging systems worldwide.

Elscint's major stockholder, Elron Electronic Industries, Ltd., has advanced a portion of its \$10 million commitment in a new securities issue for Elscint. CEGI Board Member, Uzia Galil, Chairman of Elron, serves as Chairman of Elscint. Shmuel Parag, who has been with Elscint since 1974, is now serving as Acting President.

Elscint recently concluded a sale of its .5 Tesla GYREX Magnetic Resonance Imaging System to Mt. Sinai Hospital of New York City.

Athena Venture Company is moving ahead. Dan Tolkowsky called me the other day. He, Fred Adler and Bear Stearns & Company are offering shares in a \$25 million venture capital fund which would be managed by Dan and Fred. Elron Electronic Industries will serve as a special limited partner and has pledged to invest in the partnership 10% of all monies raised up to \$2.5 million. If you want further information about Athena, call me at [414] 961-1000.

As they say, "Listen up" to Richard M. Lilly, security analyst with Raymond, James & Associates, Inc. In a recent article in the "New York Times," Lilly, after returning from a trip to Israel, reported:

"Last year Israel had a \$5 billion trade deficit. High tech and agricultural exports could create a surplus by the early 1990's. There is a very positive inflow of capital. International companies are investing more than \$1 billion a year, half in high technology. I estimate Israel's high-tech exports will rise to \$1.95 billion this year, from \$1.5 billion in 1984 and only \$400 million in 1980."

Scitex Corporation Announces Third-Quarter Expectations. I have received a press release which stated:

"Herzlia, Israel, September 12, 1985...Scitex Corporation Ltd. today announced that it expects that sales and earnings for the third quarter ending September 30, 1985, will be below estimates made by some financial analysts. The Company said that the rates of orders, deliveries and installations during the current quarter have been slower than had been anticipated, primarily in products for the electronic and printed circuit board industries."

"The Company believes that it is currently experiencing a temporary postponement in the timing of purchases rather than any basic change in the demand for its major product lines."

"Earnings may also be adversely affected by recent changes in Israel's export incentive programs and government programs in support of research and development activities. To contain expenses the Company has imposed a temporary freeze on adding additional employees. The Company believes that its major investment program in manufacturing automation and production control will enable it to continue to increase production and to introduce major new products without a corresponding increase in the work force."

Elron Electronic Industries, Ltd. The Milwaukee Company, a stock brokerage firm, issued a "buy" recommendation for Elron Electronic Industries, Ltd., a diversified high-technology holding company in Israel. They report:

"We recommend the common stock to speculative growth-oriented investors for the following reasons:

- 1] Three of the four primary holdings of Elron are experiencing significant growth in earnings.
- 2] Historically, Elron has not sold at more than about a 20% discount to value of its holdings until this past year. We believe the stock could recover to these levels and perform better than such levels in the next year.
- 3] We believe perceived risks related to the Israeli economy have been exaggerated and are being given excessive weight in valuing the stock."

Dead Sea Bromide Company, a division of Israel Chemicals, Ltd., plans to raise \$40 million in a public offering in the United States. DSB earned \$15 million on sales of \$140 million in fiscal year ending March 31, 1985, as reported in the "Israel Investment Letter."

IIS Intelligent Information Systems anticipates an increase in profits. We have just received a report from Hauser & Associates, Inc., pointing out:

"We think you may be interested in looking at IIS Intelligent Information Systems, an Israeli company that develops and manufactures peripheral equipment such as display terminals, printers and communications controllers for IBM and IBM-compatible mainframe computer systems. A short time after its founding four years ago, IIS gained the major share of the Israeli market, surpassing IBM Israel -- an indication of the excellence and cost effectiveness of its products."

"Sales are expected to climb to \$10,000,000 plus for the year ending December 31, 1985, as compared to \$6,700,000 in 1984. One analyst who follows the company expects 1985 net income to reach \$3,000,000, or \$0.75 per share, as compared to \$2,100,000, or \$0.66 per share. These figures reflect that IIS has 3,900,000 shares outstanding, up from 3,000,000 shares, resulting from a November 1984 initial public offering at 4 5/8."

Business is picking up for Zim. The "Israel Economist" reports:

"Things are beginning to look bright again for Zim Israel Navigation Company Ltd. After several rough years, operational profits - i.e. profits obtained after deducting operational and administrative expenses, but before deducting depreciation and interest payments - totalled some \$44 million in 1984 (versus \$15 million in 1983). In the first half of 1985, operational profits have already climbed to \$48 million. Given the troubled domestic economy and the slump in world shipping, this is certainly an accomplishment."

"The two main factors in this recovery are greater output and increased cost efficiency: more cargo has been shipped but less voyages have been made, reducing costs per unit of cargo."

Let me give you a quick update on some meetings that I had in New York. I met with Mr. Rotem, the President of American Israel Paper, and Vice President Golan, to help design a strategy for export of their paper products to the United States.

In a meeting with Shimon Shalish, we discussed how we can help his company, Technolinks International, market five different hi-tech products.

Charlotte Jacobson and I discussed how we can move forward with "JOIN UP-Buy Products Made in Israel," a program we designed to develop a buying preference for Israeli products in retail stores.

Eli Zborowski, President of the American-Israel Chamber of Commerce, and I discussed additional ways for mutual cooperation.

I gave a lecture at NYU Graduate Business School on the subject of Israel's hi-tech industry. The students showed a great interest in the subject.

I met Board Member Harriet Mouchly-Weiss, Vice President of Ruder, Finn & Rotman. She is advising CEGI on Operation "JOIN UP."

I met Board Member Richard Cohen who helps us with press contacts. We discussed our PR strategy for 1986.

An increasing number of American companies are buying Israeli high-tech products. Grumann Data Systems has bought a new facilities management and maintenance software package developed by Central Software and Automation Ltd. (CSA) of Haifa. CSA competed against 20 software houses -- came in a winner. Their program was found to offer up to 40% more applications than required by the bid.

3M is now using a robot designed by Oshof Technologies of Herzlia.

"Newsweek" installed a VISTA electronic system produced by Scitex. This system will be used by artists and designers to electronically handle

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design tasks previously done manually. These tasks include sizing and designing charts and maps and manipulating photographs.

U.S. F.D.A. has put its stamps of approval on pacemakers made by Omikron Ltd. of Rehovot. These pacemakers will shortly be sold in the U.S.

The Instruments & Control Company of Haifa has entered into a contract with the U.S. Army to supply electronic measuring devices.

Varo, Inc., of Garland, Texas, is reported to be ready to invest \$4-6 million over five years in a joint venture with ELOP Electro-Optics Industries, Ltd. of Rehovot, Israel. They will make and sell military lasers in the U.S.

Fibronics International, Inc., and Control Data Corporation announced that they signed an agreement giving Fibronics the right to sell Control Data's loosely coupled network products and to sublicense compatible software to the Fibronics IBM 340-370 and Dec Vax Customer base. The companies said they anticipate that Fibronics will begin delivery of the systems early next year.

Delta Company of Israel is exporting its designer underwear to the U.S. under the Bill Blass label. I met Dov Lautman, President of Delta. He described with great pride the agreement he had entered into with Hanes, a leading manufacturer of underwear in the United States, to market Delta underwear through the Bill Blass label. In the first stages of the agreement, approximately 1 million pairs of underwear will be shipped by Delta to the U.S.

Telrad announced a \$5 million agreement with Mountain Bell Telephone Company to market Telrad's Key BX Telephone Exchange.

The Israel-U.S. Bi-National Industrial R&D Foundation (BIRD-F) has approved a cash grant of \$1 million for research to be done jointly by Reiter Software Systems Ltd. of Haifa and three major nuclear power stations in Massachusetts, Nebraska and California.

Anderson Hospital of Houston is checking Israeli cancer-monitoring unit. Anderson purchased several hundred Urilev kits manufactured by Lev Scientific Industries Ltd. of Israel. This kit allows doctors to determine the effectiveness of a cancer patient's treatment in a few hours compared to several days' testing required by previous methods.

Profits of Israeli Banks move up. Bank Hapoalim announced net after-tax profits rose to \$22.6 million compared to \$7.2 million in the first half of 1984. Bank Mizrahi showed a swing in profits of \$13.7 million in the last six months. First International Bank (owned by failing Danot) increased its profits in the first half of 1985 to \$14 million compared to \$8.2 million in the first half of 1984.

20 Israeli companies are putting on a recruitment drive in the USA. This unique approach is geared to trying to attract Israeli engineers to return to Israel to work in Israel's high-tech industry.

Israeli diamond exports increase. If the present pace continues, it is anticipated that this year's diamond trade will run well ahead of the \$1 billion exports of 1984.

Israel is developing its first communications satellite. Israel has started a commercial satellite venture in cooperation with the Ministry of Communication. Total cost is estimated at \$50 million in its first stage and \$200 million when a back-up satellite and ground facilities are completed.

CEGI Board Member Meir Amit serves as Executive Chairman of General Satellite Corporation (GSC), an international consortium now developing Israel's first communications satellite. They have some catching up to do since 18 Arab states and the PLO launched their own communications satellite -- "Arabest" in February, 1985.

More on the Brangus cattle being raised in Israel. Israel Rosen, who heads the Amira Corporation (the developer of Bat-Shlomo Brangus Center of Israel), reports that the project is likely to bring Israel some \$10 million in much needed foreign currency. It's an interesting story. A Brangus embryo is flushed from a donor cow in Texas, frozen and shipped to Israel where the embryo is implanted into an Israeli cow. The success rate for implanting in Texas is 25% -- in Israel 41%. For further information about participating in a limited partnership in this program, contact Israel D. Rosen, Amira Corporation, 330 Madison Avenue, New York, NY 10017, or call [212] 867-6757.

A novel approach -- Larry Larson, President of Recon/Optical of Illinois, brought his Board of Directors to Israel for a meeting. Larson, whose company does considerable business in Israel, is analyzing new joint ventures in the security field in Israel.

Let's hope Larson started a fashion for the 150 U.S. companies doing business in Israel to bring their Boards of Directors to Israel.

Interested in knowing more about the U.S.-Israel Free Trade Agreement (FTA) and how it can benefit your company? Take advantage of the seminars being put on by the U.S. Department of Commerce in the following cities:

November 6th	Reno, Nevada
November 7th	Phoenix, Arizona
November 13th	Cincinnati, Ohio
November 14th	Pittsburgh, Pennsylvania
November 15th	Erie, Pennsylvania
November 26th	Miami, Florida
December 10th	New York City

1986:

January 9th	Washington, D.C.
March 19th	St. Louis, Missouri

Dates are still open for Baltimore, Maryland; Jackson, Mississippi; and Atlanta, Georgia. For details, contact the Israel Information Center,

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U.S. Department of Commerce, Room 2039, Washington D.C. 20230, telephone (202) 377-4652.

We have published two books on the subject:

- 1] What the U.S.-Israel Free Trade Agreement Means to You
[Order #100]
- 2] A Plan to Sell Your Products (duty-free) in the USA Market, Via Israel [Order #101]

Vishay Intertechnology reports increased earnings from \$1.25 to \$1.62 per share. Vishay, a Philadelphia hi-tech company, was featured in a recent article in the "New York Post." They manufacture devices to measure structural stress and resistors. Vishay also operates a factory in Israel, employing close to 1,000 people. "New York Post" pointed out: "Vishay has a close relationship with Israel, producing more than half its resistors in that country, where it avoids currency losses by incurring its costs in shekels but receiving dollars for its goods."

If you want to learn more about how to run a profitable operation in Israel, talk to CEGI Board member, Dr. Felix Zandman, who takes great pride in Vishay's Israel operations.

Interested in making a financial tour of Israel? Gordon and Irma Wolfe, financial PR representatives of a number of Israeli companies, will conduct a tour of Israel for U.S. investors January 22-31, 1986. If you want to visit a number of Israeli firms whose stock is publicly traded in the U.S., contact Irma Wolfe, (212) 697-8840.

GOOD NEWS. . .

Shekel exchange rate holds firm. Remember not too long ago the Shekel was close to 1500 to the dollar and it looked like it was continuing to go through the roof? It's good to report that the Shekel exchange rate has firmed up. It is now 1481 to the dollar.

WORTH READING. . .

I have just renewed my subscription for the "Israel Investment Letter." This is a monthly letter that covers all Israeli stocks traded on Wall Street, new offerings of Israeli stocks, mutual funds, limited partnerships, Israel Bonds, stocks traded on the Tel Aviv Stock Exchange, etc. If you are interested, send in \$48 to: Israel Investment Letter, 361 Hollywood Avenue, Rochester, NY 14618.

D&B (Israel) has put together 52 "Proposals for Investments and Industrial Cooperation in Israel." If you are interested in contacting Israeli companies who are seeking joint ventures, marketing partners, cooperation in R&D; write for #102.

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The Ministry of Industry & Trade - Industrial Cooperation Authority
has compiled a catalogue (1985) of Israeli manufacturers' products and
technologies. This book provides potential customers outside of Is-
rael with data and technology available in Israel. Products are grouped
according to U.S. S.I.C. Code. For a free copy, write to: Industrial
Cooperative Authority, Israel Trade Center, Empire State Building, 350
Fifth Avenue, New York, NY 10018 USA.

Please Note: Information contained in this newsletter has been obtained
from sources believed to be reliable, but its accuracy and completeness
and any opinions based thereon, are not guaranteed. No statement or
opinion should be construed as a recommendation to buy or sell any
security.

THE HERITAGE LECTURES

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Middle East Update
Peace Prospects and the
Danger of War

*By Yitzhak Rabin
Defense Minister of Israel*

I sent a
copy to
Sandra Stein
MZ



The Heritage Foundation is one of the country's leading public policy research institutes. With offices just two blocks from the United States Capitol, The Heritage Foundation's research and studies programs are designed to make the voices of responsible conservatism heard in Washington, D.C., throughout the United States, and in the capitals of the world:

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The Heritage Foundation's 100-member staff—which includes several internationally recognized scholars and former government officials—concentrates on four areas of general study: domestic and economic policy; foreign policy and defense; the United Nations; and Asian studies. With some 1,600 individual scholars and research organizations working with its Resource Bank, The Heritage Foundation is uniquely equipped to provide U.S. policy makers with the intellectual resources needed to guide America into the 21st century.

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MIDDLE EAST UPDATE:
PEACE PROSPECTS AND THE DANGER OF WAR

by Yitzhak Rabin

EDWIN J. FEULNER, JR.: Welcome to The Heritage Foundation. I am Ed Feulner, President of Heritage. I am especially pleased to welcome our distinguished speaker, Israel's Defense Minister, Yitzhak Rabin. I am honored that Minister Rabin chose to deliver his address at The Heritage Foundation, because I am sure that he knows that Israel's most reliable friends in America are the conservatives. It is conservatives who recognize Israel's security and peace in the Middle East require a militarily strong United States. It is conservatives who recognize--and applaud--that Israel sometimes has to take tough, unpleasant action to defend itself. It is conservatives who have rallied to the defense of the Jewish community in Nicaragua. Today, I believe, Israel's real friends are the conservatives.

For its part, Israel has proved itself to be not only America's best ally in the Middle East; it has proved itself to be America's only reliable ally in the Middle East and, frankly, one of our most reliable friends in the world. For example, Israel has consistently backed the United States in the United Nations with a record of support for our joint interests unmatched by any other nation, even our good friends in Great Britain.

In contrast to some American liberals who question Israel's every move and criticize it when it strikes back against terrorist attacks, conservatives see Israel as the best hope for both Western interests and Western values in the Middle East. And Yitzhak Rabin, a truly great Israeli leader, exemplifies those battling for our common heritage in one of the most important and most dangerous regions in the world.

He has served in the Israeli government for more than 30 years. He began his career as a member of the elite Palmach troops in 1941. He went on to hold many positions of command in the Israeli Army, including Commander-in-Chief during the 1967 Six Day War. He served as Israel's Ambassador to the United States from 1968 to 1973. And in 1974 he became Prime Minister of his country serving in that

Yitzhak Rabin is the Defense Minister of Israel.

He spoke at The Heritage Foundation on September 11, 1986.

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position until 1977. In 1984, he was named Minister of Defense, a position he currently holds. Unlike some other Western leaders, Yitzhak Rabin--a man of the West himself--has not suffered any lack of nerve in the face of hostile powers. As a soldier, a statesman, and diplomat, this intelligent and tough leader exemplifies the kind of friend of freedom American needs in the world today.

His topic will be: "Middle East Update: Peace Prospects and the Danger of War."

The Heritage Foundation is honored to welcome you, Mr. Minister.

YITZHAK RABIN: Dr. Feulner, ladies and gentlemen, when I chose the title of my talk today, I did not know how correct it would be this week. This week we have witnessed the threat of war, the dangers of terror, and the hopes for peace. Last weekend, two atrocities carried out by terrorists at Karachi and Istanbul and today the summit meeting between the President of Egypt and the Prime Minister of Israel. Sometimes you ask yourselves how could it happen that at the same time, in the same region two totally contradictory events can take place. This is the Middle East that collectively carries with it a real opportunity for peace and tranquility but at the same time the horror of terror and the threat of war.

When I try to look at the prospects of peace--and I speak as an Israeli--I believe that at present we see the fruit of a strategy that was agreed on by Egypt, Israel, and the United States. It was agreed on in 1974 in the aftermath of the Yom Kippur War--the 1972 war--when the United States, Egypt, and Israel decided together (we did not speak then with the Egyptians; it was done through the United States) that first the United States, as a superpower, will lead the peace process, neutralizing as nicely as possible the Soviet Union. Second, the United States will look at Egypt and Israel as the two cornerstones for the structure of peace in the region. And third, we all will try to move ahead with the peace process, even gradually, wherever and whenever it would be possible.

As a result of this strategy, first we had the disengagement agreement with Egypt in January 1974. We had, in September 1975, the Sinai II agreement as you call it or what we call the Interim Agreement. In 1978 the Camp David Accords; in 1979 the Peace Treaty and the only peace that has been achieved between an Arab state and Israel. And today another page, if not another chapter, in the strengthening of the peace between Egypt and Israel without bringing in the Soviet Union to play any role. I believe that Israel's peace policy should focus first and foremost in strengthening the peace between the key Arab country--Egypt--and Israel. And what has been done and practically signed yesterday is another step in strengthening the peace that was achieved as a result of the strategy that I have described.

Can we expand the peace process beyond the peace between Egypt and Israel? To achieve peace, we need a reconciliation on the part of an Arab country or an Arab leader with Israel's existence as a Jewish viable state. Second, this Arab country--this Arab leader--should be closer to the Western world, to the United States, than to the Soviet Union. I am not aware of an Arab country with close affiliation with the Soviet Union that really desires peace with Israel. President Sadat would not have reached the decision to go to Jerusalem to make peace with Israel before he made the decision that he should switch from being the key Arab country for Soviet policy in the region and become closer to the United States.

Today, the only practical candidate with which we can negotiate peace among neighboring Arab countries is Jordan. Syria is the most hostile Arab country towards Israel. Lebanon does not exist as an independent Arab state. But under the present circumstances, we are fully aware that Jordan cannot go it alone because of threats of terror and threats of radical Arab countries on the outside and cowardness of oil Arab countries that do not dare to support moderate Arab countries. Jordan's position at the present is that without a fully fledged international conference under the auspices of the United Nations where the Soviet Union will play an equal role today to the one that the United States might play--co-chairmanship of the peace conference--Jordan cannot enter into any meaningful peace talks with Israel.

Israel always believed that bringing in the Soviets to be involved in the peace process will produce the opposite to peace. I do not believe that the Soviet Union is interested in peace but on its own terms which will serve its purpose, its interest vis-a-vis Israel and vis-a-vis the United States. We find ourselves in the last year being attacked: "Why do you oppose international peace conference?" By the Arab countries, by the moderate Arab countries like Saudi Arabia, Egypt, Jordan and by some circles in the United States. We have made it clear. Even if there will be an international peace conference, Israel will not attend unless the Soviet Union does one of the following: resumes diplomatic relations with Israel, and what might be even more important for us, opens the gates of the Soviet Union to free emigration of members of the Jewish community there that will choose to do so.

Without the Soviet Union meeting one of these two conditions we cannot see any international forum in which the Soviet Union is included and in which peace is discussed. Unfortunately, we are the only ones that put conditions to any participation of the Soviet Union in any peace process in whatever forum that it will take place. Even the United States has not placed any conditions to the participation of the Soviet Union.

I believe, therefore, realistically under the present circumstances, we should try to do whatever can be done in

strengthening the peace with Egypt. I do not see, unfortunately, a possible breakthrough that will bring about immediate peace negotiations between Jordan, Palestinians, and Israel. But at the same time, I believe that there is understanding--not agreement--between Jordan and Israel to lay the groundwork that in the long run will facilitate peace negotiations between our two countries.

It is for us to say together, Jordan on its part, Israel on its part, that fighting PLO terrorism that is the main obstacle to peace. We can do it by encouraging moderate Palestinian leaders in the West Bank and the Gaza Strip to gain force, to take over the municipalities, business and to fight the terror organization leaders and activists. I believe that most of the Palestinians in their heart prefer not to see Israeli occupation, but at the same time they oppose terrorism and would like to see a peaceful solution to the complex of problems in which Jordan, Palestinians and Israel are involved.

But look what has happened just in the last eight months. One of the most important Palestinian young leaders became mayor of Nablus, the largest city in the West Bank. He focused only on the further interest of his population--120,000--and did not want to be involved in any political problem. He wanted only to serve the people there. He improved their standard of living, education, quality of life. He was assassinated because he represented to the terror organization a real potential threat of an authentic leader that cares about the people. Look what happened five weeks ago, to the former mayor of Gaza. No one can consider him to be a friend of Israel. He appeared on the Jordanian television after meeting with Jordanian leaders and said, "The main purpose of all the Palestinians is to get rid of the Israeli occupation of our territory. We would like to solve it by the only way that it can be solved. Not by terror, by political negotiations. They have to do this in cooperation with Jordan. The PLO policy is not helpful to achieve what we the Palestinians who reside in the West Bank and the Gaza Strip would like to achieve." He did not speak in favor of Israel. He spoke realistically. As a member of a group whose fate for 38 years had been to be a football in the hands and the legs of all the Arab countries leaders. And what happened? Two days after his appearance on the Jordanian television, a bomb was put and exploded in his packing plant in Gaza--a warning by the terror organization--"Beware. Your fate might be the fate of the mayor of Nablus."

