

### III. TRADE POLICIES AND PRACTICES BY MEASURE

#### (1) OVERVIEW

1. Since the previous review conducted in 1994, Israel has slowly but steadily moved towards a more open trade and trade-related policy regime. MFN tariffs have been lowered according to a pre-announced unilateral trade liberalization programme. The share of imports entering at preferential rates has increased, as has the share of imports that enter Israel duty free. Within the framework of its WTO commitments, Israel has modernized its customs valuation legislation. Another noteworthy development is mandatory standards that are increasingly being aligned with international standards. Competition issues have received increased emphasis as border protection has gone down and privatization has moved ahead. However, the role of the State continues to be extensive in many areas. Some retail prices are still under government control; regulations on several elements of preferences on government procurement have been introduced since 1994.

2. Israel's average applied unweighted MFN tariff (excluding ad valorem equivalents, AVEs) has fallen slightly from 8.3% in 1993 to 7.6%; including AVEs the simple average tariff now stands at 8.8%. As a result of the Uruguay Round and the "tariffication" process, overall tariff protection for agricultural products has increased substantially. The average tariff for agricultural goods (whether calculated on HS chapters 1 to 24 or the Uruguay Round definition) has risen more than two and a half times since 1993, while tariff protection for industrial goods has declined. In recent years Israel has introduced seasonal tariffs and tariff quotas and there is a continued imposition of a wide range of end-use provisions (providing a reduced tariff for specified end-users), which can pose a transparency problem. At the same time, with respect to many of the tariff quotas, the concessional rate is not lower than the applied MFN rate, thereby making the system effectively redundant. As a result of the Uruguay Round and the more recently concluded Information Technology Agreement (ITA), Israel bound the rates on just over half of the tariff lines. The bound rates are often well above the applied MFN rates, giving to Israel the necessary flexibility to unilaterally increase its applied tariffs, but introducing a significant element of uncertainty for the business community. Israel has not been an active user of its anti-dumping legislation, nor has any countervailing or safeguard measures been taken during the period under review.

3. In practice most importers are not liable to the MFN applied tariff. The major trading partners, i.e. the United States, the European Union (EU) and the European Free-Trade Association (EFTA), receive duty-free status in the Israeli market under free-trade agreements, and only about one quarter of Israel's imports are subject to MFN applied rates. Preferences under these agreements mainly concern industrial products. The importance of preferential trade is also indicated by the difference in the simple average applied tariff and the collection duty rate (i.e. customs duty revenue divided by imports); while the simple average applied 1999 MFN rate (including AVEs) is 8.8%, the collection rate was only 1.0% in 1998.

4. Israel's non-tariff border measures remain an impediment to trade. The systems of import and export licensing, prohibitions, and quotas remain complex and the measures are frequently employed.

5. Most imports, like domestic products, are subject to heavy purchase taxes and value-added tax, while certain items (such as fuels and tobacco) are subject to additional taxes. The base on which purchase taxes are calculated is the wholesale price; for domestically produced goods the wholesale price is that declared by the producer whereas importers may use the declared wholesale price or an average mark-up (TAMA), which is a statistical estimate of the difference between the import and wholesale price. The "wholesale price" option has been available to importers since 1991 but has not often been used.

6. During the period under review, Israel has undertaken important reforms in the areas of customs and standards. Israel has changed its customs valuation practices from the Brussels Definition of Value to the transaction value. Moreover, on 1 January 1998, Israel abolished the "harama" system, which artificially increased the value of most imports by 2-10% before the tariffs were imposed, thus increasing the rate of indirect taxes paid by foreign importers and making foreign products more expensive in the Israeli market. Clearance procedures for imports have improved since 1994 as a modernized customs system, under which part of the clearance procedure takes place directly in the customs broker's office using an electronic communications systems, has been fully implemented. As a result, almost 90% of imports are cleared within 20 minutes; the remaining 10% are cleared on the day of acceptance of the declaration of goods. Israel has removed more than 200 mandatory standards that acted as non-tariff barriers.<sup>1</sup> Mandatory standards are increasingly based on international standards. Currently, about one quarter of the mandatory standards are equivalent to international standards.

7. Over the past few years, competition issues have become more central to the economic, legal and political discourse in Israel. While some state-economic enterprises remain as government monopolies (telecommunications, water, electricity and refineries), the privatization process has necessitated the upgrading of competition policies to prevent abuse of dominant positions and similar problems. The key legislative changes in this area include the amendment to forbid the abuse of dominant position, mirroring the relevant EU legislation; the introduction of private class action; and the establishment of an anti-trust authority as an independent agency.

8. Israel's state aid system, mainly of tax exemptions and cash grants, remains complex; several schemes run in parallel. These subsidies are not only costly from a fiscal point of view, equivalent to some 8.6% of GDP in 1996 (most recent data available), but may also create some distortions in the Israeli economy. Another instrument of government intervention is price regulation. Retail prices, constituting some 18% of the consumer price index, remain under the control of the Government. Moreover, government procurement rules continue to benefit domestic producers at the expense of taxpayers. Several elements of preferences in the Israeli government procurement framework have been legalized since the previous Review.