Terror has become the main obstacle to peace; the main obstacle the bring about real leadership of the Palestinians who are ready to solve the problem by peaceful means. And without coping with this problem I do not see any prospect of peace eastward of Israel. Let's hope that Jordan, after the rift between King Hussein and Arafat closed the offices of the PLO, will take measures against these leaders of terror of region and we will do our part to reduce terrorism. We will cooperate indirectly also in creating better

conditions for moderate Palestinians to participate more actively in running their own life in the West Bank and the Gaza Strip.

I believe this will be the way to lay the groundwork that in a year or two years will produce results that will lead towards peace.

One or two positive developments: the agreement about Tabah, the summit meeting, the resident ambassador of Egypt's return to Israel, the long-term move by Jordan and Israel independently in the direction that I described. There is no doubt in my mind that the terror organizations and that the countries that back them--Libya, Syria, Iran--must increase their efforts to bring about terror to undermine these positive developments and I am not sure that what we witnessed in the last weekend is not the beginning. The United States took daring and courageous action in its raid against Libya: to go to the roots of terrorism, countries that encourage, support, and carry out terror acts. Let's face it, the impact was great, but it starts to fade away.

Syria was not yet touched. Nor was Iran. They cannot tolerate these two positive developments. Israel is prepared, but I believe it should be said here, "Beware." I would not be surprised if efforts will be made to increase terrorism, especially the kind of terrorism that was carried out in the last weekend. Terror against innocent people--really innocent. What had the passengers of Pan American Flight 73 to do with the Arab-Israeli conflict? What had the old members of the Jewish community in Istanbul praying on the Sabbath on Saturday to with the Arab-Israeli conflict? It is easy to these animal terrorists to attack easy targets--innocent people. They would not dare attacked Israeli soldiers. They would not dare attack a defended target. They go after the easiest targets--innocent people.

I believe that we have--the United States, Israel, European countries--to make all the preparations, to take all the precautions not to make the terror groups' goals easy to be achieved. Allow me to say a Pan American plane can be hijacked, but no Israeli El Al airplane can be hijacked. It might be attacked. There might an attack at Vienna, or Rome, or Madrid, or London, but no El Al can be hijacked. We understand that we are at war and therefore we have to be prepared to cope with it.

We would not hesitate to intercept in international waters a ship that carried terrorists. We are not hesitating to intercept ships from Cyprus to Beirut if they carry arms, military equipment to terror organizations. I do not believe that there is an international law that allows terrorism and prevents fighting terrorism.

Therefore, on one hand, we have the opportunities to strengthen the peace between Israel and Egypt, to lay the groundwork later on, fighting terrorism, to develop peace negotiations between Jordan, Palestinian and Israel. At the same time, we have to be prepared to

meet the potential military threat from Syria but even more so, more immediately, terror acts that will be encouraged by Libya, Syria, maybe Iran, and all the terror organizations the main one of which is Mr. Arafat's PLO and its descendants. This is the problem: you cannot achieve positive moves without readiness to withstand threats and terror. And to withstand them effectively.

The Soviet Union's role is in encouraging the radical Arab countries. The amount of arms that the Soviet Union has shipped into Syria is really unbelievable. Syria gets quantitatively and qualitatively better armament, better military hardware, than any one of the communist countries in Europe. Whenever a new weapon is shipped out of the limits of the Soviet Union, it first ships to Syria then to Libya and only then to the so-called Socialist Soviet Republics. Unfortunately, the Soviet Union continues to play a negative role when it comes to the peace prospects, an unfortunate role in encouraging Arab countries that they are the source of helping terrorism in the region.

As an Israeli, no doubt as the Minister of Defense of Israel, we are determined, on the one hand, to explore every possibility to move ahead with the peace process, but at the same time to fight any terror anywhere and to be stronger now to deter any temptation to use force against us. We hope that we find understanding in the United States, understanding that has been translated to practical support of Israel the way that it has been done for so many years between our two countries and for which Israel is very thankful to the American people, to the various American Administrations, and to everybody who is here. Thank you very much.

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RESPECT TO THE NEGATIVE EFFECTS OF THE SHARE PRICE REGULATORY PROCESS ON THE STATE OF THE ECONOMY. THE SECURITIES AUTHORITY, ACCORDING TO THE REPORT, ALSO FAILED IN ITS MAIN TASK OF PROTECTING THE PUBLIC'S INVESTMENTS.

5. (U) THE TEL AVIV STOCK EXCHANGE FAILED TO TAKE ANY INITIATIVE TO CHANGE THE STATE OF AFFAIRS, AND THUS, CONTRIBUTED TO THE DISTORTION WHICH THE CONTINUED REGULATION HAD CAUSED, ACCORDING TO THE REPORT.

6. (U) AMONG THE COMMISSION'S CONCLUSIONS AND RECOMMENDATIONS ARE:

1) THE FOLLOWING PERSONS SHOULD RESIGN WITHIN THIRTY DAYS: DR. MOSHE MANDELBAUM, GOVERNOR OF THE BANK OF ISRAEL; ERNST JAPHET, GENERAL MANAGER OF BANK LEUMI; EPHRAIM RAINER, FORMER BOARD CHAIRMAN OF BANK HAPOLIM AND PRESENTLY CHAIRMAN OF AMPAL, THE BANK'S INVESTMENT ARM IN THE U.S.; GIORA GAZIT, CEO OF BANK HAPOLIM; RAPHAEL RECANATI, CHAIRMAN AND DIRECTOR-GENERAL OF THE DISCOUNT BANK AND THE IDB INVESTMENT CORPORATION; AND AHARON MEIR, DIRECTOR-GENERAL OF THE MIZRAHI BANK.

2) THE FOLLOWING PERSONS BEAR RESPONSIBILITY FOR THE SHARES CRISIS, BUT ARE NO LONGER IN THEIR FORMER POSITIONS: DAVIO SHOHAM, FORMER DIRECTOR-GENERAL OF THE GENERAL BANK; BEN-AMI ZUCKERMAN, FORMER COMMISSIONER OF THE TREASURY'S CAPITAL MARKET; ARNON GAFNY, FORMER GOVERNOR OF THE BANK OF ISRAEL; ODED MECCER, FORMER BOI'S INSPECTOR OF BANKS; YIGAELE HURVITZ, FORMER FINANCE MINISTER; YORAM ARIDOR, FORMER FINANCE MINISTER; PROFESSOR YAACOV NEEMAN, FORMER DIRECTOR-GENERAL OF THE FINANCE MINISTRY; EZRA SAOAN, FORMER DIRECTOR-GENERAL OF THE FINANCE MINISTRY; MEIR HETH, FORMER CHAIRMAN OF THE STOCK EXCHANGE COUNCIL.

3) GULIA MAOR, PRESENTLY BOI'S INSPECTOR OF BANKS, ALSO BEARS SOME RESPONSIBILITY FOR THE CRISIS, BUT NEED NOT BE ASKED TO RESIGN.

4) THE ATTORNEY GENERAL SHOULD EXAMINE POSSIBILITIES OF BRINGING CHARGES AGAINST THOSE WHO HAVE ALLEGEDLY VIOLATED THE LAW. HE IS ALSO URGED TO SET UP A COMMITTEE TO INVESTIGATE ILLEGALITIES IN THE CAPITAL MARKET.

5) BANKS SHOULD BE BANNED FROM MANAGING MUTUAL FUNDS OR PROVIDENT FUNDS. HOWEVER, THEY MAY STILL OWN SUCH FUNDS.

6) BANKS SHOULD BE PROHIBITED FROM TRADING IN THEIR OWN SHARES.

7) INVESTMENT COUNSELORS SHOULD BE LICENSED; LEGAL RESTRICTIONS SHOULD BE IMPOSED ON BANKS REGARDING INVESTMENT COUNSELLING BY THEIR EMPLOYEES.

8) THE RIGHT TO AUTHORIZE NEW STOCK ISSUES SHOULD BE TAKEN FROM THE FINANCE MINISTRY; THE MINISTRY MAY CONTINUE TO INFLUENCE THE CAPITAL MARKET THROUGH SUCH MEASURES AS SUBSIDIES, BOND ISSUES, PERMISSION TO FLOAT BONDS, TAX RELIEF, GRANTS, ETC.

SUBJECT: BANK SHARE COMMISSION REPORT

1. (U) SUMMARY: AFTER MORE THAN ONE YEAR OF WORK, THE COMMISSION APPOINTED EARLY IN 1985 TO INVESTIGATE THE CAUSES OF THE 1983 BANK SHARE CRISIS PRESENTED ITS REPORT TO THE KNESSET AND THE PRIME MINISTER ON THE EVENING OF APRIL 20. BECAUSE OF THE LENGTH OF THE REPORT (560 PAGES), INFORMATION AVAILABLE SO FAR IS FRAGMENTARY, ALTHOUGH THE MAIN RECOMMENDATIONS ARE CLEAR. THESE INCLUDE THE REMOVAL FROM OFFICE OF THE CHIEF EXECUTIVE OFFICERS OF THE MAJOR BANKS, THE POSSIBILITY OF PROSECUTION BY THE ATTORNEY GENERAL IN SOME CASES, AND A REVAMPING OF THE CAPITAL MARKETS AND THE ASSOCIATED REGULATORY SYSTEM. END SUMMARY.

2. (U) DURING EARLY 1985, IN RESPONSE TO PUBLIC OUTCRY AT REVELATIONS MADE IN A REPORT ON THE BANK SHARE CRISIS BY THE STATE COMPTROLLER, THE GOVERNMENT OF ISRAEL APPOINTED A "COMMISSION OF INQUIRY" TO INVESTIGATE THE CAUSES OF THAT CRISIS. THE COMMISSION, CALLED THE BEJSKY COMMISSION AFTER ITS CHAIRMAN, SUPREME COURT JUSTICE MOSHE BEJSKY, PRESENTED ITS REPORT TO THE KNESSET AND TO THE PRIME MINISTER THE EVENING OF APRIL 20. THE FULL REPORT HAS NOT YET BEEN DIGESTED BECAUSE OF ITS LENGTH, BUT IT HAS BEEN THE SUBJECT OF WIDESPREAD COMMENTARY IN THE MEDIA AND REACTION BY THE GOVERNMENT.

3. (U) THE REPORT CONCLUDES THAT COMMERCIAL BANKS REGULATED IN A MANIPULATIVE MANNER THE PRICES OF THEIR OWN SHARES AND INFLUENCED THE PRICES OF SHARES THAT WERE CONNECTED WITH THEIR BANKS. IT ALSO ASSERTS THAT THE BANKS' BALANCE SHEETS DO NOT REFLECT THEIR RESPONSIBILITY FOR LOANS TAKEN TO "REGULATE" THE SHARES AND CONCEALED THEIR INVOLVEMENT IN THE REGULATORY PROCESS.

4. (U) THE REPORT ALSO APPARENTLY ASSERTS THAT THE BANK OF ISRAEL, WHICH HAD BEEN AWARE OF THE REGULATORY PROCESS AND ITS NEGATIVE IMPLICATIONS SINCE 1978, FAILED TO TAKE CONCRETE ACTION TO ELIMINATE THE PHENOMENON BY EXERCISING ITS LEGAL POWERS OVER THE BANKS AND BY IMPOSING EFFECTIVE SUPERVISION. IN ADDITION, SENIOR FIGURES IN THE FINANCE MINISTRY HAVE BEEN ACCUSED OF APATHY WITH

9) THE BOI GOVERNOR SHOULD HAVE THE AUTHORITY TO SUSPEND A MEMBER OF A BANK'S BOARD, OR A BUSINESS DIRECTOR, FOR AN UNLIMITED PERIOD.

10) A NEW, AUTHORITATIVE SECURITIES AUTHORITY SHOULD BE SET UP. ITS FUNCTION SHOULD BE TO DIRECT THE SECURITIES MARKET ON THE BASIS OF ECONOMIC CONSIDERATIONS, FREE OF ANY EXTERNAL INFLUENCE. IT SHOULD BE INDEPENDENT, CUT OFF FROM ANY POLITICAL OR PERSONAL PRESSURES. CIVIL SERVANTS FROM OTHER MINISTRIES OR GOVERNMENT ORGANIZATIONS AND BOI REPRESENTATIVES SHOULD NOT BE ALLOWED TO SERVE ON THE AUTHORITY BOARD. LAWS SHOULD BE CHANGED SO AS TO ACCORD THE AUTHORITY WITH JURISDICTION OVER CONTROL OF THE MARKET AND LAW ENFORCEMENT IN THE FIELD.

11) THERE SHOULD BE EQUALITY OF VOTING RIGHTS FOR PUBLICLY ISSUED SHARES. ALL FUTURE PUBLICLY ISSUED SHARES SHOULD HAVE VOTING RIGHTS EQUAL TO THOSE OF ANY SUPERIOR CLASS OF SHARES ALREADY ISSUED.

7. (U) THE FIRST REACTIONS ON THE REPORT CAME FROM PRIME MINISTER PERES, WHO SAID THAT THE GOVERNMENT WOULD STRIVE TO CARRY OUT THE COMMISSION'S CONCLUSIONS AFTER A THOROUGH STUDY AND WOULD HONOR ALL ITS COMMITMENTS TO THE BANK SHARES' HOLDERS. HE REITERATED THAT THE REPORT WOULD HAVE NO EFFECT ON THE GOVERNMENT'S ECONOMIC PROGRAM.

8. (U) ENERGY MINISTER SHANAL PROPOSED THAT THE GOVERNMENT SHOULD PASS A LAW MAKING IT IMPOSSIBLE TO SEEK CIVIL DAMAGES AGAINST THE BANKS FOR DAMAGE CAUSED BY THE SHARES' COLLAPSE. MK URIEL LINN (LIKUD-LIBERAL) OPPOSED SUCH INSULATION OF THE BANKS FROM LIABILITY.

9. (U) THE NEWLY APPOINTED FINANCE MINISTER, MOSHE NISSIM, APPOINTED A COMMITTEE TO STUDY THE REPORT AND PREPARE PROPOSALS FOR CABINET DELIBERATIONS. HE REPEATED THE GOVERNMENT'S COMMITMENT TO THE SHARE HOLDERS, AND REMINDED THE PUBLIC THAT REGULATION OF THE BANK SHARES HAD CEASED IN 1983 AND THAT THE BANKING SYSTEM WAS SOUND AND ABLE TO FULFILL ITS OBLIGATIONS. MINISTER OF ECONOMICS AND PLANNING, SAO YACCOBI, STRESSED THAT THE BANK'S STABILITY AND CREDIBILITY WOULD BE MAINTAINED; SO WOULD THE STANDING OF ISRAELI BANKS VIZ-A-VIS THE INTERNATIONAL MONEY MARKET.

10. (U) DEPUTY-FINANCE MINISTER ADI AMORAI, THE DIRECTOR-GENERAL OF FINANCE MINISTRY, EMANUEL SHARON, PROFESSOR MICHAEL BRUNO AND NATIONAL INSURANCE INSTITUTE CHIEF NISSIM BARUCH HAVE BEEN MENTIONED AS POSSIBLE CANDIDATES FOR THE POSITION OF BOI GOVERNOR.

11. (C) BEGIN COMMENT: THE POLITICAL IMPLICATIONS OF THE BEJSKI COMMISSION REPORT HAVE BEEN MINIMIZED BY SEVERAL FACTORS:

-- THE LENGTH OF TIME SINCE THE BANK SHARES COLLAPSE;

-- THE COHABITATIONS OF LABOR AND LIKUD IN THE UNITY GOVERNMENT; AND

-- THE IMPLICATION OF HISTADRUT'S BANK HAPDALIM AND FORMER FINANCE MINISTER YIGAL HURWURTZ (NOW ALLIED TO LABOR) ALONG WITH LIKUD AND NRP

POLITICIANS IN THE COMMISSION'S FINDINGS.

12. (C) SINCE THOSE POLITICIANS IMPLICATED ARE NO LONGER IN GOVERNMENT POSITIONS WITH RESPONSIBILITY FOR THE ECONOMY, THE COMMISSION'S REPORT HAS FEW IMPLICATIONS FOR ACTIVE POLITICIANS EXCEPT TO DAMAGE THE PERSONAL REPUTATIONS OF YIGAL HURWURTZ AND YORAM ARIDOR.

13. (C) THE MOST SIGNIFICANT POLITICAL IMPACT DERIVES FROM THE RECOMMENDED RESIGNATION OF BANK OF ISRAEL GOVERNOR MOSHE MANDELBAUM AND THE VACANCY THEREBY CREATED. THE PRIME MINISTER NOMINATES THE BANK OF ISRAEL GOVERNOR IN CONSULTATION WITH THE FINANCE MINISTER. THE NOMINATION MUST BE APPROVED BY THE CABINET. PERES WILL CONSULT WITH LIKUD IN FILLING THE POSITION AND A DEAL COULD RESULT IN WHICH LIKUD RECEIVED THE DEPUTY GOVERNORSHIP OR ANOTHER POSITION IN RETURN FOR SUPPORTING PERES' NOMINEE. SHOULD ADI AMORAI OR ANOTHER PERES FAVORITE, PROFESSOR MICHAEL BRUNO, BE NAMED BANK GOVERNOR, LABOR WILL GAIN THE IMPORTANT ADVANTAGE OF HAVING A LABOR-INCLINED ECONOMIST IN A KEY POSITION TO SERVE AS "WATCHDOG" OVER LIKUD'S MANAGEMENT OF THE ECONOMY AFTER ROTATION (WHEN LIKUD WILL HOLD BOTH THE PRIME AND FINANCE MINISTRIES). SUCH A "WATCHDOG" COULD SPEAK OUT AGAINST ILL-ADVISED EFFORTS TO REFLATE OR PLAY "ELECTION ECONOMICS" IN A WAY THAT MANDELBAUM DID NOT DURING PERIODS OF "ARIDOR ECONOMICS" AND ELECTION ECONOMICS OF 1984.

14. (C) THE PROBABLE FINANCIAL AND ECONOMIC IMPACT OF THE REPORT IS DIFFICULT TO JUDGE. CERTAINLY THE REPORT AND ITS NEGATIVE CONCLUSIONS AND STRONG RECOMMENDATIONS HAVE BEEN LONG-AWAITED AND MUST, THEREFORE, BE SOMEWHAT DISCOUNTED IN THE INTERNATIONAL FINANCIAL COMMUNITY. GIVEN THAT ISRAELI BANKERS SUCH AS ERNST JAPHET AND RAFI RECANATI ARE RESPECTED IN THE INTERNATIONAL COMMUNITY, THE RECOMMENDATION THAT THEY RESIGN MAY ACTUALLY RAISE SOME QUESTIONS ABOUT THE PURPOSE OF THE REPORT. ON THE OTHER HAND, THE RECOMMENDATION THAT THE ATTORNEY-GENERAL LOOK INTO THE POSSIBILITY OF PROSECUTION, IF FOLLOWED BY THE ATTORNEY-GENERAL, COULD LEAD TO A VERY DRAWN-OUT, MESSY SITUATION THAT WILL NOT HELP THE ISRAELI BANKING SYSTEM, PARTICULARLY SINCE THE "REGULATION" OF SHARE PRICES STOPPED NEARLY 30 MONTHS AGO.

15. (C) THE RECOMMENDATIONS CONCERNING THE OPENING OF THE CAPITAL MARKET, THE DESIRABILITY OF MAKING PRIVATE OWNERSHIP OF BUSINESS AGAIN IMPORTANT AS A FINANCING MECHANISM, AND THE INCREASED AUTHORITY AND INDEPENDENCE OF THE SECURITIES AUTHORITY ARE VERY WELCOME. WE BELIEVE THAT THEY FALL NICELY INTO THE GENERAL APPROACH OF THE CURRENT STABILIZATION PROGRAM, AND CERTAINLY ARE CONSISTENT WITH SUGGESTIONS RAISED DURING THE DEPUTY SECRETARY'S RECENT "SEMINAR" ON INVESTMENT IN ISRAEL.

16. (C) OUR UNDERSTANDING IS THAT ADI AMORAI HAS THE BANK OF ISRAEL GOVERNORSHIP "WIRED" -- AT LEAST IN THE LABOR PARTY. BRUNO WOULD ALSO BE AN EXCELLENT CHOICE, BUT WE ARE NOT FAMILIAR WITH THE LEVEL OF HIS INTEREST IN THE POSITION. EMANUEL SHARON WOULD, OF COURSE, BE AN EXCELLENT CHOICE FOR THE POSITION. HOWEVER, HE IS SORELY NEEDED AT THE FINANCE MINISTRY, PARTICULARLY WITH A VERY NEW

FINANCE MINISTER. HE ALSO HAS BEEN ONE OF THE MAIN ARCHITECTS OF THE CURRENT ECONOMIC PLAN AND CAN BE EXPECTED TO PLAY A MAJOR ROLE IN FOLLOW-ON EFFORTS. HOWEVER, HE HAS BEEN NON-POLITICAL DURING HIS TENURE AS DIRECTOR-GENERAL, AND MIGHT BE A COMPROMISE CANDIDATE IF POLITICS INTERFERE WITH OTHER POSSIBILITIES. NISSIM BARUCH PREVIOUSLY SERVED AS ECONOMIC ADVISOR TO PRIME MINISTER SHAMIR (AT THE END OF SHAMIR'S TERM), AS DIRECTOR-GENERAL OF THE FINANCE MINISTRY UNDER MINISTER YIGAL CONEN-ORGAD, AND IS CURRENTLY DIRECTOR OF THE NATIONAL INSURANCE INSTITUTE. HE IS A MERUT CANDIDATE ALTHOUGH WE ARE NOT CERTAIN OF HOW SERIOUS. REPLACEMENT OF THE GOVERNOR OF THE BOI IS IMPORTANT, BECAUSE THERE IS PRESENTLY NO DEPUTY-GOVERNOR OR DIRECTOR-GENERAL OF THE BOI. THESE POSITIONS COULD ALSO FIGURE IN ANY POLITICAL HORSE TRADING THAT MIGHT TAKE PLACE.

DEPARTMENT OF STATE
BRIEFING PAPER

ISRAEL: IMPACT OF GRAMM-RUDMAN-HOLLINGS (GRH)

- o Foreign assistance will face increasing pressures as popular domestic programs are cut because of severe budget constraints
 - Final appropriation levels for FY 87 and beyond are uncertain
 - Israel will likely enjoy relatively stable funding despite GRH
 - However, Israel is likely to encounter resentment from other aid recipients, especially in the Middle East, as its allocations take up a growing percentage share of the foreign assistance budget
- o The FY 86 Administration foreign assistance request was \$16.989 billion
 - Congress appropriated \$15.541 billion
 - GRH further reduced FY 86 appropriations, including Israel FMS and ESF, by 4.3 percent to \$14.889 billion
- o The appropriations process tends to increase Israel's percentage share of the foreign assistance budget and crowds out other programs; GRH imposes cuts across the board
 - Israel's share of the FY 86 request was \$3 billion or 17.7 percent of the total request
 - Israel's post-sequester share of the FY 86 funding was \$2.871 billion or 19.3 percent of the total
- o The FY 87 foreign assistance request is \$16.166 billion
 - Israel's share is \$3 billion or 18.6 percent
 - If the appropriations process reduces the total, Israel's percentage share is likely to again increase
- o Any Israeli request for more aid in whatever form (debt relief, etc.) would encourage major foreign assistance recipients such as Egypt, Turkey, and Pakistan to press for larger allocations and more concessionality, which would further crowd out other important country programs
- o Therefore believe no alternative to Israel's efforts to stabilize economy, spur economic growth and decrease dependence on U.S. aid

Israel's Backsliding Economic Policies

By PINHAS LANDAU

Israel's coalition government, headed by the two major political parties, Labor and the Likud, has just issued a new budget that it hopes will capitalize on its achievements in slashing the country's hyperinflation and improving the balance of payments. The new budget switches the thrust of economic policy from austerity to "economic growth." But it is growth of the most fraudulent kind: The crushing Israeli tax burden is *increased* instead of reduced, and massive new state subsidies will flow to a long list of money-losing companies.

Even the government's severest critics have been forced to admit that the economic emergency program introduced last July has succeeded beyond all expectations: Inflation is running between 1.5% and 2% a month—a lot, perhaps, when compared with the falling price indexes of other industrial nations. But it is a far cry from the 15% to 20% monthly inflation Israel was suffering in 1984 and the first half of 1985.

American Aid

The trade deficit, too, continued to shrink last year, totaling less than \$2 billion, compared with \$2.68 billion in 1984 and a record \$3.5 billion in 1983. The balance of payments wound up in the black, for the first time in decades.

Skeptics, and there are many, note that it was the unforeseen, external factors—e.g., the collapse in the price of oil and the sharp drop of the dollar against other major currencies—that contributed most to these favorable results in the areas of inflation and trade. It was, moreover, American aid on an unprecedented scale that turned the overall balance of payments positive.

But the government is convinced that the July austerity package has already done its work. It therefore decided, in the course of February and March, to turn economic policy on its head. So doing, it ignored a chorus of warnings from professional economists both in and outside Israel. These included not only Profs. Herbert Stein and Stanley Fischer on these pages, and the International Monetary

Fund in its interim report on the Israeli economy a few weeks ago, but even the Israeli economists who originally designed the July program.

The new slogan is "growth now." It was first raised by the Labor Party, which openly admitted that its motivation came from the threat of bankruptcy facing several major firms and even whole sectors of the economy. Since most of these financially troubled outfits have ties to the Labor Party, the initial reaction of the Likud was opposition. However, the spreading wave of bankruptcies, with the accom-

A growing band of bankrupt entities is clamoring for a piece of the aid program. Its logic is unimpeachable: "Why be a sucker, if you can get succor?"

panying unrest—themselves precipitated by the tight monetary policies imposed as part of the July plan—soon convinced the Likud that this was a bandwagon to be joined rather than stopped.

This process reached its climax at the March 30 cabinet session, when hundreds of millions of dollars worth of state aid was promised to the depressed construction sector, the poorly managed and debt-laden health insurance funds and a ragbag of other groups deemed worthy of being bailed out. Finance Minister Yitzhak Moda'i, generally an advocate of free markets, emerged from the meeting to declare that the budget framework had been busted before it had even been passed into law.

Mr. Moda'i offered his resignation yesterday. His Likud colleagues had given him no support. Instead, they had adopted a line in the cabinet that for every Labor-affiliated sector or firm benefiting from government aid, they would insist on similar help for firms and health funds having links with them and their party. Needless to say, the small religious parties in the coalition did not come away empty-handed, either.

This, then, is the kind of growth the Israeli government is promoting. Yesterday's failures are being bailed out, and

lame ducks of every breed and flavor are receiving aid, because their size, party affiliations, or geographic locations make it politically unacceptable to allow them to go under. To nobody's surprise, a growing band of less-well-placed but equally bankrupt entities is now clamoring for a piece of the action in the aid program. The logic of the "me-too" brigade is unimpeachable: "Why be a sucker, if you can get succor?"

The kind of double-talk represented by this growth budget is driving to despair those optimists who believed that the Na-

tional Unity government would be able to wrench the Israeli economy out of the stagnation in which it has been sunk since the Yom Kippur War of 1973. The method is now so well-known, even in statist Israel, that schoolchildren can repeat it by rote: Cut government expenditures and thereby allow room for a tax reform. This will give people the incentive to work and produce and thereby generate bona fide investment and growth.

Although this formula is applicable almost everywhere, it is especially relevant for Israel. Where else, after all, is the weight of personal taxation so great that the top marginal tax bracket of 60% is hit when monthly salaries reach \$1,800? Where else does the tax system so punish employment that for an employee to receive a monthly net wage of \$1,200 (considered quite high in Israel), the total cost to the employer—counting social security, direct taxation, etc.—is between \$3,500 and \$4,000, or around three times the net wage?

Where else, on the other hand, does unearned income not attract any taxation at all, even if it is a speculative share investment or an overnight bank deposit? Where else has "crowding out" reached such a level that the government, having absorbed all the free savings in the system,

has to dole out special authorizations to those companies it wants to have access to the bond market? Then that government has to force pension funds to buy those bonds to maintain the pretense that its assistance is not coming from the state budget.

Yet even the suggestion of tax reform has been put into cold storage. The new budget offers new taxes on education and old-age pensions, and the reintroduction of other taxes on "luxuries," such as modest family cars, that had been specifically designated as one-time emergency measures when they were announced last year. Nowhere is there any incentive for initiative, hard work or investment.

Government's Real Message

The government is therefore seen by the citizenry as a bandit come to rob them. The government's real message last July was: "Freeze, anybody who makes a move will get taxed." And so it has been: A move of any sort has become expensive. Going abroad costs a travel tax; having children costs an education tax; not having children means a reduced personal tax threshold; receiving a pension is taxable; owning real estate means a higher local tax; investing in plant and equipment costs more, because tax breaks and grants have been slashed, while corporate taxation has been increased; exporting costs more because government financing is scarce and commercial credit is unavailable.

It appears that the best business strategy in Israel today is to get into as much debt as possible and threaten to dismiss as many workers as possible. If you reach that happy state, ministers of every party will line up for the right to use taxpayers' money to keep you artificially alive.

All the while, the tremendous creative capabilities of a talented and resourceful people are being squashed by a government that proclaims "instant growth" while adopting policies that discriminate against initiative and investment, the only way real growth can emerge.

Mr. Landau is a finance reporter for the Jerusalem Post. A related editorial appears nearby.

*Israel
Committee*

**WHAT THE U.S. - ISRAEL
FREE TRADE AGREEMENT
MEANS TO YOU**

**By: Elmer L. Winter, Chairman
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Dear Friend:

THE GOVERNMENT OF THE UNITED STATES ENTERED INTO A FREE TRADE AGREEMENT [FTA] WITH ISRAEL ON APRIL 22, 1985.

This unique agreement eliminates, over a ten-year period, all duties and other restrictive regulations of commerce between the U.S. and Israel. The agreement requires final approval by the U.S. Congress, which should be forthcoming shortly.

FTA offers many opportunities for expansion of trade between American and Israeli companies. The thrust of this report is to point out the five ways in which American companies can benefit under the provisions of the newly signed Free Trade Agreement.

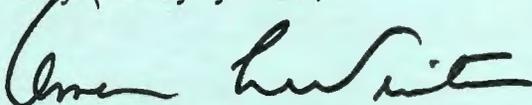
- 1] Export your products to Israel, duty-free.
- 2] Sell your products, duty-free, to buyers in EEC countries via your factory in Israel.
- 3] Manufacture products in Israel and ship them to the U.S., duty-free.
- 4] Sell your products that you manufacture in Israel to African countries.
- 5] Conduct research and development in Israel.

The Committee for Economic Growth of Israel [CEG-I] is a non-profit organization. Its mission is to expand business relationships between American and Israeli companies. We would be most pleased to provide additional information concerning FTA and its implications.

Through our contacts in Israel, we are in a position to assist in locating distributors, joint venture partnerships, licensees for new technology, R&D partners, etc.

Please contact me at 414-961-1000 for further discussion as to how your company can benefit by taking advantage of the U.S.-Israel FTA. I look forward to hearing from you.

Very truly yours,



Elmer L. Winter
Chairman

ELW:bb

WHAT ARE THE PROVISIONS OF THE FREE TRADE AGREEMENT THAT APPLY TO AMERICAN COMPANIES?

The backbone of the agreement is the elimination of customs duties on all trade between Israel and the United States. The United States and Israel agreed to include all products in the FTA agreement and to phase out all duties within ten years (by January 1, 1995). This will be accomplished by four stages:

- 1] Elimination of some duties immediately upon entry into force of the agreement.
- 2] Elimination of duties on some products in three different tariff cuts by January 1, 1989.
- 3] Elimination of duties in eight different cuts over ten years (by January 1, 1995).
- 4] No duty reduction for five years, with re-examination of the timetable for duty elimination following receipt of additional advice from the United States International Trade Commission (USITC).

One of the many objectives of the FTA is to assure that U.S. products no longer face any tariff disadvantages vis-a-vis America's major competitor in the Israeli market -- the European Community.

Since the European Community and Israel have a bilateral preferential agreement which provides for duty-free treatment in the industrial sector by January 1, 1989, it was America's goal to have as many industrial products in the second stage as possible and to assure that immediately upon entry into force of this agreement, American companies received a duty rate equal to that of the European Community on key products. The following represents an abbreviated summary of the Israeli offer.

Stage 1: Immediate

This stage essentially binds at zero items on which Israel has been providing duty-free treatment on a unilateral, unbound basis, which is comparable to our treatment under the Generalized System of Preferences. Products in this category include maize, millet sorghum, soya beans, unworked diamonds, worked and industrial diamonds, parts for planes and engines, radio navigational aid apparatus, certain electrical equipment and appliances and valves and tubes.

Stage 2: Elimination by January 1, 1989

Products in this category include cigarettes, kraft paper and paperboard, yarns and fibers, heavy equipment such as cranes, conveyors and earth excavating machines, auto data processing equipment and computer parts, telegraphic and printing equip-

ment, sound recorders, footwear and leather products, passenger cars and other motor vehicles and their parts, textiles and apparel and electric measuring apparatus and their parts.

Stage 3: Gradual Elimination by January 1, 1995

This category essentially includes the remaining Israeli textile and apparel items and a few chemical products and high technology products such as telephonic apparatus parts.

Stage 4: Freeze in Duty Elimination for Five Years, with Subsequent Negotiation of Duty Elimination following Receipt of Additional Advice

This category corresponds to the U.S. list of the most sensitive items (as identified in the U.S. case by the U.S. International Trade Commission) and covers a larger number of products (but a smaller volume of trade) than does the U.S. freeze list. Among items in this category are certain horticultural products, such as garlic, olives, dates, grapes, apples and apricots, unmanufactured tobacco, certain dairy products, refrigerators and refrigeration equipment, aluminum bars and radio-navigational equipment.

(See Appendix B for an analysis of Israeli product staging)

WHAT ABOUT INFANT INDUSTRIES?

The infant industry provision of the FTA limits Israel's right to apply protective measures to benefit infant industries which it would otherwise have under the General Agreement on Tariffs and Trade (GATT). The FTA does allow Israel to impose customs duties, but only until 1991, on goods not produced in Israel when the FTA comes into force. The duties may not exceed 20%, and two years after imposing the duties, the tariffs on U.S. products must be reduced by at least 5% per year. All duties must be eliminated by January 1, 1995.

LICENSING

The FTA restricts the GATT right to require import licenses, but the agreement does permit licensing, for example, to protect the public's safety or to enforce standards. Both countries will submit, and update as necessary, their list of imports subject to licensing.

INTELLECTUAL PROPERTY RIGHTS

The U.S. and Israel agree that intellectual property rights, including industrial property rights, are adequately covered by other agreements, such as the "Paris Union" International Convention for the Protection of Industrial Property (patents, trademarks, commercial names, and industrial designs), already in force. The FTA merely reaffirms these existing obligations.

AGRICULTURE

The FTA recognizes the desirability of opening markets for agricultural products while retaining certain restrictions. As a result, agricultural products are included in the agreement, but restrictions based on agricultural policy considerations can be maintained. The United States and Israel will publish quotas for the importation of products subject to these restrictions.

RULES OF ORIGIN

In order to qualify for FTA treatment, products must be of U.S. or Israeli origin. The rules of origin governing products eligible for FTA benefits are similar to the Caribbean Basin Initiative (CBI) rules. Briefly, the product must be imported directly for the exporting country and contain at least 35% local value added. Up to 15% of the 35% can originate in the importing country. Products which are merely packaged, combined, or diluted in the exporting country are not eligible.

Certificates of origin, similar to Chamber of Commerce forms already in use, will be required to obtain FTA tariff benefits. The certificate is necessary to prevent diversion of goods to the United States and Israel from third countries. The certificate must be signed by the exporter and certified by a local Chamber of Commerce.

GOVERNMENT PROCUREMENT

The Government of Israel is a major customer for a wide variety of products. The FTA, therefore, opens government purchases beyond the obligations of the GATT Government Procurement Code. The FTA will enable American suppliers to compete with domestic companies on purchases valued at \$50,000 and above made by government agencies covered by the Code. (Code obligations cover only contracts valued at \$156,000 and above.) In addition, most Israeli Ministry of Defense civilian purchases valued at \$50,000 and above will be open to U.S. suppliers. The Israeli Government will also relax the Offset requirements on civilian government purchases.

SERVICES

The FTA is the first trade agreement ever negotiated to explicitly cover a full range of trade in services. The agreement essentially commits each partner to work toward opening its market to the other country's service industries and to provide the same treatment as is given to domestic companies. The agreement also seeks to make information on laws and regulations affecting services open and readily accessible. Although services are covered in the FTA by a declaration that is not legally binding, both sides have agreed to continue talks under the FTA umbrella aimed at strengthening their commitment to free trade in services.

INVESTMENT

The United States-Israel Treaty of Friendship, Commerce and Navigation (FCN Treaty), to a great extent covers adequately issues of interest to investors, such as equal treatment under the law with domestic investments, and expropriation only for public purposes and with compensation.

Although all the rights and obligations of the FCN Treaty remain, the FTA agreement takes additional steps to provide an attractive investment climate. Specifically, the FTA stipulates that requirements to export or purchase domestic goods-services will not be a condition for investment or for receiving investment incentives.

WHAT ARE THE FIVE OPPORTUNITIES OPEN TO AMERICAN COMPANIES TO BENEFIT UNDER THE FTA AGREEMENT BETWEEN THE UNITED STATES AND ISRAEL?

Opportunity #1: Expansion of Exports to Israel

Israel represents an \$8 billion market for exporters. American companies export approximately \$2 billion of civilian goods to Israel annually.

It is anticipated that in the near term the U.S. will benefit more from the FTA agreement than Israel since most Israeli exports presently enter the U.S. duty-free. Close to half of the U.S. products encounter tariffs in Israel. Israel is one of America's top three markets in the Middle East.

Because of its limited natural resources, Israel imports a large part of its fuel, machinery and raw materials. Israel's overall merchandise trade balance is consistently negative, having exceeded \$3 billion annually since 1979. Leading U.S. exports to Israel are craft paper, textile fibers, tungsten, engines and engine parts, computers and other office machinery, electronic and electrical equipment, and transportation equipment.

Areas where the United States currently exports to Israel and where there is particular potential for export growth as a result of the FTA include agricultural products, such as soybeans, which will be accorded immediate duty-free treatment.

There is a potential for significant growth in many high technology products. Semiconductors and computers and peripheral equipment are among the most promising areas for U.S. export growth. U.S. suppliers of semiconductors will benefit from immediate duty-free treatment.

The United States currently accounts for only 20% of Israel's non-military imports, a market share only about half that enjoyed by the European Community. American-made products generally enjoy a good reputation in Israel. There is every reason to expect that Israelis will purchase more U.S. goods under FTA.

Under the FTA agreement, American products will immediately be treated as favorably as EEC products are regarding customs duties. This means that once again there will be a level playing field with Europe, and the U.S. will have a distinct competitive edge over other countries' exports to Israel.

Opportunity #2: The Proposed FTA Will Provide New Opportunities for U.S. Companies to Operate Plants in Israel to Sell Their Products in Europe.

Israel enjoys a duty-free situation for exports to EEC countries. Many U.S. companies are unable presently to sell their products in Europe because of tariffs imposed by European countries. By operating plants in Israel, these U.S. companies can manufacture and sell their products competitively in Europe.

Under FTA, U.S. companies will be able to sell their unfinished U.S.A.-produced components to Israel duty-free for inclusion in a final product to be assembled in Israel and sold to EEC countries. This, in effect, will provide additional export opportunities for U.S. companies.

Israel's Free Trade Agreement with the European Economic Community (EEC) abolishes tariffs on industrial goods shipped to all Common Market countries . . . provides a duty-free competitive edge in a giant 260 million person market.

The EEC is by far and away Israel's most important trading partner, absorbing about 36% of Israel's exports and supplying about 41% of her imports. The Free Trade Area agreement puts Israel in a favorable competitive position relative to other non-European industrialized countries; mainly North America, Japan and Australia. The exports of these countries to the EEC are subject to the full external tariff rates.

By manufacturing your products in Israel and selling to buyers in the EEC, you will eliminate the duty that must be paid on shipments from the U.S. to EEC countries.

For example:

<u>Name of Product</u>	<u>Average Duty Paid by U.S. Manufacturers on Shipments to European Countries</u>
Calculators, Electric or Electronic	14%
Automatic Data Processing Machinery	7%
Input, Output Devices, Storage Devices, etc.	7%
Parts and Accessories for Data Processing Equipment	6%

Average Duty Paid by U.S.
Manufacturers on Shipments to
European Countries

Name of Product

Electrical Machinery, Motors of All Types	6 to 8.5%
Printed Circuits	10%
Insulated Wire and Cable	11%
Electrical Insulators	10%
Telephone and Telegraphic Line Equipment	7.5%

Lionel H. Olmer, Undersecretary of International Trade, U.S. Department of Commerce, in describing the attractive opportunities which Israel offers to U.S. investors, stated:

"There must be a higher concentration of intellectual resources among the four million people in Israel than anywhere in the world. Israelis possess not merely the capacity for academic learning, but the power to create, innovate and adapt. Israel is seizing its comparative advantage in the technology era the world has entered, and is offering its services to those wise enough to recognize its value.

Land, natural resources and capital are no longer the factors which determine a nation's comparative advantage over other nations. They are being replaced by the ability to create and exploit technological change . . . A quick glance at the American experience in high technology over the last ten years reveals that nine out of ten of the fastest growing industries are high technology; as a whole, they grew twice as fast as others, with six times the labor productivity and less than one-third of our inflation rate.

Israel understands this and is seeking to exploit to the maximum the potential of its gifted people. Many U.S. companies already are located in Israel and I predict that many more will invest or will expand existing facilities. They'll do so because of the abundance of scientific and technical talent; the continuing emphasis of the Israeli Government in the science and mathematics education of the population; the friendly tax and investment treatment accorded foreigners; and, I hope, in part because of their recognition of my government's resolve to support a free and secure Israel."

There are 150 American companies operating in Israel. Recently, Intel Corporation of California opened a \$150 million wafer fabrication plant in Israel. Similarly, National Semiconductor has started to build a \$50 million plant in Israel. Motorola has recently added a \$5 million facility to their operations in Israel.

Robert W. Galvin, Chairman and Chief Executive Officer of Motorola, said this of his company's subsidiary in Israel:

"One of the fine benefits we are getting from this now rather mature relationship is that the initiative of our people in Israel has generated new products of their own creation.

One of the reasons we like being in Israel is that the quality of the people does manifest itself in enterprise and initiative.

They have suggested improvements which have finally manifested themselves in other fundamental products of our corporation. There has also been a pick-up of some of their product designs for application elsewhere. Certain designs which have been initiated in Israel, for example, have been embraced by a team of their Canadian cousins, so to speak, in Canada."

Charles E. Sporck, President of National Semiconductor, commented recently:

"In retrospect, I would have located there earlier. It's been a very favorable major plus to the strength of our company's design capability. Beyond just the area of designing devices, we find that we have developed some capability in terms of automated design there, and we have made the decision recently to expand this effort and start doing computer-aided design development work in Israel for the rest of our operations. So this is a transfer of technology that will take place from Israel."

Opportunity #3: American Companies Will be Able to Manufacture Products in Israel and Ship Them to the United States Duty-Free.

The FTA provides an opportunity, for an American company to open a factory in Israel and manufacture certain OEM parts which can be shipped to the United States, duty-free. American companies will have an additional advantage of lower labor costs in Israel.

It is important to keep in mind that the products imported into Israel and put into a further manufacturing process must contain at least 35% local value added. Up to 15% of the 35% can originate in the importing country. Products which are merely packaged, combined or diluted in the exporting country are not eligible.

Opportunity #4: American Companies Will be Able to Export Their Products to African Countries via Israel.

By having a factory in Israel, you can ship products to African countries at a much lower cost than shipping direct from the

United States. The freight differential and the lower labor costs in Israel are important factors to consider.

Opportunity #5: The FTA Will Open New R&D Opportunities for U.S. Companies in Israel.