9. On intellectual property rights (IPRs), Israel is in the process of amending its laws to comply with its TRIPs obligations; Israel has invoked developing-country status with respect to the TRIPs Agreement, which means a transition period up to 1 January 2000 to bring its legislation into conformity. In the past enforcement has been a problem; since May 1999, a special police unit dedicated to the enforcement of intellectual property rights has been in operation.

## **(2) MEASURES DIRECTLY AFFECTING IMPORTS**

### **(i) Customs procedures**

10. Israel's legislation on customs valuation, the Customs Ordinance of 1957, has been amended since the completion of the Uruguay Round, to bring it into conformity with the provisions of the WTO Agreement on Customs Valuation (Agreement on Implementation of Article VII of GATT 1994). Israel invoked the special provisions for developing countries, under the Agreement, relating to computed value (Article 20.2), to the customs administration's right to switch the order of valuation methods 4 and 5 (Annex III, paragraph 3), and to the right to use processed imported goods

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<sup>1</sup> Ministry of Industry and Trade (1998b), p. 3.

under the deductive value, whether or not the importer requests it (Annex III, paragraph 4); according to the authorities, Israel has implemented the Customs Valuation Agreement since January 1998.<sup>2</sup>

11. Since its previous review in 1994, Israel has changed its customs valuation practices. Prior to 1998, Israel followed the Brussels Definition of Value, under which the value of imported goods was the "value of the goods on the open market on the day when they are released from the custom authorities".<sup>3</sup> Under the amended Israeli legislation (Customs Ordinance Amendment (No. 15) Law, 5758 - 1997), the transaction value is now the basis for customs valuation. The transaction value is defined as the price paid or payable for the goods when they were sold for export to Israel, adjusted to reflect some costs and services not already included in the price incurred by the buyer. The costs and services include those for fees and commissions, other than buyers commissions; containers; packaging; royalties and licence fees; transportation to the ports; loading, unloading and handling; and insurance. Ad valorem duties are applied on the cost, insurance and freight (c.i.f.) value of imports; for goods subject to specific duties on a weight basis, the dutiable weight is the net weight.

12. Israel's legislation on customs valuation practices was reviewed in a meeting in the WTO Committee on Customs Valuation in November 1998. During this process, and during subsequent meetings, questions were raised regarding the rules for the inclusion in the customs value of costs related to engineering, development, artwork, design work, plans and sketches. While the Agreement on Customs Valuation allows for the exclusion of these items if they are produced in the country of importation, the Israeli legislation referred to the inclusion of these costs even if they were undertaken in Israel (the country of importation). Furthermore, questions were raised regarding the rules for the inclusion of income from the sale or use of the goods in the customs value. According to the Agreement, this income should only be added to the customs value on the basis of objective and quantifiable data.<sup>4</sup> According to the authorities, Israel acts in accordance with Article 8.1(c) of the Agreement; the questions raised stemmed from translation problems, which have since been corrected and submitted to the Committee.<sup>5</sup>

13. On 1 January 1998, Israel abolished its "harama" (meaning "uplift") system. Harama was applied at the pre-duty stage to the c.i.f. value of products to bring the value of the products to an "acceptable" level for customs valuation. For purpose of calculating duty, as well as other taxes, the Israeli Customs Service uplifted the value of most products imported by exclusive agents by 2% to 5%, and by 10% or more for the value of other imports.<sup>6</sup> This had the affect of increasing the rate of indirect taxes to be paid by foreign importers, thereby tending to make foreign products more expensive in the Israeli market.

14. Israel's customs appeals procedures have not changed during the period under review. The procedures are laid down in Chapter 8 of the Customs Ordinance of 1957. Appeals, which are first made to the High Customs Authority and then to the Courts, are available to aggrieved parties for any customs decisions. According to available information, most appeals are settled within three months.

15. Customs clearance procedures are the same for MFN and preferential imports. In 1994, Israel began to implement a modernized customs system, under which part of the clearance procedure took place directly in the customs broker's office using an electronic communications system. The system is now fully computerized and all customs brokers are linked to the customs authorities. All imports

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<sup>2</sup> WTO document G/VAL/W/29, 4 November 1998.

<sup>3</sup> GATT (1995a).

<sup>4</sup> WTO document G/VAL/M/9, 28 January 1999.

<sup>5</sup> WTO document G/VAL/N/1/ISR/1/Corr.1, June 1999.

<sup>6</sup> USTR (1998).

are processed by computer. Almost 90% of imports are cleared within 20 minutes and most of the rest are cleared on the day of acceptance of the declaration of goods. The clearing time depends on the inspection method used. Inspection of imported goods is based mainly on risk assessment and to a much lesser extent on random selection. No provisions are available for clearance prior to the landing of the imports. The documentation can, of course, be prepared in advance. Preshipment inspection is not a mandatory requirement.