There are over 150 U.S. companies operating in Israel. Many of these companies are conducting R&D in Israel using the technology developed by private Israeli companies and Technion, Weizmann Institute, Hebrew University, etc. These companies are the beneficiaries of the substantial grants provided by the Government of Israel and the Bi-National Industrial Research Development Foundation (BIRD-F). This Foundation was created jointly by the United States and Israel with each country providing \$30 million for R&D purposes.

If a project supported by the OCS is commercially successful, OCS expects to get back its dollar participation through a modest royalty on sales.

The Chief Scientist of Israel reports: "A survey of 2,000 projects supported in the past shows that 41% of them resulted in commercial products and 20% of the projects were considered a success in the export market. These figures are at least twice the success rate for R&D projects in Europe and America."

Note: You can take advantage of research funds provided through BIRD-F.

On May 18, 1977, the Israel-U.S. Bi-National Industrial Research Development Foundation (BIRD-F) was formally established and endowed with \$60 million - \$30 million from each country.

The Foundation, the first of its kind between the U.S. and another country, is designed to support and promote joint non-defense industrial research and development activities that have significant commercial potential and that are of mutual benefit to the United States and Israel.

The scope of industrial research and development activities which the BIRD-F may support includes all activities in the process through which an innovation becomes a commercial product, including, but not limited to industrial R&D, product engineering and manufacturing start-up.

Many new breakthroughs have been accomplished by U.S. companies through their R&D in Israel. The proposed FTA will expand the R&D opportunities in Israel for U.S. companies since the products flowing from this R&D will lead to the manufacture of products that can be exported from the U.S. abroad. These newly developed products will also be of benefit to U.S. buyers both in industry and at the consumer level.

You can obtain cash grants up to 50% for Research & Development in Israel.

As a matter of official policy, Israel goes all out to support new science-based industries. A positive attitude about research and development is backed up with; (1) generous government cost participation, (2) an industrial climate geared to technological involvement, (3) a labor pool trained for science-based development, and (4) government assistance for purchasing equipment needed for technological growth.

Academic and research institutions have become an important source for new ideas and basic research for Israeli industry. The internationally recognized research facilities of the Weizmann Institute, Technion, Hebrew University and many other institutions have broad experience in many areas of advance technology essential to industrial development. These institutes have equipment, instrumentation and facilities equal to those of their leading European and American counterparts. The studies carried out are often financed by the government and industry to develop new concepts for products. Israel also maintains government research institutes in the fields of metals, plastics, fibers, nuclear chemistry, fermentations, ceramics, rubber, paints, food products and many aspects of agriculture and geology.

WHAT ARE THE BENEFITS YOU WILL RECEIVE IN OPENING A FACTORY IN ISRAEL?

You will find that Israel is a rapidly developing industrial country, solidly committed to economic growth. Industrial production has averaged 13% annual growth since 1954. Israel's active free enterprise system is geared to promote private initiative. In this growth atmosphere, both government policy and private industry welcome direct and indirect American investments.

Many American companies have established industrial branches in Israel . . . including the production of electronics, chemicals, metals, textiles and agricultural equipment. Israeli made goods are respected in world markets where quality and technological expertise are a prerequisite. The experts who helped earn that reputation can put their talents to work for your company.

"Scientific American" said in an article concerning Israeli technology:

"The Jewish state in the Middle East has had an impact on world markets out of all proportions to its size and circumstances, thanks to the innovative ingenuity of its people."

This innovative ingenuity is yours when you start your operations or conduct research in Israel.

You will be in good company in Israel.

The constantly growing roll of American firms with facilities in Israel includes top names in U.S. business -- 23 of them are on "Fortune" magazine's list of the 250 largest industrials. Many of these firms have expanded their operations in Israel, a sure sign of success. See Appendix A for a list of the U.S. companies operating in Israel.

Israel seeks and welcomes foreign investment. The basic philosophy of Israel's economic policy is that Israel should provide a healthy environment for profit as a spur to investment and job creation.

Israel has firmly established itself as a profitable investment center. It is committed to following the growth path which has brought it such success in the past. The objective is to build on the base already established and to concentrate on those industrial sectors with the greatest growth and employment potential.

You can take advantage of Israel's highly skilled and educated workforce.

Israel's labor force is among the most technically competent in the world. There are about 50,000 scientists and engineers in Israel and only 10% are now engaged in industrial R&D projects.

Each year, the number of professionals grows by 10%, an impressive increase even by American standards. Skilled and semi-skilled labor is readily available throughout Israel.

Over 100,000 Israelis hold academic degrees, and another 79,000 have graduated from post-secondary educational institutions other than universities. Seven institutions of higher education provide training facilities of an international standard. At present, more than 50,000 people attend these universities and the long-term trend is toward a continued steady increase.

Israeli workers speak your language -- in more ways than one. English is the second language of instruction in the country's schools. Most engineers and technicians are familiar with state-of-the-art American technology; many have had advanced training in the U.S. Others have been schooled in Israel's excellent universities; still others have come to industry from the armed forces which have produced many superbly qualified specialists now making major contributions to their country's industrial growth.

You can hire personnel at costs considerably lower than you pay in the United States.

Let's assume that you open a facility located in Northern Galilee, Israel, and hire personnel in the following categories:

- 80 assemblers
- 5 supervisors
- 2 warehouse personnel

- 5 office workers (secretaries & clerical)
- 5 engineers
- 1 chief accountant/comptroller
- 1 managing director

The monthly labor costs will be approximately as follows:
(Northern Galilee)

<u>Category</u>	<u>Monthly Salary</u> \$	<u>Monthly Fringe Benefits</u> \$	<u>Total Monthly Cost/Worker</u> \$	<u>No. of Workers</u> \$	<u>Total Monthly Labor Costs</u> \$
Assembler	380	150	530	80	42,400
Supervisor	750	300	1,050	5	5,250
Warehouse Personnel	500	200	700	2	1,400
Office Workers (secretary, clerical, key punch operator)	450	180	630	5	3,150
Engineers	1,250	550	1,800	5	9,000
Chief Acct.	1,300	600	1,900	1	1,900
Man. Dir.	3,000	1,500	4,500	1	4,500
TOTAL MONTHLY COST					\$67,600

How does this compare to your costs in the U.S.? Many companies report their costs in Israel to be 2/3 of U.S. costs.

You can take advantage of substantial training grants provided by the Government of Israel.

Assuming again that you will be opening a factory in the Northern Galilee, your company will be eligible for the training grants provided by the Ministry of Labor of Israel. The Department of Vocational Training initiates and carries out job courses and retraining of workers. The Department covers all the costs in its own training schools and provides living allowances to trainees enrolled in full-time programs. The Ministry of Labor also supports job training programs in industrial plants.

Israel offers you loans and grants.

Israeli incentives permit you to stretch your capital. Depending on the area where you locate your plant, Israel offers varying grants and loans.

In order to encourage the use of Israeli-produced plant and equipment by Approved Enterprises, a special additional grant is available at the rate of 10% of the value of such equipment. The total amount of above grants must not exceed the amount of paid-up share capital invested by shareholders in the respective project.

You can operate from a free port zone in Israel.

Duty-free zones (free ports) have been established in the Eilat and Haifa port areas, to speed up the movement of goods and create facilities for industries based on in-transit commodities. Land has been set aside where manufacturers can put up plants calculated to take advantage of proximity to the inflow and outflow of cargoes, dovetailing imported materials with local production.

Under the Free Port Zones Law, plants will be exempt from customs duties and other indirect taxes, from property tax and from the need for import and export licenses. In addition, they will not have to pay income tax on earnings for their first five years of operation and may deal freely in foreign currency.

You can benefit through cooperative programs with seven Israeli universities: Bar Ilan University, Ben Gurion University of the Negev, Hebrew University of Jerusalem, Technion--Israel Institute of Technology, Tel Aviv University, University of Haifa and Weizmann Institute of Science.

There are numerous training institutions for practical engineers and technicians, post-secondary industrial schools and many specialized research institutes.

The natural sciences are taught and researched at all seven Israeli universities. There are four medical schools, a school of dental medicine and a school for pharmacology. Engineering training is provided at three institutions.

All of these institutions constitute a very strong infrastructure, from which industry can derive considerable support. In many instances, laboratory facilities and special services are offered, against payment of modest fees. Libraries, of course, are open to all comers, and there is always the beneficial effect of contact with a large and many-faceted scientific community.

Where desired by industry, the universities and research institutes are prepared to cooperate on specific R&D projects. This may consist of regular consultations with scientists on the universities' faculties to execution of entire research projects by the institutions, for industrial firms, on a contract basis.

Of Special Note:

Your patents will be protected in Israel. Broad patent protection, in line with what is common in the Western world, is available in Israel under the terms of the Patents Law 5727-1967, and under those of the Paris Convention for the Protection of Industrial Property, to which Israel is a party. The benefits of the Israel law are freely available to all comers; enjoyment of this law's benefits is subject to no residential or citizenship requirement whatsoever.

Foreign investments made in Israel may be insured. Investments in Israel are protected against nationalization, repatriation and war risks through the Investment Insurance Program authorized by the United States Congress and administered by OPIC (Overseas Private Investment Corporation), a U.S. Government agency.

Foreign trade insurance is provided by Foreign Trade Risks Insurance Corporation, Ltd., an agency of the Government of Israel.

Israel is conveniently located. Seventeen airlines and six shipping lines offer year-round transportation to Israel. Flying time on non-stop flights from Kennedy airport in New York City to Israel's only international airport, Lod in Tel Aviv, is 9½ hours. Add another hour or two for flights that make one stop.

LET'S TALK

We would be very pleased to discuss with you in further detail the benefits that will be yours if you participate in the Free Trade Agreement between the United States and Israel. Please call me at (414) 961-1000 or write to me at 5301 North Ironwood Road, Milwaukee, WI 53217. I would like to talk with you.

Elmer L. Winter, Chairman
COMMITTEE FOR ECONOMIC GROWTH OF ISRAEL

APPENDIX A

Selected Examples of Major Firms Which Have Invested in Israel

Electronics & Instrumentation

Amer. Electronics Lab., Inc.
Astronautics Corp. of America
AVX Corporation
Bell Telephone Labs., Inc.
Celesco Transducer Products
Computer Consoles, Inc.
Control Data Corporation
Daisy Systems, Inc.
Digital Equipment Corp.
Electro Materials Corp. of
America
Frequency Electronics, Inc.
Fibronics International
General Dynamics Corp.
General Instruments
General Telephone &
Electronics Corp.
Gerber Scientific, Inc.
Greencorp Magnetic Pty.Ltd.
Grumman Corporation
HCC Industries Ltd.
High Voltage Eng. Corp.

Hughes Aircraft Company
Intel Corporation
International Business Machines
Corp. (IBM)
International Telecommunications
& Teleprocessing
Kulicke & Soffa Industries, Inc.
M/A-Com, Inc.
Mennen Medical, Inc.
Modgraph, Inc.
Motorola, Inc.
National Semiconductor Corp.
Pentacom, Inc.
Phasecom Corporation
Raychem Corporation
Systems Engineering Labs., Inc.
Tracor
Vishay Intertechnology, Inc.
Wavetek Corporation
Wideband Data Corporation
Zoran Corporation

Metals & Machinery

American Can Company
American Heliothermal Corp.
Austin Instruments, Inc.
Birns Oceanographics, Inc.
Chromalloy American Corp.
Condor Pacific
Deutsch Company
Dixie Steel & Supply, Inc.
Felt Products Mfg. Co.
Fischer & Porter Company
LSB Industries, Inc.

Phibro Corporation
Rapid American Corporation
Samuel Osborn & Company, Ltd.
Sciaky Brothers, Inc.
Sealed Unit Parts, Inc.
Tame Valley Alloys Ltd.
TRW, Inc.
Veeco Instruments, Inc.
Welbilt Electronic Die Corp.
Zimcor Industries

Chemicals & Energy

Baxter Travenol Labs, Inc.
Bel-Art Products
Bio-Technology General Corp.
Dexter Chemical Corp.
Economics Laboratory, Inc.
Energy Exploration, Ltd.
Estech, Inc.
First Mississippi Corporation
Gelman Sciences, Inc.
General Refractories Company
Globe Union, Inc.
Griffin Corporation
Griffith Laboratories, Inc.
Helena Rubinstein, Inc.

ICC Industries, Inc.
International Genetic Sciences
KEM Mfg. Co., Inc.
MacDermid, Inc.
Miles Laboratories, Inc.
Monsanto Company
Overseas Public Utilities & Gas
Pennwalt Corporation
Philipp Bros. Chemicals, Inc.
Revlon, Inc.
Royal Packaging Industries
Sigma Aldrich Corporation
Witco Chemical Corporation

APPENDIX B
Israel Offer for Product Staging

Israeli Staging for Selected Products
1982 U.S. Exports to Israel (\$ 000)

Stage 1: Immediate Duty-Free Treatment

<u>Tariff No.</u>	<u>Description</u>	<u>Trade Value</u>
1005.0000	Maize	60,532
1201.5500	Soya beans	132,683
8406.9950	Parts for planes, engines	15,399
8445.9990	Machine tools	6,269
8521.9900	Valves, tubes, photocells	38,708

Stage 2: Duty-Free Treatment as of 1/1/89

<u>Tariff No.</u>	<u>Description</u>	<u>Trade Value</u>
2402.1000	Cigarettes	7,730
4801.3090	Craft paper, paperboard	24,004
6005.1090	Knit outer garments	153
8453.9900	Auto data-processing mach.	79,475
8706.9900	Parts, accessories for motor vehicles	9,650

Stage 3: Duty-Free Treatment as of 1/1/95

<u>Tariff No.</u>	<u>Description</u>	<u>Trade Value</u>
5104.9190	Man-made fiber fabrics	3,132
5804.3000	Corduroy	1,382
6101.9900	Men's, boys' outerwear	1,163
8513.1090	Telegraphic equipment	4,182
8513.2090	Tel. equipment, parts	12,907

Stage 4: Five-year "Freeze" with Duty-Free Treatment To Be Determined Following Receipt of Additional Advice

<u>Tariff No.</u>	<u>Description</u>	<u>Trade Value</u>
701.4000	Olives	0
704.2000	Dehydrated garlic	124
812.0000	Dried fruit, other	84
8415.9910	Refrigerators, refrig. equip.	4,864
8515.1000	Radiotelegraph apparatus	11,808

APPENDIX C
Israel-U.S. Trade

<u>Imports (in millions\$)</u>	<u>1983</u>	<u>1984</u>
Art & miscellaneous	27	
Wood & paper products	83	
Plants & vegetable products	377	
Chemicals, plastics & minerals	120	
Animals & prepared foods	46	
Clothing	36	
Precious stones & metals	134	
Machinery & mechanical appliances	583	
Vehicles & transportation equipment	175	
Optical, photographic, medical & measuring equipment	<u>94</u>	
TOTAL	1,675	
<u>Exports (in millions\$)</u>		
Agriculture & prepared food	53	59
Metals & mineral products	165	256
Diamonds	440	506
Textiles & paper	47	72
Rubber, plastics & chemicals	96	127
Electronic & electrical equipment	202	249
Transportation equipment	115	94
Light industry & movies	165	197
Miscellaneous	<u>2</u>	<u>23</u>
TOTAL	1,285	1,583

NEWS

FROM THE **COMMITTEE FOR ECONOMIC
GROWTH OF ISRAEL**

5301 N. Ironwood Rd., Milwaukee, WI 53217, 414-961-1000

The Committee for Economic Growth of Israel founded in 1976, is a non-profit organization devoted to expanding business and trade relationships between Israel and the United States.

CHARLOTTE SLATER, Director of Public Relations

For Immediate Release

November 1, 1985

ISRAEL NEEDS ANOTHER 100,000

PRIVATE SECTOR JOBS

By: **Elmer L. Winter, Chairman**
Committee for Economic Growth of Israel

*Z. Winter
From*

Israel's Labor Minister released some shocking figures --
"There are 115,000 Israelis unemployed at this time." This constitutes 8% of the country's 1.4 million workers. Labor Minister Katsav predicted that the unemployment figures will pass the 10% mark by March or April of 1986.

Unemployment in Israel of these proportions is unacceptable, not only to Israel but to world Jewry as well. Unemployment creates difficult social problems; increased emigration from Israel and extreme hardships for the 100,000 Israelis that are unemployed. To further aggravate the situation, subsidies have been either removed or reduced. This causes a severe strain on family budgets.

It is anticipated that more layoffs will occur as cuts are made in the national and local Israeli budgets. The work force of Government-owned companies will also be cut. Israeli industry cannot pick up the slack since it too is going through a cost-cutting program caused by a decrease in the demands of the local market.

Providing an additional 100,000 jobs in Israel is no easy task. It won't happen overnight. There are some short-term solutions which will come about as a result of expansion of exports. Long-term solutions will occur through increased foreign investment in hi-tech factories in Israel.

Why has unemployment in Israel increased from 5% a year ago to 8% this year? For the most part, the answer can be placed on the doorstep of the austerity program recently imposed in Israel. The

economy of Israel had gotten out of hand and a belt tightening program became necessary to get the economy back on track. The standard of living of Israelis was pushed down. Wages and prices have been frozen. Substantial budget cuts had to be made. Unfortunately, severe unemployment followed in the wake of the austerity program.

How can additional private sector jobs be created in Israel? Let me suggest the following:

1] Israel must utilize its hidden economic weapon -- "the buying power of worldwide Jewry." The call must go out to "buy products made in Israel." This means consumers must ask for Israeli products in their local supermarkets . . . not just before holidays, but year round. There are many excellent food products and wines that should constantly be on the shelves of food retailers. Israeli garments should be on racks in men's, women's and children's apparel stores.

We need to launch a massive effort made to urge the Jewish community to buy Israeli products, whenever possible. We have a program called "Operation Join Up, Buy Products Made in Israel." This describes how to develop a plan to make certain that Israeli products are available in retail stores. This plan is available without charge by writing the Committee for Economic Growth of Israel, 5301 North Ironwood road, P. O. Box 2053, Milwaukee, Wisconsin 53201.

2] We need to interest American wholesalers and distributors to buy industrial products carrying the label, "Made in Israel." Israeli industrial products can be imported into the U.S. duty-free as a result of the FTA. As a result, these products are competitive in the American marketplace.

3] We need to attract American companies to open factories in Israel where their products will be exported. These companies can follow the pattern of the 155 American companies in Israel that are operating on a profitable basis.

The Free Trade Agreement between the United States and Israel offers opportunities for American companies to manufacture prod-

ucts in Israel and sell them to European buyers duty-free. Many American companies are kept out of the European market because of high duty imposed by European governments on products made in the U.S.A. Israel now offers an important advantage to those American companies, hungry for foreign exports.

We need to sell American companies on the opportunities and high incentives that are available to them in Israel. They need to understand the reasons behind the construction of Intel's \$150 million plant in Israel, and the National Semiconductor \$50 million plant in Israel. Israel offers a high level of engineering and scientific capability that is attractive to American hi-tech industry. Israel has truly become the "in place for innovation."

- 4] We need to incorporate an industrial component into Project Renewal plans. Much of the unemployment in Israel is in the Project Renewal development towns. The leaders of Project Renewal in each community need to direct their attention to attracting local companies to set up factories within their twin city in Israel. Providing paychecks rather than welfare checks is certainly to be desired.
- 5] We need to increase tourism to Israel. The airlines are offering very attractive rates on trips to Israel. Expanded tourism means an increase in the number of jobs required to service the tourist industry.

Handwringing won't eliminate the unemployment of Israel. We need to take the steps that I have suggested to create the 100,000 private sector jobs that will be needed to alleviate the serious problems created as a result of a 10% projected unemployment figure.

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FROM THE

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CHARLOTTE SLATER, Director of Public Relations

December, 1985

ISRAEL'S ECONOMIC FORECAST FOR 1986

"CONTINUED IMPROVEMENT"

By: Elmer L. Winter, Chairman
Committee for Economic
Growth of Israel

The last five months produced a dramatic turnabout in Israel's economy. The austerity program -- difficult as it is for Israelis to live with -- has produced positive results which have helped put the economy of Israel back on track.

The inflation rate in September was 3%, the lowest for any September since 1978. The rate climbed unexpectedly to 4.7% for October, 1985. The Finance Minister anticipates that the November inflation rate would be between 1.5% and 2%.

Exports of goods from Israel, for the first nine months of the year, were \$4,247 billion, an increase of 6.6%. Imports decreased by 4.7% to \$5,822 million. This represented a decline of \$620 million in the trade deficit for the first nine months of the year.

In September, 1985, the excess of imports over exports totalled \$149 million, a drop of 26% in the trade balance, compared to September, 1984.

The Government of Israel has cut \$600 million from the budget. The Government's debt structure has benefited substantially as

a result of the \$1,500 million emergency grant from the United States. Interest rates continue at their high level of 4% (in real terms) per month to discourage buying. Individual income taxes have been modestly reduced.

The austerity program of the Government of Israel has brought down the standard of living of Israelis to 1980 levels. Unfortunately, the severe budget cuts have caused a substantial increase in unemployment. Layoffs in the private and governmental sector have aggravated the situation to a point where the unemployment rate is 8% with 115,000 Israelis out of work.

What about the year 1986? Will the Israeli Government let up its controls in April, 1986, when the austerity program expires? Will Israel's inflation rise to the levels of 1984 where the rate was 400% per annum? Will Israel's deficit in her balance of payments increase rather than decline as it has during the past nine months?

My predictions, based upon a close analysis of Israeli Government programs, political realities and conversations with business and Government leaders, indicates to me the following economic picture for 1986;

- 1] I believe the austerity program will remain in force during most of 1986. This means an extension of price and wage controls. Wages may be pushed down even below the 1980 level.
- 2] As a result of a continuing freeze, prices will remain steady. Inflation will hover around 4% or less per month.
- 3] Further layoffs will take place in Government employment. The unemployment rate may reach 10%, which will be a painful pill for the Israelis to swallow.

- 4] As a result of the lid being kept on inflation, indexation may well be eliminated. This would be a very positive step forward since the linkage of the past has escalated the cost of living in Israel.
- 5] Continued emphasis will be placed upon exports, particularly in Israel's well-regarded high-tech industry. The Free Trade Agreement between the U.S.A. and Israel should push up exports from Israel to the U.S.A. An increasing number of Israeli companies will open new markets abroad as the local market for their products in Israel declines.

We can anticipate an increase in exports of 10% for the year 1986 and a 5% decline in imports. This will substantially reduce Israel's negative balance of payments.

- 6] Japan and China will offer new opportunities for Israeli entrepreneurs to sell their products.
- 7] There has been repeated assertions made by the Government of Israel that certain Government-owned businesses (non-sensitive) would be sold. Action in this direction appears likely in 1986. We can anticipate that four or five Israeli Government-owned companies will be put on the market to be sold to the highest bidder.
- 8] The Free Trade Agreement between the U.S. and Israel will increase the number of American companies who will manufacture products in Israel, to be sold to the European Economic Community countries, duty-free.
- 9] There will be a substantial step-up of the sale of Israeli products to the U.S. Government as part of the Free Trade Agreement.
- 10] Many Israeli companies will be hard-hit by the slowdown in the local market. Some of the old-line Israeli industries may close down as their markets dry up. There will be a push to convert these plants into high-tech.

- 11] We can anticipate that the U.S. Government will provide continuing funds to bolster Israel's economy by way of grants, rather than through loans, as was the case in the past.
- 12] It may well be that Israel's 10% interest obligation on past outstanding loans received from the U.S. Government will be reduced to 5% per annum. This move is being sponsored by U.S. Senators Kasten and Inouye. This legislation, if passed by the U.S. Congress, will save Israel \$500 million a year in interest.
- 13] Operation Independence will mobilize an increasing number of U.S. and foreign companies to expand their business relations with Israel.
- 14] There will be an upsurge of interest in helping to build Israel's economy on the part of many Jewish nonprofit organizations. Federations will accept the principle that they must add another component to their work . . . working on the increase of exports from Israel to the U.S.A., expanding tourism to Israel, increasing R&D by U.S. companies in Israel, etc. An increasing number of Jewish organizations will adopt CEGI's "Operation Join Up" program, specially designed to create a buyers' influence for Israeli products in America's retail stores.
- 15] Tourism from the U.S. to Israel will increase. Airlines serving Israel will offer reduced round trip prices that will make Israel competitive with other vacation areas.

Obviously, these predictions can be adversely affected if there are substantial changes in the Government of Israel, attacks by Israel's neighbors which will call for an increased military buildup, etc.

In the absence of these unusual events, there is good reason to anticipate that the Israelis and their Government will continue to support the austerity program, difficult as it may be. This much needed effort will help in a very positive way to build the economy of Israel.

Elmer Winter is the Chairman of the Committee for the Economic Growth of Israel (CEGI) . . . a non-profit organization dedicated to expanding trade relations between the U.S.A. and Israel. CEGI is located at 5301 North Ironwood Road, Milwaukee, Wisconsin, 53217, Telephone 414-961-1000

Syria Denies Terrorism Role And Seeks Talks With U.S.

NEW YORK TIMES
26 MAY 1986
Pg.4

By BERNARD GWERTZMAN
Special to The New York Times

WASHINGTON, May 25 — Syria has sent several messages to the United States in recent days denying complicity in terrorist activity and seeking a constructive discussion to resolve differences and misunderstandings, Administration officials said today.

They said Washington was weighing the Syrian messages, sent through many diplomatic and public channels. But they said the often contradictory statements from European capitals on whether Syria was involved directly in past terrorist actions had complicated the American response.

There have been unconfirmed reports that the Italian authorities are seeking to question up to 20 Syrians for possible involvement in the attack on the Rome airport in December.

Italian Statement Expected

In Rome on Saturday, judicial and Government officials said magistrates investigating the airport attack were expected to announce this week that several Lebanese, Palestinians and Syrians were involved in the attack. But a high official said no arrest warrants had been issued against any Syrians. Italian magistrates would not say whether they were considering any action against Syrian officials.

"It is a very confusing situation," a State Department official said. "We know that Syria is very uneasy about being linked to Libya and Iran as centers of terrorism, and we think the Syrians are trying to improve their reputation."

"But so far, it is all words, and we honestly don't know how much to take them at their word," he continued. "There are credible reports that they were involved in terrorist actions, but there is no 'smoking gun' yet to definitely indict them."

Today the Syrian Foreign Minister, Farouk al-Sharaa, appeared on American television to deny the terrorist charges and to call for an "equal, positive dialogue with the United States."

On the CBS News program "Face the Nation," Mr. Sharaa also said Syria was continuing "to do its best" to help gain the release of French and American hostages in Lebanon. Many, if not all, of the hostages are believed to be held in the Syrian-controlled Bekaa region of Lebanon.

"We have been exerting a lot of efforts for the last few months to get the release of those hostages," the Syrian said.

Reports in the last two days in Beirut publications regarded as pro-Syrian have said some of the hostages would be released soon. But Mr. Sharaa said Syria had no knowledge of this and no basis for optimism.

"If we knew of the whereabouts of

the hostages, then our mission would become much easier," he said. "Those holding the hostages used to move them from one place to the other to keep their hideout very secret."

"I can't be optimistic when I have no grounds for that," he said.

Administration officials said they also had no information that the hostage situation was about to change.

In response to charges of Syrian links to terrorism, Mr. Sharaa said the Reagan Administration had been "unfair and unjust to accuse governments in any connection with terrorism when these governments are not connected to terrorism."

As to reports implicating Syria in the Rome airport attack, the Foreign Minister said, "I can assure you that these reports are absolutely false."

Political Motives Seen

"We are totally confident that no Syrians are involved in such terrorist acts," he said. He added that Syria believed that "this campaign is intentionally directed against Syria for political reasons, and one of them is to terrify the Arabs, the Syrian people in particular, to change their policy toward the Israeli occupation."

The second objective, he said, was "to forget about Palestinian rights because the Israelis are the first to benefit from that."

Last week the State Department publicly called on Syria to close down an office of a group headed by Abu Nidal that is suspected of having staged the Rome attack and an attack on the Vienna airport the same day.

When asked why Syria did not comply with the American request if it was opposed to terrorism, Mr. Sharaa said, "We cannot accept dictation."

"It is our business whether to open or close an office," he said, "not anybody else's business. The Palestinian offices in Damascus have nothing to do with terrorism."

Mr. Sharaa said the United States antiterrorism "campaign" had turned into an "anti-Arab campaign."

"I cannot understand the unjustified campaign against the Arabs in the United States," he said. "It is not in the interests of the American people, not in the interests of peace in the region and in the world at large, and we believe this is a racist campaign against the Arabs which must be stopped."

There was no immediate response from the Administration to his charge of racism. Washington has denied that it is pursuing an anti-Arab course, and the Administration is in fact trying to justify sale of missiles to Saudi Arabia as necessary to maintain credibility in the Arab world.

Mr. Sharaa said the United States should "pursue a dialogue with Syria on equal footing."

Hussein and Assad Meet

DAMASCUS, Syria, May 25 (AP) — King Hussein of Jordan held talks here Saturday with President Hafez al-Assad of Syria, the third meeting in five months between the former adversaries.

After the six-hour meeting, the King left early today to return to the Jordanian capital of Amman.

An official announcement did not say what the leaders discussed, but a source close to the talks said the topics included the Arab-Israeli conflict, the Iran-Iraq war and charges of Syrian involvement in terrorist attacks, which Syria denies.

Paris Sends Hostage Mediator

Special to The New York Times

BEIRUT, Lebanon, May 25 — The Beirut leftist daily As Safir, in a dispatch from Paris today, said the French Government had sent an intermediary to Damascus to resume negotiations for the release of eight Frenchmen kidnapped in Moslem West Beirut in the last year and a half.

The newspaper identified the envoy as Omran Adham, a Syrian businessman who lives in France. Mr. Adham has held previous talks in Damascus on behalf of the French hostages.

The Islamic Holy War organization says it is holding three of the Frenchmen. In March it said it had killed a fourth French captive, Michel Seurat, but his body was never found.

A group called the Organization of Revolutionary Justice claimed responsibility for kidnapping four members of a French television crew in March. No group claimed responsibility for the kidnapping of an elderly Frenchman, Camille Sontag, on May 7.

Islamic Holy War also says it is holding four Americans hostage. They are Terry A. Anderson, Middle East correspondent of The Associated Press; the Rev. Lawrence M. Jenco, a Roman Catholic priest; David P. Jacobsen, the director of American University Hospital here, and Thomas M. Sutherland, the dean of the university's school of agriculture. In October, it said it had killed a fifth American, William Buckley, a diplomat.

The magazine Al Shiraa, published in West Beirut, has said three French and three American hostages would be set free soon. Its six-line report was attributed to an unidentified informed political source.

Israel
JSCW

PHILADELPHIA INQUIRER 25 MAY 1986 Pg. 2D

Israeli military holds edge over Syria

By James McCartney
Inquirer Washington Bureau

WASHINGTON — Despite a substantial Syrian military buildup, spurring rumors of war in the Middle East, Israel would still win any war hands down, according to most experts.

"If the two countries went to war right now," said Clyde Mark, a military specialist for the Congressional Research Service of the Library of Congress, "the result would be the same as in 1982 [in Lebanon] or 1973 [on the Sinai desert]. Israel would win."

American and Israeli military specialists agree.

Said an Israeli expert: "I think you can say there has been an improvement on the Syrian side since 1982, but we still maintain a quality edge. There is still a wide gap in favor of Israel."

A State Department specialist on the Middle East said that Israel "has probably more than maintained its traditional gap in military superiority. The gap may be widening in Israel's favor."

These assessments were made in the face of widespread reports from the Middle East, most emanating from Jerusalem, that top Israeli officials have become concerned about the dimensions of the Syrian buildup.

The New York Times recently reported that "long-term changes in the Syrian-Israeli military balance of power" had created a situation in which a miscalculation by either side could touch off a war.

But none of the military experts interviewed here — at the nonpartisan Congressional Research Service, which supplies expertise for members of Congress, the State Department's politics-military affairs bureau and the Israeli Embassy — believed that a fundamental change had occurred in the balance of

power.

"There has been a step-up in the quality of weapons on the Syrian side," said Mark, "but the balance of power has not changed all that much. Israel has not stood still. ... The Syrians have not done enough to close the gap [favoring Israel] that has existed for many years.

"The changes do not mean that Israel is at risk. They do mean, perhaps, that the Israeli job in case of war would be tougher."

Israelis, however, are also concerned about what they consider to be threatening moves by Syria on the ground — particularly the building of tank trenches in Lebanon, which could be used in launching an attack.

American officials acknowledge they fear that Israel may strike at Syria if Syrian forces were moved closer to the Israeli border.

All the experts interviewed agreed on the basic facts of the current military balance, in terms of sizes of forces and numbers of weapons, but all also emphasized that military strength was difficult to measure precisely.

Israeli superiority is not reflected in mere numbers, they noted, but in quality of weapons, quality of training and traditional Israeli military esprit de corps.

The basic picture they presented, in summary:

Size of forces. Syria has increased its regular military forces by about 100,000 troops since 1982, while numbers have remain largely unchanged on the Israeli side.

In raw numbers, that gives the Syrians 300,000 in regular forces, the Israelis 170,000. The experts, however, point out that Israeli reserves, which number 280,000, are much better trained and equipped than the Syrians, and therefore more than a match for them.

Mark said the official figure placing Syrian reserves at 300,000 cannot be taken "too seriously" because

many of them have not received top-grade training and rank as little more than a home guard.

Combat aircraft. Syria is believed to have about 650 combat aircraft, compared with 550 to 650 for Israel. But once again, the experts give Israel a substantial margin of superiority because their aircraft are of higher quality and their pilots better trained.

Mark said about half of Syria's combat aircraft were older models, while most of the Israeli planes were newer, better equipped and flown by better trained pilots.

Said the Israeli expert: "The most significant area of our superiority is in air power — in combat planes and in trained pilots."

Tanks. Syria is believed to have added 300 to 500 tanks to its arsenal overall, and to have replaced many older tanks with modern, Soviet-built T-72s and T-79s. But the Israelis, as one American official put it, "are not losing any sleep over Syrian tank forces. They are still no match."

In total numbers, the Syrians have an estimated 1,000 more tanks than the Israelis, but unlike the Syrian tanks, the Israeli tanks, mostly American- and British-made, have been upgraded with modern technological equipment and weaponry.

Missiles. The most threatening new Syrian moves involve missiles, in particular the long-range, Soviet-built SS-21 and SS-23. They have the ability to strike targets deep in Israel with far greater accuracy than their predecessors and conceivably could shut down Israeli airports in a crisis.

At the same time, the Syrians have deployed SA-5 anti-aircraft missiles in new places that have limited Israeli reconnaissance capabilities in Lebanon.



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May 2, 1986

Mr. Max Green
Office of Public Liaison
The White House
Washington, DC 20500

Dear Max:

I will be arriving in Washington on Monday evening, May 12th.

I would like very much to have a meeting consisting of you, Cynthia Rosenberg, Dr. Joyce Starr and myself to discuss how we can implement the plan that I sent to you entitled, "A Set of Recommendations for the Expansion of Economic Relations Between the Governments of the United States and Israel."

I would appreciate it very much if you would meet with us at the offices of Dr. Starr at 10:30 a.m. on Tuesday, May 13, 1986. Her address is 1800 K Street NW, telephone 887-0200.

Would you please let me know whether this is satisfactory to you. I look forward to seeing you then.

Best wishes,

Elmer L. Winter
Chairman

ELW:bb
CC:Dr. Joyce Starr

See

copy = note 50710-7ES.

*Boards
Economic*

**A SET OF RECOMMENDATIONS FOR THE
EXPANSION OF ECONOMIC RELATIONSHIPS
BETWEEN THE GOVERNMENTS OF THE
UNITED STATES AND ISRAEL**

Elmer L. Winter, Chairman
COMMITTEE FOR ECONOMIC GROWTH OF ISRAEL
5301 North Ironwood Road
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414-961-1000



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Dear Friend:

The United States and Israel entered into an historic agreement when the Free Trade Agreement between the two countries was signed. This agreement will provide for increased business relationships between the two countries as the tariffs are removed over a period of years. President Ronald Reagan upon signing this unique agreement, stated:

"I believe this new economic relationship with our friends in Israel will further our historic friendship, strengthen both of our economies, and provide for new opportunities between our peoples for communication and commerce. Nothing better demonstrates the shared community of aspirations between our nations than our promotion of free and harmonious trade for our mutual benefits."

I believe that there are additional opportunities for the United States and Israel to develop cooperative economic and business programs which will be to the best interests of both countries.

Lawrence S. Eagleburger put the advantages to the U.S. for support of Israel in clear terms when he stated (June 12, 1983):

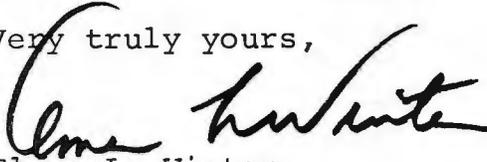
"Israel lies in the center of one of the principal geographic arenas of East-West competition and conflict, sharing with us the same democratic ideals, and the same principles of freedom and dignity of the individual. Israel is a bastion of Western interest and values in an area perpetually coveted by the Soviet Union. As such, our preoccupation with Israel's security and well-being rests not only on a deep and abiding moral commitment to preserving this outpost of freedom, it also rests on a broad base of common strategic interests."

America's ongoing generous economic and military assistance not only helps Israel defend itself, it is also an investment in our own country's security. Israel's democratic institutions and its political stability make it a reliable and dependable friend in a volatile region. Its military power is seen by the Soviets as standing in the way of their expansionist ambitions in the Middle East. The security of Israel is vital to American interests and we will not stand idly by in the face of Soviet threats to that security."

On the following pages I have outlined a series of recommendations which, if implemented, would be beneficial to the United States and to Israel. Some of the recommendations call for an expansion of existing programs. Others suggest new programs which relate to economic and business development between the two countries.

I trust that you will find these recommendations to be of interest and that you will join us in a review of the recommendations -- hopefully leading to implementation.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Elmer L. Winter', written in a cursive style.

Elmer L. Winter
Chairman

ELW:mjs

RECOMMENDATION NO. 1: There is need to develop a vehicle which will increase the opportunities for Israeli companies to bid on U.S. Government tenders. According to the terms of the Free Trade Agreement between the U.S. and Israel both sides may participate in government tenders of \$50,000 or more, whereas previously the benchmark was about \$150,000. This opens up new opportunities for Israeli firms wishing to participate in U.S. government tenders (including medium sized companies) on a receptional basis. The article is based on the government procurement code of the GATT as negotiated in the Tokyo Round of the Multilateral Trade Negotiations.

It stipulated that Israeli companies will compete equally with American firms on government tenders over \$50,000, without coming under the limitations of the Buy American Act. This law enables an additional 6% - 50% of the original price to be added on to product whose origin is not the U.S. and thus discourages the purchase of foreign items. Another American statute, the Small Business Administration (SBA), extends preferential treatment to small American companies in certain government tenders. In this context, Israeli companies are faced with the same challenges as large American firms.

The agreement expands the government procurements code even to Ministry of Defense bids (an area previously omitted in Israel). Defense purchases are outlined in the Memorandum of Agreement (MOA) protocol and have no connection with the FTA.

Examples of sales by Israeli companies to the U.S.:

Ramim Metal Works, a member of Koor Industries Metals Division, has won its first order from the U.S. armed forces. The tender was for special housing for communications equipment.

Located in the development town of Kiryat Shmona near the Lebanese border, Ramim is exporting hundreds of housing units for a total of \$1.6 million. The order should give the company a definite lift. It includes an option for several hundred additional units.

Eagle Ltd., manufacturer of a wide variety of sophisticated fabric-based equipment for the military, has been awarded a \$20 million tender by the U.S. Defense authorities. Eagle made its bid through its American subsidiary, acquired in 1984 for the express purpose of facilitating participation in Department of Defense tenders.

It is reported that Eagle's U.S. subsidiary has orders on hand worth \$25-30 million, with most scheduled for delivery during the 1985 fiscal year. The Company's consolidated balance sheet this year will total \$32 million.

Reshef Defense Technologies was launched with funds mobilized in the U.S. through a private placement. The company develops advanced ammunition systems, particularly electronic fuses. It has announced that it is establishing a marketing firm in the U.S. to advance sales to the American and South American armies. Washington has granted permission to sell its systems outside the U.S.

Currently in the development stage, Reshef plans a state-of-the-art assembly facility in the Negev development town of Sderot. Reshef's Negev plant will enjoy the benefits accorded to "Authorized Enterprises" locating in development towns.

Elbit, Israel's well known developer and manufacturer of computer-based defense systems, has received approval from General Dynamics for production of an improved mission computer for the advanced F-16. The mission computer is the combat aircraft's hardware and operates and controls all the plane's computer-based systems. Elbit developed the computer for the F-16s flown by the Israel Air Force.

RECOMMENDATION NO. 2: For U.S. companies to bid on Israeli tenders. American corporations are seeking to sell their products to the Government of Israel. A vehicle should be developed in Israel that will assist American companies to bid on Israeli Government tenders where the tender is in excess of \$50,000.

RECOMMENDATION NO. 3: Sales to the Pentagon. The following information describes the Memorandum Agreement (MOA) between the U.S. and Israel. Consideration should be given as to how increased sales can be made to the Pentagon by Israeli companies in accordance with the Memorandum of Agreement.

SELLING TO THE U.S. ARMY

PATHWAY TO THE PENTAGON

The Memorandum of Agreement (MOA) between the U.S. and Israel continues to represent a vehicle for Israel firms to sell to the U.S. defense establishment. However, it often travels over bumpy roads. Drive carefully and you will reach your destination safely. □ by Jay Kaplan

The original MOA was a direct outgrowth of the Camp David Accords of 1979 and governs procurement of a large number of defense equipment items, without regard to either country's Buy National laws.

Its principal purpose was to ameliorate the imbalance in defense trade between Israel and the United States "by affording Israeli sources improved opportunities to compete for agreed-upon procurements of the U.S. Department of Defense (DOD)." But for the MOA, Israel would be subject to the Buy American Act, which, as a rule, requires that a differential of 50% be added to the price of Israeli sourced equipment when compared price-wise with U.S. equipment.

The MOA lists approximately 600 military items and services on which Israeli firms can submit competitive bids on DOD requirements. The agreement provided that items may either be added or dropped from it by agreement of the two governments, as their national policies require. Moreover, even if an item was not listed in the MOA, a Buy American Act waiver could be granted in any particular case and added to the MOA thereafter.

The MOA has been of substantial benefit to Israeli defense contractors. One DOD official, familiar with the MOA, estimates that from 1979 through 1982, Israeli firms sold DOD and DOD contractors approximately \$75 million worth of goods under the MOA. The largest single contract during this period was \$39 million award to Tadiran Israel Electronics Industries in 1982, for AN/VRC-12 tactical vehicular radios. (Details in this article).

THE NEW MOA The original MOA provided for a five year term, subject to extension. On March 19, 1984 Israel and the U.S. executed a new agreement which restates and reconfirms

the principles and provisions of the original document. It also incorporates various provisions, intended to improve its operation and implementation.

The MOA is more restrictive than the Memorandum of Understanding (MOU) that the U.S. entered into with many of its NATO Alliance Allies. Unlike the Israeli MOA, the MOU's do not specify equipment items covered by the agreement. Unless otherwise excluded by law, regulation or policy, items of defense equipment are presumably included in coverage.

The new MOA provisions are significant:

□ References in the MOA are updated to reflect other agreements entered into since 1979.

□ The scope of the MOA was broadened. It now contains a listing of procurement equipment by generic category, rather than merely by specific items of equipment.

□ The policy that even where an item is not listed in the MOA, Israeli sources are still entitled to be placed on U.S. government bidder's lists, furnished a solicitation and provided access to pre-bid conferences is now specifically stated in the MOA.

Attachment One to the MOA sets out implementing procedures in greater detail. Here are some of the important clauses:

□ A more effective committee is established to oversee implementation of the MOA.

□ With regard to items and categories covered by the MOA, they establish a procedure for quarterly review.

□ They set forth basic criteria for determining whether an item should be excluded: first, whether it is appropriate to release the technology; second, whether it has been planned for small or designated type of business; third, whether the specific sustaining rate of the item is designated as part of a mobilization base requirement.

□ Proposed additions are to be handled in an expeditious manner—whenever possible within less than two weeks. Additions will be effective immediately and apply to all solicitations for which an award has not yet been made.

□ In all instances when a government intends to procure an item for which non-domestic sources may not compete, the official agency involved shall so state in its solicitation.

□ Later versions, models, modifications, or substitute products for an item will be deemed included in the MOA, unless otherwise excluded.

The MOA does not apply to services with respect to price evaluation. The price differential factors of the Buy American Act do not apply to services. The MOA also provides that Israeli items will be evaluated without consideration of duty and provisions made for duty-free entry of the item. This means that Israeli suppliers should not include customs duties in their offers. The regulations permit duty-free entry for Defense items from any sub-contractor, not just the prime contractor. In summary, Israeli suppliers of MOA items will be evaluated on an equal basis with U.S. domestic and other "qualifying country" suppliers.

The agreements are not applicable to civilian agency purchases. For example, the U.S. Coast Guard is a component of the Department of Transportation, not the Defense or Navy Departments. Most Coast Guard purchases are made with Transportation funds. Normally, the MOA will not apply to purchases by the National Aeronautical and Space Administration (NASA). However, there may be occasions when NASA buys an item on behalf of a military department. If so, the MOA might arguably apply, if DOD funds were utilized. In such a case, such purchases may come under the MOA. The General

Services Administration often buys for the Defense Department. These purchases do not come under the MOA and the Buy American Act evaluation factors apply.

The MOA provides that procurements, bids or offers of Israeli products will not be solicited, considered and exempted from Buy American Act evaluations, if a procurement is restricted by U.S. National Disclosure Policy or U.S. industrial security requirements, set aside for small business, a mobilization base item, or otherwise restricted by law or regulation.

Each year the DOD Appropriations Act sets forth a list of items which cannot be purchased from foreign suppliers, unless done so under the circumstances outlined therein. For 1985, this provision of the Act (PUB.L. 98-473) commonly referred to as the "Berry Amendment" stated: *819. No part of any appropriation contained in this Act, . . . shall be available for the procurement of any article of food, clothing, cotton, woven silk or woven silk blends, spun silk yarn for cartridge cloth, synthetic fabric or coated synthetic fabric, or wool (whether in the form of fiber or yarn or contained in fabrics, materials, or manufactured materials), or specialty metals including stainless steel flatware, or hand or measuring tools, not grown, reprocessed, reused, or produced in the United States or its possessions . . .*

Steel Wheels

And Sprockets for Military Tanks Have Israel's SPI-Suspension on the Advance

ISRAEL-based SPI-Suspension & Parts Ltd., a producer of components for tanks and other military vehicles, scored handsome gains in sales and earnings last year on a sharp climb in exports.

Results for 1985, reported by the company last week, showed volume climbing to \$10.6 million from \$7.6 million in 1984. Net income rose to \$1.7 million from \$1.1 million a year earlier. That worked out to 60 cents a share, vs. 47 cents, on an average of 2.8 million shares outstanding, vs. an average of 2.4 million shares in '84. A significant part of last year's reve-

SPI-Suspension & Parts Ltd.					
(Nasdaq Nat'l Market System)					
Ticker code: SPILF Abb: SPI Sus					
Selected Operating Results					
Year	Revenues	Net Income	Earnings	Dividends	Price Range
	Million	Million	Per Share	Per Share	
1985	\$10.6	\$1.7	\$0.60	.....	6 1/4 - 6 3/4
1984	7.6	1.1	0.47	.....	.....
1983	3.8	0.2	0.09	.....	.....
1982	2.1	0.4	0.16	.....	.....
1981	2.7	d1.0	0.44	.....	.....
d-Deficit.					
Balance sheet as of Sept. 30, 1985:					
Current assets: \$13.5 million.					
Current liabilities: \$5.5 million.					
Current ratio: 2.5-to-1.					
Long-term debt: \$2.5 million.					
Common shares: 3,200,199.					
Book value: \$3.00.					

of around \$2.5 million, or 75 cents a share.

SPI has its hand in all phases of components for armored-vehicle suspension systems—design, development, manufacture and marketing. Its customers are military-equipment makers. The company, incorporated in 1977 and publicly owned since last summer, supplies nearly all of the Israeli defense ministry's needs for steel road wheels, sprocket wheels and certain truck components. In 1984 U.S. purchases accounted for 86% of sales, a share that dropped to 68% early last year before bouncing back.

The company also sells to European governments through a Brussels office of Urdan Industries, Israel's largest steel works and once SPI's sole

owner (Urdan still holds a 73% stake).

But it's the U.S. market that is the key to SPI's fortunes, and which in 1984 helped pull the company out of four years of red ink. Some 75% of SPI's backlog of \$10 million or so late last year was in U.S. orders, which are exempt from pricing penalties in this country's "Buy American" rules.

SPI enjoys a helpful edge in product research, which is carried on by engineers and metallurgists employed by Urdan—at a smart cost saving. It recently developed an improved road wheel for the M-60 Patton tank, leading to a \$1.2 million order last September from Uncle Sam. Innovations in tooling and metallurgy have led to cuts in manufacturing and raw-mate-

rial costs, boosting profit margins.

Another plus: SPI, as a supplier to Israel's armed forces, has seen its wares tested in combat, and they've acquitted themselves well.

Using special steel and a new design, SPI has worked with Israel's defense ministry to develop a road wheel that, the company says, is 15% lighter and 25% stronger than conventional steel wheels. If the product survives prototype testing, production should get under way this year.

One dark cloud on SPI's horizon: Israel's inflation woes. Just as most of the company's sales outside the country are in dollars and other foreign currencies, it also pays a significant amount of its costs in such currencies. For its expenses paid for in Israeli money, inflation also can take its toll. The company has had to employ a range of financial strategies to defend itself.

Its public offering of stock last summer provided SPI with more than ample cash to carry it through until the end of this year. By then management may have advanced its thinking or whether to establish or acquire an interest in a U.S. plant. With expansion of that sort possibly in the offing, it's unlikely that SPI will begin paying dividends anytime soon.

—THOMAS N. TROXELL JR

SPI has employed a range of financial strategies to defend itself against Israel's rampant inflation.

nue gain came in sales of road wheels and sprockets for U.S. tanks and armored personnel carriers.

This year SPI should manage further impressive gains—at least \$14 million in sales and net

Keeping it secret

The U.S. is maintaining a low key on its military cooperation with Israel

The item was brief and buried in the back pages of the newspapers: Israel and the United States had just conducted a joint medical exercise. American helicopters had taken "wounded" U.S. navy personnel from a Sixth Fleet vessel to Jerusalem's Hadassah Hospital. Hadassah and Soroka Hospital in Beersheba prepared emergency staff and facilities to treat the "wounded."

A few days later the biggest armada of the U.S. Sixth Fleet ever to visit the country pulled into Haifa's harbor for supplies, servicing and shore leave.

Two years earlier, in October 1983, when 240 U.S. marines lost their lives in the bombing of their Beirut headquarters, the wounded were evacuated to Germany. Had the more serious cases been taken to nearby Israel instead, the lives of some might have been saved, according to expert opinion at the time.

"Why should we cooperate openly with Israel? It only gets the Arabs mad. If we ever need Israeli military help, including

bases for our rapid deployment force, we'll always be able to get it on short notice," one Pentagon official told *Israel Scene* at the time of the bombing.

Since then, "strategic cooperation" between the two countries has grown and become more visible. It involves not only medical evacuations but other activities, such as joint arms development, provision of shore facilities for the U.S. Sixth Fleet and the sharing of intelligence data. (The recent Pollard case is a glaring aberration. It is not the only example of spying between the two countries: some other cases, however, were swept under the carpet or dealt with through diplomatic channels.)

Strategic cooperation has included passing on information on captured Russian weapons and numerous improvements in American arms. All this is in addition to a wider range of cooperation which enables the U.S. to count on this country to a great extent in its overall strategic and contingency plans for the region.

Nevertheless, America has tried to keep strategic cooperation at a low key so

as not to ruffle the Arabs. The Israeli IDF spokesman refused to release many details on the recent exercise, saying: "You'd better talk to our partner."

An approach to the U.S. embassy in Tel Aviv was met by silence. Instead, a cordial invitation was extended to visit the aircraft carrier *Saratoga*, anchored in Haifa's port at the time, together with eight other ships of the Sixth Fleet.

Once aboard, there were few secrets.

The public affairs officer freely showed the visiting press around the 80,000 ton carrier. He even pointed out the four F-4 Tomcat superjets which, aided by other aircraft, had intercepted the Egyptian 737 carrying the four hijackers of the "Achille Lauro" Italian cruise liner four weeks earlier.

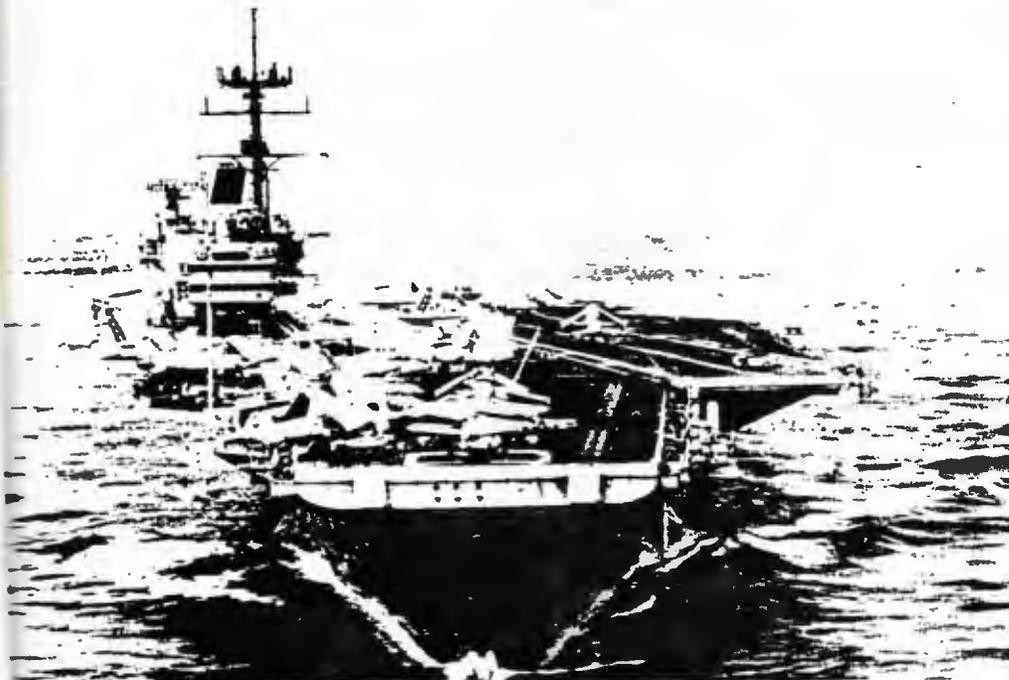
But when *Israel Scene* questioned the public affairs officer about the recent medical evacuation exercise, he clammed up. Although he talked freely about recent joint maneuvers held with Turkish, Italian and British vessels, he was flustered when asked about other military cooperation with Israel.

His superiors, whom he called for further guidelines, at the most permitted him to confirm that a joint medical evacuation exercise had indeed taken place. No details were forthcoming.

One very visible form of Israel-U.S. cooperation, however, was evident on the way to the *Saratoga*: a barge loaded with 10,000 bottles of Israeli soda, dozens of crates of eggs and scores of sacks of fresh fruit and vegetables was on its way to help feed the *Saratoga's* 5,000-man crew.

U.S. reticence about military cooperation with Israel may be understandable, but it is detrimental to the country's image in the eyes of the American public. According to Senator Rudy Boschwitz of Minnesota, the strategic and military benefits the U.S. receives from Israel outweigh the aid it extends. This is especially true, he says, when compared with U.S. aid to NATO and its Far East allies. It spends some \$100 billion annually to maintain 350,000 troops in Europe and 100,000 in the Far East. The countries aided contribute no more than one to six per cent of their budgets to their own defense. Israel spends 25 per cent of its budget on this item and doesn't ask for, or want, American soldiers to actively intercede.

Israel is reported to have made as many as 27 changes and improvements to the American F-15 and F-16 fighter aircrafts and 114 modifications to the American Patton tanks. Many of these changes have been adopted by the U.S. armed forces. By a strange twist of fate they may have reached Arab countries as well in arms provided by the U.S. □



The U.S. aircraft carrier *Saratoga*

For its own preservation, Israel has developed and produces many sophisticated weapons. America could benefit by stepped up purchases of Israeli's weaponry such as new surveillance radar systems; Gabriel sea to sea missiles, etc. These purchases by the U.S. would assist Israel in reducing its negative balance payments on trade with the USA.

A Task Force would examine and implement ways for Israel to expand its co-production of arms with the United States. Israel's Aircraft Industries produces 350 military and civilian products and services. It employs 22,000 people and devotes 18.7% of its sales of \$560 million to R&D. Israel has the capacity of expertise to effectively manufacture military equipment on a co-production basis with the United States.

The Jerusalem Post announced; "U.S. Defence Secretary Caspar Weinberger also announced easier procedures for the sale of Israeli weapons directly to the American military - including 120mm mortars and ammunition - providing that these are competitive both in price and technology with systems being offered by American companies.

Until now Israel has found it almost impossible to penetrate the American market directly, more often than not having to sell to the American military through American companies that take a huge share of the profits."

A review should be made as to whether Israel could be selected as a place to build U.S. submarines. The Jerusalem Post reported (November 3, 1984):

"Israel Shipyards is 'able and eager' to build the three diesel-powered submarines the Israel Navy reportedly hopes to acquire, a company official told The Jerusalem Post last week.

He confirmed that in a 'pre-preliminary' clarification exchange with the navy, the firm had undertaken to build the subs when a decision on their construction had been taken.

'Though no subs have been built in Israel and complex technologies are involved, we have the ability,' the official said.

The project, which U.S. sources estimate will cost \$100 million per vessel, would entail 'participation of U.S. know-how and financing assistance,' the officials believed.

RECOMMENDATION NO. 4: The U.S. should expand its program to lease Israeli military equipment. A review should be made in line with the following report:

U.S. Navy chooses the Kfir

By WOLF BLITZER

Jerusalem Post Correspondent
WASHINGTON — The U.S. Navy's expected decision to lease 12 Kfir fighters from the Israel Air Force will be accompanied by the largest deal that Israel Aircraft Industries (IAI) has ever made with the U.S. — to maintain the planes.

For IAI, well-informed sources here said last week the contract to maintain the Kfirs in the U.S. is worth between \$65 and \$75 million over the next three years.

The U.S. Navy wants the Kfirs because the Israeli-made fighters are thought to do an excellent job simulating Soviet-made MiG-21s in combat training exercises.

The New York Times has reported that the Navy is in the final stages of concluding a separate deal with China to buy some MiG-21s, but those aircraft are unlikely to be made available to the U.S. before 1986-87.

The newspaper quoted a U.S. Navy spokesman as saying that, pending awarding of a contract to

China and the actual delivery of the planes, the Navy will lease the Kfirs.

Under U.S. law, the Navy cannot enter into any formal barter arrangement with a foreign government. But well-informed sources who have closely followed the U.S.-Israeli negotiations over the Kfir lease said the Israeli military will win some separate lease arrangement from the U.S., perhaps involving some additional spare parts for other Israeli military systems.

Several U.S. aircraft firms have been competing for the Navy's contract to provide additional fighters which could simulate the MiG-21. Understandably, they have sought to block the Kfir deal.

Israeli officials also cite the political importance of having the U.S. Navy incorporate Israeli-made fighters — a further indication of the improved state of military ties between Washington and Jerusalem.

Holding up the actual signing of the Kfir lease is the final Congressional approval of the Navy's 1985 appropriation budget.

RECOMMENDATION NO. 5: There is need to expand the sale of military equipment by Israeli companies to developing nations. The following information describes the problems confronting Israeli manufacturers and the opportunities presented in cooperation with the United States.

Israel's exports of military equipment are shrouded in mystery. The official authorities - the Ministry of Defense and Sibat, its export arm - avoid discussing the topic. From time to time, some newsworthy item in the foreign press refers to some transaction, revealing facts and figures that relate to Israel's overseas sales of military and defense equipment. Such items, however, are neither verified nor denied.

Estimates indicate that some 100 Israeli firms are engaged (in various degrees) in the manufacture of weapons systems and close to 50% of this production is slated for overseas markets. For the past four years, this sector has filled the country's bank account to the tune of an average of one billion dollars a year. Based on this estimate, this sector accounts for one-quarter of Israel's industrial exports. Israel ranks number 15 or 16 in the list of international weapons exporters.

The three largest enterprises are government-controlled: Israel Aircraft Industries, Israel Military Industries and Rafael. Dominating the development and manufacture of a spectrum of military weapons and systems for ground, sea and air forces, these plants provide work for numerous sub-contractors in different industrial branches, which have adapted their production to the

stringent requirements of the Israel Defense Forces (IDF) and the defense industry. In addition, the giant concerns have also given rise to a generation of entrepreneurs, dedicating their energies to a host of private high tech industries engaged in both military and civilian fields.

The country's defense industry has come a long way since the first fledgling companies sprouted their wings in the early fifties, under the guidance and supervision of David Ben-Gurion, first premier of the State of Israel. Today, this industry markets a sizable percentage of its goods worldwide and media accounts tell of deals with Latin American countries (important clients in this branch), Africa, East Asia and recent reports allude to business with Red China.

The year 1967 was a turning point for the industry: the resounding success of the IDF in the Six Day War generated worldwide acclaim for Israel's weapon systems as well as its soldiers. The proven performance of a vast array of systems and equipment launched Israel's reputation as a reliable weapons supplier, while at the same time foreign manufacturers supplying the IDF also benefited from this publicity. President De Gaulle's embargo of arms shipments to Israel augmented the

local industry's efforts and a full-scale production program was launched.

A decade later, results were already apparent. During 1976-79 exports doubled from \$300 million to \$600 million and in 1980, again doubled to \$1.2 billion. According to estimates, missiles, airplanes and ships account for the bulk of these sales.

Today Israel exports a broad selection of products, ranging from light arms such as the Uzi submachine gun and the Galil rifle to heavy equipment; Merkava tanks, Kfir jets, missile boats and computerized electronic and electro-optic systems for direct and indirect military use. Since the "Peace for Galilee" war, Israel has also engaged in revamping, updating and exporting the substantial quantities of Soviet weaponry captured in battle.

This is an extremely volatile market. The instability of the entire sector, compounded by Israel's economic realities which prevent the extension of long-term credit to clients, pose serious challenges to sales of costly items such as tanks and plane. Overseas marketing, therefore, currently focuses on sales of advanced sub-systems, which feature fore-front technologies. Such sophisticated equipment is sold to developed nations: the U.S. and Europe.

RECOMMENDATION NO. 6: There is need to develop a vehicle to expand Israel's involvement in the U.S. Strategic Defense Initiative (SDI). Israeli companies and the Government of Israel are playing an important role in advancing the U.S. Strategic Defense Initiative. Discussions have taken place between the two countries. The following report from High Technology Magazine, August, 1985, describes the SDI program.

Corporations get on the "Star Wars" beam

If the Reagan Administration has its way, the Strategic Defense Initiative (SDI) will spend \$32 billion between fiscal years 1985 and 1990 in research programs intended to establish the feasibility of technical options for ballistic missile defense. Funds for directed energy weapons would total some \$6 billion during this initial stage. Such devices would be allocated almost \$1 billion of the \$3.7 billion requested for SDI by the administration for FY 1986, with an equivalent amount going to kinetic energy weapons and most of the remainder to work on surveillance, command, and control systems.

Within the directed energy sector—an area in which the major players will be defense contractors—ground-based lasers receive \$432 million, space-based lasers \$372 million. Work on nuclear-directed x-ray lasers (\$29 million requested, with additional funding from the Department of Energy) and particle beam weapons (\$134 million) is carried out largely at Los Alamos and other national laboratories.

The Pentagon has only begun to let out SDI contracts, but they are not for everyone. Even at this early stage of SDI, "the directed energy field is probably sewn up by companies that were involved during the pre-SDI period, says John Bosma, editor of the *Military Space* newsletter (Arlington, Va.). In addition, he says, "significant capitalization is required to play in this field, and the expertise needed is not widely available."

Companies prominent in energy weapons-related research are concentrated among the large aerospace and defense electronics firms. Chemical lasers are being developed by Rockwell International's Rocketdyne Div. (Canoga Park, Cal.), which has been working since the mid-1970's with a high-energy laser code-named Sigma Tau, and by TRW's Electronics and Space Systems Div. (Redondo Beach, Cal.), which has worked on two devices—the Alpha laser, based on a cylindrical design similar to that of Sigma Tau, and the Mid-Infrared Chemical Laser. Textron's Avco Everett Research Laboratory (Everett, Mass.), whose connection with laser weapons goes back to the 1960s, is a prime contractor for excimer lasers.

Lockheed Missiles and Space Co. (Sunnyvale, Cal.) is a prime contractor for



**David Smith,
Defense
Analyst,
Stanford C.
Bernstein**

"The need to integrate sensors with SDI is driving research on high-speed signal processing, which aerospace companies hope to leverage into improvements in manufacturing productivity and telecommunications."

a program on target acquisition, tracking, and pointing (Talon Gold) and a program to develop a mirror for focusing laser beams (the Large Optics Demonstration Experiment). And Litton's Itek Optical Systems (Lexington, Mass.) has applied its extensive experience in adaptive optics to laser contracts. Additional laser work is underway at Science Applications International (La Jolla, Cal.), Westinghouse Electric (Pittsburgh), and

"Small-business opportunities in directed energy devices and other advanced research programs often involve helping the government select the right technology for a particular application."

**Robert Sepucha
VP for Space Technology
W. J. Schafer Associates**

Hughes Research Laboratories (Malibu, Cal.)—a subsidiary of Hughes Aircraft whose recent acquisition by General Motors plunged the automaker directly into the Star Wars universe.

Smaller firms may also be found in the

directed energy arena. For example, BDM International (McLean, Va.) provides support services to the Army's High Energy Laser System Test Facility and is developing hardware and software for laser beam control. Logicon (Torrance, Cal.) consults on laser evaluation and weapons integration, and W. J. Schafer Associates (Washington, D.C.) is working on free electron lasers and beam control. But it is possible that the role of smaller firms will diminish as the SDI budget grows. Julius Feinleib, president of Adaptive Optics Associates (Cambridge, Mass.), fears that larger corporations will increasingly undertake technological work in-house instead of turning to innovative subcontractors.

In any case, companies seeking business opportunities from SDI might do well to look beyond directed energy, says David Smith, defense analyst with Stanford C. Bernstein (New York). One alternative, he says, is kinetic weapons—"the least expensive and most proven technology" among SDI's options.

John Bosma stresses that the non-weapons components of SDI—surveillance, tracking, and battle management systems—will offer reliable contract opportunities because they will be needed regardless of what types of defensive systems emerge. For example, precision guided kinetic energy or laser weapons will have to be able to discriminate reentry vehicles from decoys, a requirement that will stimulate work in advanced imaging sensors, real-time signal processing, new software development tools, and very-high-speed integrated circuits (VHSICs). "These are precisely the kinds of fields," says Bosma, "in which fast-moving, entrepreneurial companies have traditionally excelled."

Beyond the short-term opportunities provided by SDI contracts, the program's ultimate appeal to many companies is the funding being made available for research that will drive the next generation of technology in such fields as optical computers, composite materials, and space-based power systems. "Without something like an SDI," says Adaptive Optics' Feinleib, "this country doesn't have a good mechanism for supporting advanced technologies that enable us to compete with Japan and other countries."

—Dennis Livingston

"Israel is in the forefront of high technology." Through its universities, government and private sector businesses, there can be an important contribution made to the development of the U.S. Strategic Defense Initiative.

There needs to be a vehicle to centralize this program between Israel and the United States.

RECOMMENDATION NO. 7: There is need to develop a center for the development of alternate sources of energy in Israel. It was recently reported in The Wall Street Journal:

WASHINGTON—The Reagan administration, while publicly advocating closing the U.S. Synthetic Fuels Corp., privately has urged it to spend at least \$484 million on two plants to extract oil from shale.

The corporation failed to act on the projects because administration officials wouldn't make a request in writing for the funding, according to Thomas Corcoran, the corporation's vice chairman.

Western senators still were trying yesterday to rescue funding for the two plants, but a House-Senate conference on an omnibus spending bill stood by its Monday decision to block new synthetic-fuels projects.

Mr. Corcoran said Energy Secretary John Herrington, a frequent critic of synthetic-fuels spending, urged the corporation's board on Tuesday to sign contracts for a loan guarantee of \$300 million to Unocal Corp.'s Parachute Creek, Colo., oil-from-shale plant and a loan and price guarantee of \$184 million for the Seep Ridge oil-shale project in Utah, a partnership of Geokinetics Inc. and Peter Kiewit Sons Inc. The Unocal funding could be the key to releasing another \$400 million to \$600 million in other aid approved by the corporation.

Israel has been active in the development of alternative systems of energy, see the following page.

There is presently existing cooperation between the U.S. and Israel on a number of energy research and development projects. It is reported that three of the joint studies concern different aspects of oil shale utilization. The fourth proposes to explore a low temperature, low pressure method for the conversion of coal into fuels. All four projects will be conducted by R&D institutions in Israel, in cooperation with U.S. laboratories.

Alternative energy from Israel

Israel's Energy '84 exhibition, together with an international congress on energy for small- and medium-sized countries, took place from May 14 to 17 in Tel Aviv, providing an international forum for a comprehensive examination of all aspects of energy-related problems and solutions. Herewith brief reports on what Israel is doing to develop sources to complement and supplement fossil fuels.

First wind farm

Israel's first major wind power installation is expected to be set up on Mount Gilon, near Yodfat, and the first turbine is expected to be in place by early 1985. While more detailed studies will be conducted, available data already indicates that Mount Gilon is eminently suitable for a large wind turbine installation.

Surveys of Israel's wind power potential have been in progress for several years under the direction of the energy ministry. Some experts now peg this potential at a total of several thousand megawatts, subject to land utilisation restrictions, town planning laws and so forth. Nevertheless, it is hoped that Israel will have about 1,000 Mw of wind-powered generating capacity installed by the year 2000.

Initially, one turbine with an output of around 2.5 Mw of electricity will be erected at the Mount Gilon site. When, as anticipated, it verifies earlier observations, up to 10 additional turbines could be set up at the site.

Ministry of energy experts have located a further five likely sites for smaller wind-driven generators, four in farm villages, and one in a major industrial plant. The generators, each capable of producing up to 50 Kw, will be financed by the community concerned, with substantial support from the ministry.

Biogas takes off

More than a dozen full-scale biogas installations developed by the Kibbutz Industries Associations (KIA) are now under construction. One will be set up at Yagur, near Haifa, 10 more in various Negev kibbutzim, and three will go to customers abroad.

Even though KIA's equipment produces more methane from a given volume of organic matter than any other biogas system available, the organisation's developers regard this as only one aspect of an integrated system.

Their policy is to gain the maximum

economic advantage from the exploitation of organic waste, producing from it more than simply fuel. Thus, the three industrial anaerobic digesters installed so far produce not only combustible gas, but also high-quality cattle-feed, fertiliser and a nutrient-rich plant substrate.

In recent months, KIA cooperated with a number of commercial firms to develop several important auxiliary systems for its anaerobic digester. These include mechanical manure collection from dairy barns which saves much of the labour of loading the material into the system manually. Another is a heavy-duty blender, powered by a 40 hp motor, which reduces manure and any foreign matter it may contain to a consistency easily processed by the blender. There is also a dual fuel burner, which automatically switches over to an alternative fuel, such as natural gas or oil, if there is any interruption in the biogas supply.

Heat and power fuse for world first

A solar heating device which simultaneously produces electricity and hot water has been developed at Tel Aviv University, with ministry of energy support.

The system combines a conventional thermal collector, which heats water, and photovoltaic cells which cover the surface of the collector and convert solar energy directly into electricity. Called the Combined Solar Photovoltaic and Thermal Collector, the experimental device is said to be the first in the world to generate electricity while heating water.

Safe energy

A new technique for the production of nuclear energy which cannot be exploited for the production of nuclear weapons has been developed at Tel Aviv University.

The new process, relying primarily

on thorium, which is three to four times more abundant than uranium and does not contain fissionable material, would insure that the world's energy requirements are met for the next two centuries.

This method of producing nuclear energy with thorium uses quantities of uranium so small that the technology can be marketed freely without fear of countries developing uranium stockpiles which can then be used for military purposes.

Alternative electricity

Ormat Turbines Ltd. was formed in 1965 by its current president, Mr L. Bronicki, for the development, manufacture and marketing of Rankine cycle, organic motive fluid turbine-driven systems for the generation of electrical power.

Today, more than 3,000 Ormat Turbogenerator systems using conventional and non-conventional fuels are operating successfully in many countries around the world, supplying continuous electrical power in remote unattended applications.

These self-contained systems are virtually maintenance-free and utilise a variety of combustible fuels to thermally generate the vapours that drive the sealed-for-life turbogenerator. These systems perform continuously in the most extreme climates.

Prototype cooperation sought

Casali Institute researchers of a heat-storage system using a reversible chemical reaction (RCR) are seeking industry cooperation to develop a prototype.

The system, which can be used for heat pumps, storing solar energy, or retaining waste heat, can retain heat over a broad range of temperatures for an indefinite time. The researchers want a licensing agreement and the experience of heating-cooling engineers to develop the concept. Contact Dr Joshua Fuchs and Professor Sara Sarig, Casali Institute of Applied Science, Hebrew University of Jerusalem.

Israel's lack of conventional energy resources has spurred R&D of alternative sources, especially solar energy. Solar energy currently provides about 2% of Israel's energy needs, mostly in the form of rooftop solar collectors; while modest, this fraction saves on oil imports, and is large enough to make Israelis the world's leading per capita users of solar energy. By the end of the century, solar and other renewable energies (wind, hydro-electric, geothermal, biowastes combustion) will provide 11% of Israel's energy needs. Energy technology innovations have not only helped cut imports but they have resulted in new export products as well - notably, domestic solar water heaters.

Large-scale systems for solar-powered electricity generation are being developed by at least two Israeli firms. At its Jerusalem R&D facility, Luz International has developed a parabolic-trough collector system, and a \$62-million Luz-designed 13.8-megawatt (MW) solar field, which supplies electricity to the Southern California Edison Electric Co., began operating in December 1984. 1984 also saw the start-up of the world's largest solar-pond electricity-generating facility, at Beit HaAravah on the Dead Sea. The 5-MW system, built by Ormat Turbines and Solmat, converts heat stored in special ponds to electricity using Ormat's low-temperature turbines.

Oil shale has been found in at least seven locations in Israel. Deposits of about 11.5 billion tons are believed to exist, from which the energy equivalent of 500 million tons of crude oil could be extracted. PAMA, a firm set up through government initiative, is overseeing oil-shale R&D; scarcity of funds has slowed progress.

Wind-power research currently focuses on locating appropriate sites for wind-turbine "farms", constructing new turbines (the IEC is involved, among others), and R&D of innovative wind turbines.

A fermentation system developed by the Kibbutz Industries Association produces an energy source called "biogas" (methane) from manure; other products include a peat substitute and a high-grade fertilizer. Systems have been exported to Italy and Yugoslavia, and are used at several kibbutzim. Plans are afoot to burn municipal and industrial solid waste to produce electricity and steam; several foreign firms have bid on the project, which will probably be built in Haifa or Petah Tikva.

RECOMMENDATION NO. 8: A vehicle should be developed for Israel to participate in U.S. Government-sponsored R&D. Israeli engineers and scientists could make a major contribution to the work being conducted by the Center for the Utilization of Federal Technology (CUFT). This project has been described as follows:

Each year, the U.S. government sponsors some \$55 billion of R&D and produces more than 50,000 patents and technical reports. Relatively little of this technological wellspring is ever tapped by the private sector; indeed, few companies are fully aware of the available bounty. Over the past two years, however, a little-known agency—the Center for the Utilization of Federal Technology (CUFT)—has made impressive strides toward bringing the fruits of government research into the hands of business.

Although created by the Stevenson-Wydler Technology Innovation Act of 1980, CUFT began action only in 1983, as an arm of the Commerce Department's National Technical Information Service (NTIS). Its main role is to disseminate information and to nudge federal laboratories toward greater consciousness of their work's commercial potential, says Edward Lehmann, director of the center's applied technology office. "We want them to ask, 'What happens to R&D when it is finished?'" Some federal organizations, like NASA, vigorously promote such spinoff on their own. CUFT has therefore concentrated its efforts on other agencies, such as the National Institutes of Health (NIH) and the National

Bureau of Standards.

Some critics argue that government technology is largely irrelevant to industry, citing a much quoted statistic from the early 1970s showing that only 4-5% of all federal patents were licensed commercially. But newer figures contradict that criticism, says David Mowry, the NTIS associate director who heads CUFT. During fiscal year 1984, he says, almost 30% of federal patents were licensed—similar to the rate for university and industry patents.

Not all of that improvement can be attributed to CUFT's efforts at streamlining the transfer of technology. Another factor has been the revision of government patent policy to allow a company, under certain conditions, to negotiate an exclusive license for a federally owned invention. Freed from the threat of immediate competition, the company is more willing to spend money developing the technology.

"Very rarely are there plums waiting to be picked," says Lehmann. "The successful user is going to have to do some work on his own." He estimates that companies will spend \$144 million for further development of the 44 patents licensed through CUFT last year.

A review of this program should be made to determine whether Israel can participate in this activity.

RECOMMENDATION NO. 9: The U.S.-Israel Bi-National R&D Fund should be increased to \$200 million. The Bi-National Industrial R&D Foundation was established by the United States and Israel in 1975. Each then provided \$30 million, to create a \$60 million endowment, which since has been increased to a total of \$110 million. The income from that investment is used to support industrial research and development projects likely to benefit the economies of both countries.

In order to qualify for BIRD F support, a project must be proposed by two business firms - one in Israel, the other in the United States - each of which will play a critical role in the development and commercialization of the intended product. However, since many

Israel proponents lack the means and experience to find a suitable U.S. partner on their own, the Foundation is also prepared to help in a matchmaking capacity.

BIRD F's main field of activity is the support of full scale development projects, budgeted at several million dollars each and scheduled to be completed within three years or less; as a rule, the Foundation will provide up to 50% of a project's budget, the remainder coming from the two participating business firms. Sixty four such programs already have been approved since the Foundation first opened its doors. However, there also are other possibilities.

At times, a proposed project has more modest objectives, which can be achieved at a total outlay of \$ 150,000, or less. Here, again, BIRD F may participate with a grant of about 50% of the total outlay. In other instances, where a proposal may seem promising, but still requires a serious examination of its technical or economic feasibility, BIRD F may allocate up to \$ 30,000, as its share in the cost of that study.

The Foundation's work until now has covered a broad spectrum of high tech activity. Electronics equipment and instrumentation account for 27% of all projects approved so far, medical instruments, agrotechnology and industrial machinery each provide 15% of the total, and 19% of all projects

deal with the development of computer software packages.

Experience so far proves that BIRD F is an economically viable project. Thirty projects – about one hundred have been started since 1979 – already have yielded at least initial sales. Results so far indicate that more than half of all the projects supported by the Foundation will have positive results, in the sense of generating sales commensurate with the R&D investment. During the last five years, those sales have amounted to nearly \$ 150m., and they are projected at \$ 85m. in 1986 alone.

Since the BIRD program provides research opportunities for U.S. and Israeli companies, it is recommended that the investment of \$130 million in this program be increased to \$250 million.

RECOMMENDATION NO. 10: There should be an expansion of military cooperation between the U.S. and Israel. Consideration should be given to the expansion of military cooperation, which is described in the following article:

The Post learned that a navy working group had started planning a 'submarine of the 1990's' adapted to Israel's specific requirements.

It has been estimated that once the decision is made to go ahead with the project, it will take at least two years before building begins, because of the planning involved.

A recent Washington report indicated that the U.S. Navy opposes having the subs built in America, because it believes that once a U.S. yard begins building diesel subs, powerful political interests would pressure the U.S. Navy into using such subs, even though the U.S. Navy prefers nuclear-powered subs.

If Israel Shipyards is given the job, it would solve most of the company's chronic underemployment problem for several years.

The government-owned yard here still lacks substantial employment for its 800 workers, 'and negotiations for the dismissal of another 100 men to trim the work force to an efficient size' are in progress.

RECOMMENDATION NO. 11: There is need to refinance Israel's obligations to the United States. Israel needs "breathing room" in meeting her future financial obligations to the United States. Last year Israel paid \$3.2 billion in principal and interest on her debt -- a sum larger than the total aid package approved by Congress for the same period. Included in this amount was the payment of \$900 million to the U.S.

Consideration should be given to refinancing the debt to the USA at this time; consistent with the impact on Israel's credit rating. Senators Kasten and Inouye recently proposed legislation that would reduce interest payments due on loans from the U.S. to Israel to 5% per annum. This legislation was shelved and, at the appropriate time, should be reconsidered. The following op-ed piece written by Senator Inouye should be reviewed in connection with this subject.



Inouye

An answer for Israel

Economic and financial forces threaten to do what hostile neighbors have tried to do in three wars and 37 years of unremitting armed anti-pathology towards Israel.

There is no question that Israel is militarily strong and confident, but economic weakness and the almost insurmountable difficulty of confronting a complex array of financial problems may force it to alter the very character of its government and society.

Americans should address the contradiction that Israel, in order to avoid destruction by more numerous and better equipped adversaries, has been forced by us to spend itself close to ruin. I believe that we must act in the American national interest to ensure that debt does not crush this little democracy and center of freedom in the Middle East.

I am convinced that Israel is in danger despite steps which have been taken. For example, there has been a 20 per cent pay cut for all government employees. The ambassador of the State of Israel, who receives less than \$15,000 a year, is the lowest paid ambassador in our nation's capital. There has been a reduction in government forces in excess of 20,000 employees, and for a small country like Israel, 20,000 is possibly the equivalent of 400,000 in the United States. A major charge made against the government of Israel was that the Bank of Israel is an arm of the cabinet. That is going to change. The bank is being reorganized to become more autonomous and independent.

The State of Israel owes other governments \$24 billion. This is equal to its annual gross national product and 678 per cent more than its annual industrial export earnings. Total debt service today is about \$4 billion per year, slightly more than 40 per cent of the Israeli budget, and about 27 per cent of that is debt service to the U.S. government.

This year, Israel will repay the U.S. \$158 million in principal, and \$1 billion, 48 million in interest. Over the next several years these amounts will increase. If the repayment schedule is not changed,

by the year 2020 Israel will have paid the U.S. \$28 billion, 897 million in principal and interest. This debt is almost totally in the form of military sales credits.

Some Americans have the impression that we just give money to Israel. On the contrary, Israel has been paying prime rates when dozens of other countries – many not necessarily friendly to the U.S. – receive preferred concessionary rates. The burden of this debt and the impact upon Israel's security and stability cannot and should not be underestimated. And these purchases by Israel were made for military hardware which is being used in the front line of American defense – the Middle East. We conveniently forget that.

In total, Israel's per capita debt is the highest in the world. The frightening prospect of repaying this debt is compounded by the external forces which caused Israel to go into debt in the first place.

In the past ten years, Israel's economy was dealt three severe blows. First, the cost of petroleum sharply increased following the return of the Sinai as a result of the Camp David accords. The cost of energy imports increased from \$100 million in 1972 to \$1 billion, 500 million in 1984. About six months after the signing of the accords, I told then Prime Minister Menahem Begin that I thought Israel had gotten a bum deal. For the first time in the history of mankind, a country was literally forced – let's face it, we told them what to do – to give up lands that were acquired by conquest, lands adjacent to theirs, involved in their external security. Certainly, the U.S. gave up the Philippines, halfway around the world, but we refused to give up Puerto Rico, California, Arizona or New Mexico.

At the time the accords were signed there were other agreements, not in writing but by handshake. One told Israel to give up the Sinai oil wells and the U.S. would make certain that Israelis would not suffer from the loss. Soon after that, the whole world faced an oil crisis. Americans lined up at gas pumps and we forgot Israel's problem. Israel, not able to go to its neighbors for oil, turned to the Nether-

lands and paid the highest market prices.

Then the U.S. told Israel that we would replace two airfields in the Sinai. Construction began and so did inflation, fueled by the oil crisis. The U.S. said our agreement was strictly for the cost as of 1972. In 1972, Israeli defense spending was \$1 billion, 500 million. It is now \$4.5 billion for expenditures needed to maintain a deterrent and a defense capability against an enormous Arab buildup, financed by oil dollars and the Soviet Union. Israel has increased its defense expenditure three-fold; the Arabs, 700 per cent during the same period. The four largest importers of arms in the world today are Arab countries - Libya, Syria, Saudi Arabia, Iraq.

In 1981, I asked the Undersecretary of State for Security Assistance, James Buckley, what impact the provision of advanced military equipment, such as enhanced F-15s and AWACS, to the Arab countries would have on Israel. The official response of the government was that the threat could be met through the purchase of additional F-15s, F-16s or other mixes that the Israeli military may believe to be necessary or desirable. I told the Secretary that the implications of this policy were ominous.

Our arms sales policy will put Israel further and further into debt and will engage it in a war of economic attrition which it cannot possibly win. With their enormous oil wealth, all the Arabs have to do is to purchase more arms. Israel, already indebted, will not be able to keep up.

This is the most severe of the blows dealt to the Israeli economy over the past ten years. Gradually, Israel has mortgaged control over its economy to its creditors, the largest being the United States. The amount of principal to be paid at high interest rates for a protracted period will obviously undermine Israel's ability to deal with its current crisis.

I have a simple proposal which I've discussed with several colleagues. The interest rates in Israel's loan portfolio range from 11 to 15 per cent, all prime rates with a weighted average of 12 per cent. I propose to reduce this 12 per cent to five. We have accorded this treatment to other countries where economic conditions made repayment difficult. This amendment would not relieve Israel of its debt. Israel would continue to repay the interest, but at five per cent, reducing the interest charges over the life of the existing portfolio by \$8 billion, 417 million. That would make a significant impact on the economy of this little state, strengthening its ability to handle both emergency and long-term economic concerns. Cutting interest rates to five per cent would cut Israel's repayment to the

U.S. in half. In turn, this would reduce the need to borrow to finance debt and, at the same time, would increase the availability of funds for defense and other essential services.

And, more important, the people of Israel would be strengthened in their conviction that the United States supports them and recognizes their sacrifices for peace in the Middle East. We have been sending garbled, conflicting messages over the years. For example, our President, Secretary of State or members of Congress would say: "We stand by Israel; we will defend Israel to the last man; Israel is important; it is the only democracy." Then we sell the AWACS and the enhanced F-15s to Saudia.

It's time we sent a strong, clear, unhampered message that we stand by Israel. I think, by this proposal to cut the interest rate, that that message would be sent.

One of my colleagues called my proposal "an extraordinary and unprecedented step." But what if, for comparison, we put the Israeli appropriations under the Defense Department? We give \$129 billion to NATO compared to \$3 billion to Israel. What do we get from NATO and what do we get from Israel? When Israel gave us the secret on how to knock out the Russian SAM missile sites, that made up for more than \$4 billion. When the Israelis captured armaments enough to supply five Palestine Liberation Organization armies, that set back the Soviets for many years. We get our money's worth of intelligence information from the Mossad, versus intelligence information from NATO. There's no comparison.

Yes, my proposal *does* set a precedent - that the United States will not place an unsupportable burden on a democracy, which observes and defends human rights and which shares our fundamental values.

Along the arc of instability which stretches from Pakistan, through Iran, down to the Middle East and through the Horn of Africa, there is only one country which daily practices our own democratic principles. In the Middle East, fertile ground for tyranny and terrorism. Israel has been a constant defender of democracy - and that is defending us.

If we want Middle East stability, we must make certain that Israel remains an independent democratic nation not burdened with the debt we have been imposing.

□ *Senator Daniel Inouye (Democratic, Hawaii) is the ranking Democratic member of the Senate appropriations subcommittee on foreign aid. This article is excerpted with permission from his address at a meeting of the National Commission of the Anti-Defamation League.* ☐

RECOMMENDATION NO. 12: There is need to pass the double taxation treaty between Israel and the United States. A bill was passed in the U.S. Congress calling for the ratification of a double taxation treaty between the governments of Israel and the United States. The treaty would avoid double taxation on profits earned in Israel by American companies.

The final bill, as I understand it, was not acceptable to the Israelis. A new bill -- mutually satisfactory to the U.S. and Israel should be promulgated and passed at the earliest moment. This would encourage more American companies to open plants in Israel.

RECOMMENDATION NO. 13: There is need to expand the programs offered by OPIC in Israel. A review should be made of the programs offered by OPIC to foreign investors. I believe there are additional opportunities for expansion of these programs in Israel.

RECOMMENDATION NO. 14: There is need for the U.S. Department of Commerce to expand its programs for missions to Israel. The U.S. Department of Commerce arranges for trade missions with other governments. The following relates to a U.S. Investment Mission that was taken to Saudi Arabia by the Department of Commerce.

U.S. Investment Mission Will Visit Saudi Arabia

The U.S. Department of Commerce is sponsoring an investment mission to Saudi Arabia April 19-28, 1986, at which participants will have an opportunity to meet prospective Saudi joint-venture partners.

Saudi Arabia's commitment to increasing private sector involvement in industrialization means many investment opportunities for U.S. firms. The Saudis have money to fund industrial projects and are looking for foreign partners to bring technical and managerial expertise. Attracting foreign investment partners is a high priority for the Saudi government and is viewed as the key to the Kingdom's industrial development.

Incentives for joint ventures are many, including low-cost land, low-cost electricity, tax holidays and exemptions, and low-cost loans.

Mission participants will meet Saudis who have expressed a definite interest in forming joint ventures. Individual appointments, briefings, and social events will be scheduled to give maximum possible exposure of participants to their Saudi counterparts. The Saudis are looking for partners in a wide variety of sectors, including the following (though by no means is this an exclusive list): medical supplies and services, management services, light manufacturing, food processing, agricultural machinery, high-technology processes and products, training, and operations and maintenance. Any innovative idea will be particularly welcome in the Kingdom.

Participation in this mission will be limited and will be on a first come-first served basis. For further information, write to: Elise Kleinwaks, Saudi Arabia Desk—Room H2039, U.S. Department of Commerce, International Trade Administration, Washington, D.C. 20230.

Discussions should be held between the U.S. Department of Commerce and the Finance Minister of Israel to determine how to develop U.S. Investment Missions to Israel.

RECOMMENDATION NO. 15. There is need to develop a cooperative exchange of agricultural technology between the U.S. and Israel. Israel has developed advanced technology in the agricultural area. This relates to the growing of crops, irrigation, the protection of crops, etc.

A number of State Governors have traveled from the U.S. to Israel to review the technology developed in Israel in the agricultural area.

An example of a cooperative venture is one that has been undertaken between the State of Texas and Israel.

Texas and Israel Linked by an Agricultural Pact. Texas and Israeli agricultural officials signed an agreement that State Agriculture Commissioner, Jim Hightower, says could bring more efficient water use and other technological advances to Texas farmers. The pact calls for a Texas-Israel exchange committee, composed of Texas and Israeli civic and agricultural leaders, to work jointly on projects from which both sides can benefit.

Hightower said he expects the projects to include swaps of information and technology on water use, marketing, processing of farm products, energy and research data. Direct trade links also may be established through the program, he said.

Two tracts of land in Texas have been picked by the Israel consulting firm, Tahal, to demonstrate irrigation technology and crop production using brackish water. The sites, located in Reeves and El Paso counties, were chosen because they are similar in hydrology and climate to parts of Israel where similar land and water development projects have been successful.

This opens many opportunities for U.S. State Governments to use Israeli technology.

RECOMMENDATION NO. 16. There is need to develop programs where Israel can assist the U.S. in its Caribbean program. Many of the problems of the Caribbean countries are similar to those experienced in Israel. The U.S. Government could effectively utilize some of the Israeli-developed technology in connection with the Caribbean Basin program. Israeli companies are available to send engineers and technicians to the Caribbean in a 3-way cooperative program -- the U.S., Israel and the Caribbean country. A vehicle needs to be designed to implement this program.

RECOMMENDATION NO. 17. There is need to develop a consortium in Israel to provide food for African countries. The U.S. maintains a strong and continuing interest to provide food to Africa, largely in the Sahara area. Because of its proximity to a number of African countries where starvation is extreme, Israel can serve as a supply center for the U.S. Israel has developed plastic shelters for warehousing of food which would be appropriate for African countries. Israel has developed water resources that would be helpful to solving some of the irrigation problems in the Sahara area.

With the severe drop in prices of oil and the availability of oil, a number of African countries are no longer beholden to Arab countries for oil. Recently, several African countries have announced that they will have diplomatic relations with Israel. Other African countries -- while not officially recognizing Israel -- are doing business with Israel.

A program should be developed whereby Israel can serve as a fulfillment center for the U.S. in helping to provide food, water, medical supplies, housing, etc., for Africans in the Sahara area.

RECOMMENDATION NO. 18. The Governments of the United States and Israel should develop a program whereby Israel can assist in the development of Latin America. Israeli companies are active in Latin America. The activities are described in the following article.

Development Aid

Through the International Finance Corporation, Israeli firms are helping to develop Latin America. Julie Goldman reports.

The current Third World debt crisis

The current Third World debt crisis has revealed the bankruptcy of conventional development policy. Development is now seen to be not merely a problem of the Third World, but also a challenge to the industrial powers with which it trades. Underdevelopment is a political and economic lodestone round the neck of the entire international community; this necessitates a coordinated global response.

Israel has become involved in promoting development in Third World countries, often in concert with other industrial states and with international institutions.

Changing Israel's international role

Israel's status is unique: because her GNP per capita surpassed the maximum level in 1977/8 she is no longer considered a developing country by institutions such as the World Bank and the International Finance Corporation (IFC). As an "industrialized country", Israel is eligible to be a Part I Member, or donor, country but not a direct fund recipient. Yet with a GNP per capita of about \$6,000, Israel's volatile economic situation does not always afford her the luxury of fulfilling the role of a developed country either. Israel's own per capita debt is the highest in the world. Nonetheless, Israel's skilled human resource base gives her a potential

domestic advantage in progressive, technology-related industries. Israel's realization of this potential is a relatively recent development, as is her effort to apply this potential in markets outside the country.

In conjunction with the IFC (see box story), Israel has assumed the role of initiator for projects intended to operate in the Third World. The three joint ventures under way with the IFC are specifically designed to benefit both Israel industry and Latin American development. The strategy is to establish joint ventures coordinated by the IFC in Latin American countries by investing Israeli technology and capital. The IFC has found that Israelis work very well with Latin Americans because Israelis are innovative, assertive and skilled, as well as sensitive to the special needs of developing countries.

Two and a half years ago, Richard Richardson, Director of the Development Department at the IFC, began his efforts to get Israel involved with IFC ventures. He was impressed with Israel's maturing technological capacity, especially its sophistication, scale and applicability for development. Yet he felt that Israelis had to reorient their attitudes before they could fully appreciate their own potential. Despite Israel's technological progress, Israelis still consider their country solely a capital importer. The flow of aid and capital had previously been into the country. Realizing that Israeli technology



Richard Richardson

was well-suited for Third World applications, Richardson began a campaign to get Israelis to export capital through IFC ventures.

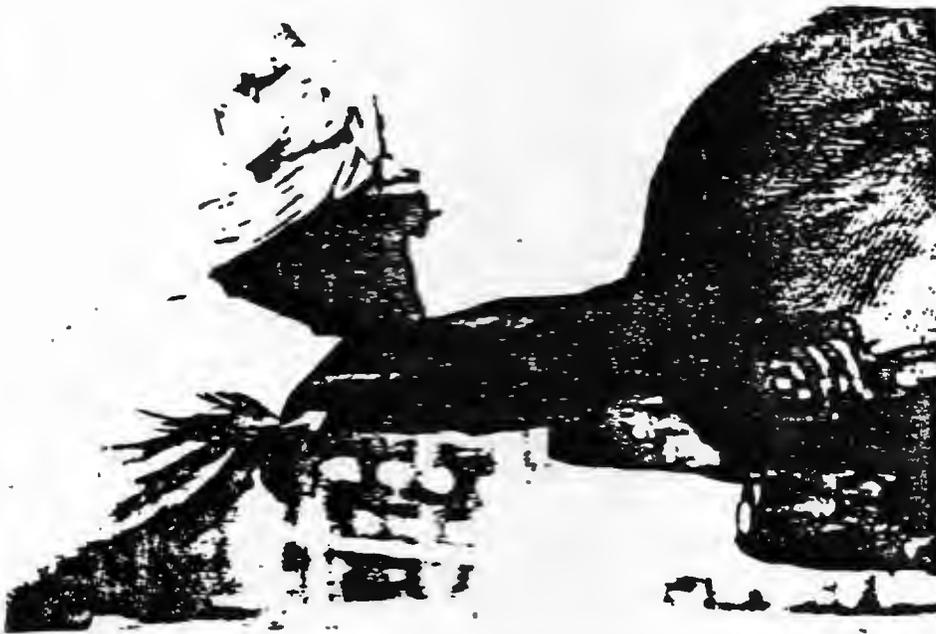
A previous problem in development was scale: many badly needed projects were too small to interest multinational corporations, yet too large for inexperienced local entrepreneurs. Since Israeli technology is designed for smaller applications, it is peculiarly valuable to small developing countries.

"In the case of Israel, the notion of capital isn't the issue, it's the underlying use of the capital," says Richardson. "Knowing how to make things work is the scarcest of skills in the world. To the extent that Israel has specialized in applying this rarest of commodities, it has developed a brand-new export that is not widely understood."

After many years of failed development attempts, Third World countries are skeptical of the motives of foreign do-gooders. In order to successfully enter the Third World market, Israelis must demonstrate that they are serious and in for the long haul. To do so they must put their money on the line by financing the technology they export. Capital export is a new concept for Israel, but it is a relatively small price to pay for expanding its technological involvement in the rest of the world.

IFC projects with Israel

The first IFC project matches Israel's technological ability in agriculture with the Dominican Republic's fertile soil. A joint venture to grow cotton in the Dominican Republic was established with Atikim of Israel, a Cial subsidiary, in 1982. In the contract, the Dominican Republic is considered as the IFC's client country and the Israelis are the foreign partners supplying 22.5% of the equity. Atikim now reports initial success in the project: half of the projected 20,000 dunams have already been cleared, leveled and irrigated. In addition, the first modern cotton gin in the country is near



completion. Once the construction and preparatory work is completed, Atikim will share all the responsibilities of managing and operating the joint venture with the local entrepreneurs.

The second project was initiated in Mexico two years ago by the Milouot Haifa Bay Settlement Company, Ltd. of Israel. Two months ago, the IFC was enlisted as a technical collaborator with Mexico as its client. This joint venture is based upon an Israeli process to extract the poisonous core from cotton seeds to make high-protein edible flour. The flour will be produced for human consumption, and may be subsidized by the Mexican government so that it can compete with less nutritious corn flour — the traditional staple. The progress reported to the project's Board of Directors (including the Mexican Development Bank, the IFC, entrepreneurs, cotton farms and Milouot) in their last meeting was promising. When completed, the entrepreneurs should benefit both the Mexican population and Israeli industry. The project is scheduled to begin full-scale operations in 1985.

The third project is a "pioneer relationship" whose new idea is not economic or scientific, but administrative. Until recently, the IFC participated in isolated ventures with local entrepreneurs and

DEVELOPMENT AID TO EGYPT

Egypt is in the process of borrowing \$700 million to develop small factories and the industrial building sector. \$500 million of this will be a loan from the World Bank (WB), Egypt's 71st receipt since 1959 (the total of all these loans exceeds \$3.3 billion).

\$130 million of the WB loan will go to the Egyptian Institute for Export Assistance to promote Egypt's natural advantage in exports of cloth, clothing, leather, wood and chemical products to Europe, Africa and the Middle East. The total of \$316 million devoted to this project will create 10,000 jobs.

\$100 million of the WB loan will fund about three-quarters of a project to provide technical aid to the industrial building sector. \$170 million of the WB loan is to create 71,000 jobs in small- and medium-sized factories in the food, textiles, furniture and building material sectors.

According to the WB report, Egypt has 7,500 small factories and 250,000 business owners, located mostly in Cairo and Alexandria. This major part of the private sector supplies 5% of all trade and services and takes slightly more than 5% of all investment funds. The aid is to be given directly to small factories, most of which are private.

At the end of August, the WB granted a separate \$59 million loan for foreign currency coverage in the building of two new power plants — one of which is Aswan II. ■

foreign investors. This venture is the first case of utilizing a "broker" who coordinates a specific development scheme for multiple projects in a number of developing countries. Now Israel is not only assuming responsibility to export capital and technology but is also using her knowledge of foreign and domestic markets to create holding companies for various development projects. The master of this innovative plan is Chaim Ben-Ezra of BEC Development (International) Inc., a consulting firm specializing in development projects. At the Bank of Israel, Hanna Weinberg has also been an active part of the Israel-IFC coordination.

The ingredients for this unique venture are IFC support, Israeli know-how and capital and the interest of the developing country and its entrepreneurs. Using the resources from these three components, detailed knowledge of what is necessary and useful in developing countries may be planned and coordinated in advance. By providing immediate access to funding, to the appropriate technological resources and to the domestic base, the network carefully matches the ingredients, forming what Richardson calls "marriages". The term applies because the matches are specific and specialized, coupling suitable partners for lasting joint ventures. Richardson is very excited about this project and its implications. He notes that "these plans are for a project whose nature is of unlimited scope and potential for the future." The IFC intends to expand the concept and to apply it in various developing countries.

Chaim Ben-Ezra's prototype concentrates on Latin America, since previous Israeli experience demonstrates that the climate, scale and development needs in the region are suitable for Israeli technology. The purpose of the plan is to reduce the chosen countries' dependence on imports of manufactured goods and agro-industrial goods, while simultaneously increasing exports of locally manufactured products. By offering both direct assistance and incentives, the program seeks to mobilize the private entrepreneur in Israel and Latin America. According to Ben-Ezra, "It is BEC's hope that the services and investments rendered by the holding company will constitute a very substantial leverage for the incorporation of local private initiative and the creation of a strong, economically viable infrastructure, which will nurture successful development of the projects in the program. The program is structured and designed so as to serve as a simple, practical tool for the rapid development of new industries in Latin America."

The BEC program aims to centralize activities in order to minimize the obstacles commonly encountered in development projects. Ben-Ezra recognizes that even when financing is available, many worthwhile projects are scuttled because private entrepreneurs are too disorganized to coordinate investment projects. Among

the more common problems are poor organizational structure, incomplete technical or economic data, fuzzy or inconsistent development objectives, and bureaucratic pitfalls, especially in not being able to obtain permits and approvals. Through a tiered system of holding companies, the program intends to orient foreign entrepreneurs towards the establishment of industrial plants in developing countries in collaboration with local entrepreneurs.

The Holding Company program

The program is targeted for implementation in six countries: Colombia, Jamaica, the Dominican Republic, Peru, Costa Rica and Panama.

A regional holding company has been established through an equal partnership between the IFC and BEC Development (International) Inc. Investment by the IFC is channeled through the regional holding company. In turn six local holding companies are established in each of the chosen countries. The local holding company is 40%-owned by the regional holding company and 60%-owned by local investors; it functions as the promoter of each project. The investment required in each country is approximately \$30 million, which is allocated among 10 sub-projects in various industries according to the specific conditions in each country.

The sub-projects are composed of 25% equity and 75% loans. Of the equity figure, Israeli industries supply 15% of the capital, the local holding company 25% and local investors 60%. Each of the ten industries requires an investment of between \$1 million and \$5 million. According to Ben-Ezra, instead of using the funds to create one giant project, the money was divided among 10 smaller ventures to avoid concentrated risk and expand the benefits over a broader base. All of the sub-projects utilize technologies developed in Israel, and this means they can serve as a showcase, expanding Israel's access to other international markets. Examples of products and industries applied in the projects include food emulsifiers, cotton complexes, water meters, water irrigation systems and equipment, and computerized irrigation systems. All the planned industrial projects are scheduled to be in operation within two years.

The Israeli concerns were chosen to fit the prerequisites set by the holding company and the local investors. The Israeli industries must commit themselves to share in building, operating and managing of the new plants, as well as training the workforce and assisting in technology transfers and marketing.

The holding company will coordinate its activities with each national government and central bank to make sure that the industries that are installed fit national priorities. This is designed to give the holding company offer a relatively free hand to offer incentives and head off bureaucratic snarls. The holding company also assumes responsibility for the various expenses incurred throughout project preparation.

BEC Development (International) Inc. is involved in every stage of development until the plant is erected and operating. For the technical and economic aspects of the project, the regional holding company employs consulting firms to conduct preliminary evaluations, feasibility studies and final implementation plans.

In addition, BEC prepares a profile of each industry considered for the sub-projects. The profile includes a preliminary economic analysis indicating the purpose of the proposed products, the type of technology recommended, the required investment, the scope of labor needs, the anticipated volume of production, the marketing channels and the organizational structure. A catalogue of the prospective companies is compiled according to the economic analysis and profile. The catalogue, which currently has 40 Israeli listings, serves as the basis for selecting catalogue, which currently has 40 Israeli listings, serves as the basis for selecting the most appropriate industrial plants for the chosen countries. Once the catalogue is prepared, a task delegation is established by BEC professional consultants and local coordinators to manage the project.

Progress Report

The progress of the program may be plotted in terms of four stages, three of which have already been successfully completed. The initial stage entailed organizing the background material in Israel; this involved prefeasibility studies and contracts to locate Israeli investors. The 40 Israeli concerns listed in the catalogue have all been approved by the Bank of Israel.

The second stage was the creation of the relationship between the IFC and BEC. This required establishing the regional holding company in accordance with IFC procedures.

In the third stage, BEC and the IFC entered the six countries in order to found the local holding companies. This entailed locating potential local partners for each proposed sub-project.

The culmination of the preparatory stages is to be realized in the fourth stage, when the sub-projects are ready for construction. The programs in Colombia, Jamaica and the Dominican Republic are the first to approach this point. Eight ventures are on the verge of final agreement and six more are in advanced stages of negotiation. Progress in the three remaining countries depends on current results in the more advanced projects.

Future implications

Richardson believes that Israel is one of the few countries that have the background, capacity, and skill to carry out this sort of program. He feels that Israel's role as an industrialized country assisting the development of Third World nations with the appropriate technologies may be expanded. Other countries know Israel has planted thriving farms and factories in

marshland and desert. This example spurs them on to similar feats.

Richardson argues that this new approach to development is a significant breakthrough for Israel and the Third World. He states, "The issue is finding concrete, specific opportunities that are natural and obvious to both the exporting firms in the developed country, in this case Israel, and to the partner in the developing country."

Israel is the first case of a direct partnership such that a Part I Country (industrialized donor in IFC membership), in collaboration with the World Bank, is undertaking to encourage a conscious

effort to develop an emerging country," says Richardson. "This involves arranging and organizing potential projects and searching for what is to be developed. If Israel succeeds in its task — which is politically tricky, as well as administratively complex — it would be a great asset to this country."

Besides putting a new feather in the cap of Israel's diplomats, who are keen on cultivating good relations with Third World countries, capital and technology export gives Israelis a different self-image. By helping others up the development ladder, Israel can better appreciate how far it has risen. ■

THE INTERNATIONAL FINANCE CORPORATION

The International Finance Corporation (IFC) is the world's largest multilateral organization financing private-sector business in developing countries. The Corporation is owned and directed by its 124 member countries (including Israel), over 100 of which are considered "developing". In order to qualify as a fund recipient, a member country must have a per capita GNP of less than \$2,600.

Although it is affiliated with the World Bank and the International Development Association, the IFC is a separate entity with its own staff, funds and procedures. The Corporation's special role is to help mobilize resources on commercial terms for business ventures and financial institutions where a market-oriented approach is both applicable and preferable. Unlike the World Bank, the IFC may provide equity, loans, convertible debentures, underwritings and standby commitments without requiring government guarantees. The Corporation can contribute up to 25% toward the finance costs of a project, which normally require between \$1 million to \$50 million. All IFC loans and investments are untied; the only requirement is that they be used in a member country or Switzerland.

The Corporation's involvement in a project is intended to supplement, not replace, private investment and initiatives, by aiding ventures in the private sector that would otherwise be held back due to a lack of funds. Over half of the IFC-assisted ventures in developing countries are financed by local investors and financial institutions.

As an international institution, the IFC has contact with an extensive and constantly growing network that enables it to coordinate local and international entrepreneurs, investments, capital and production. Forging mutually satisfactory arrangements among participants working together for the first time, its presence enhances credibility, raises confidence and provides reassurance to private investors. In addition, the IFC may provide technical and legal assistance.

The Corporation evaluates both the short- and long-term implications of potential enterprise. It will enter a project only if there is a benefit to the economy of the host country, if there is a prospect that the venture will earn a profit, if there is a provision for immediate or eventual local participation and if the host government does not object.

For each prospective investment, both the economic rate of return and the potential contribution to development is assessed. In order to attract the business and financial partners and to turn over its capital by selling its investments, the IFC must be confident that an enterprise is financially sound and potentially profitable without compromising its standards of development. Earnings from investments defray administrative costs and support technical assistance and programs of project promotion. The Corporation also takes precautions to ensure that foreign exchange will be available to service IFC loans and other repatriation requirements.

Since its establishment in 1956, the IFC has been associated with over 2,000 companies and financial institutions in supporting over 700 business ventures in more than 80 countries, at a total cost in excess of \$24 billion. Currently, its authorized capital, subscribed by its member countries, is \$650 million and its portfolio of loans and equity investments is worth nearly \$118 billion in approximately 320 companies spread over 70 countries. The average number of IFC projects has been growing by more than 10% annually. Additional resources are available to the Corporation from accumulated earnings, repayments, selling investments and borrowing from the World Bank.

Richard Richardson, director of the Development Department at the IFC, offered this explanation of the Corporation's role: "Our job is to put ourselves out of a job. We should be going ahead of the crowd, and when they follow, there's already no reason for us to be there." ■

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