16. Goods landed in Israel may be left in the port or placed in public bonded warehouses or other places approved by customs. A port storage fee is charged after six days on goods weighing ten tonnes or more and after 30 days on goods weighing less than ten tonnes.

(b) Registration and documentation of foreign trade activity

17. The basic documentation and registration requirements for goods imported into Israel has remained unchanged since Israel's last review. Goods entering Israel must be accompanied by a detailed commercial invoice in three copies. Exporters to Israel are allowed to use their own commercial invoice, as long as they include all the necessary information, including country of origin; date of issue; names and addresses of the seller and buyer; a description of the goods, quantity or measure; the gross, net, and shipping weight; the transaction price or value and; terms of shipping dispatching and payment. In addition to the commercial invoice, imports also have to be accompanied by a bill of lading in two copies (or an air waybill in the case of air cargo shipments). Import declaration forms, available free of charge, are the same for all imports. There are no express provisions for consular endorsement.

18. A packing list is required only if an import shipment contains more than one package, if the invoice does not specify in detail the contents of each package, or if it is requested by the freight forwarder, the importer, or the shipping company.

19. In addition, imports of meat require a Kosher certificate, which can be obtained from the Chief Rabbinate;<sup>7</sup> costs for obtaining Kosher certificates are reported to be significant.<sup>8</sup> Special certificates from appropriate officials or authorities in the country of origin are required for shipments of live animals, liquors and whiskey, frozen meat, hides, and animal parts; import permits obtained before shipment are required for most plants and plant materials, fresh fruit, vegetables, certain dried fruit, nuts, cut flowers, logs and lumber. In addition, phytosanitary certificates (issued by the appropriate authority or authorities in the country of origin) are required for all plants and plant material for which import permits are required.<sup>9</sup> In order to benefit from preferential duty-free treatment under one of Israel's free-trade agreements, each shipment must be accompanied by a certificate of origin signed by the exporter. Exporters may print their own certificates of origin, or purchase them from the Export Institute, the Manufacturers Association or the Chamber of Commerce or any other body. Certificates of origin for items destined for the EU, EFTA, the Czech Republic, Hungary, Poland, Slovakia and Turkey are stamped by the Israeli customs free of charge. For Canada and the United States, certificates of origin are self-declaratory.

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<sup>7</sup> Kosher refers to those foods than can be eaten in accordance with Jewish dietary laws, in particular the separation of meat from milk. Companies that wish to obtain the Kosher certificate must comply with these dietary laws and be approved by the Chief Rabbinate (GATT, 1995a).

<sup>8</sup> European Union (1998).

<sup>9</sup> Dun & Bradstreet (1998).

20. Israel has no registration requirement for importers. For items requiring import licences or permits, the importer must apply for the licence according to the procedures and regulations of the issuing authority. Importers must be registered with the Customs Authority to benefit from the possibility of declaring the wholesale price of their products for the payment of purchase taxes. Anyone may be registered for the purpose of importation with a declaration of wholesale price, subject to purchase tax, or the TAMA, provided that the person has imported goods to a value of over US\$50,000 in the present calendar year and has not been convicted of a tax offence in the past five years.

(c) Rules of origin

21. Israel does not apply rules of origin to imports from MFN sources. However, within the framework of several preferential trade agreements Israel applies rules of origin, based on minimum-value criteria or the principle of substantial transformation, or tariff classification change (Table III.1). All the recently concluded free-trade agreements contain identical rules of origin, based on changes in tariff classification under the Harmonized System, in accordance with the new European Union rules, in order to facilitate cumulation of origin within the EU and with other countries maintaining free-trade agreements with the EU. According to the authorities, Israel is expected to be part of the diagonal cumulation of origin system for industrial goods, allowing traders to use originating material from any country within the zone – EU, EFTA, and Central and Eastern European Countries (CEEC) – to produce an originating product while retaining preferential origin.<sup>10</sup>

Table III.1  
Rules of origin

Agreement	Rules of origin
European Union	Sufficiently worked or processed based on conditions set out in the "processing list" (tariff shift and/or added value)
European Free Trade Association (EFTA) <sup>a</sup>	Sufficiently worked or processed based on conditions set out in the "processing list" (tariff shift and/or added value)
United States	Substantial transformation and minimum 35% of the value of the materials produced including the direct costs of processing
Jordan	Based on a change of tariff item at the HS six-digit level and 35% added value
Canada	Sufficiently worked or processed based on conditions set out in the "processing list"
Turkey	Sufficiently worked or processed based on conditions set out in the "processing list" (tariff shift and/or added value)
Czech Republic, Hungary, Poland, Slovenia, and Slovak Republic	Same as with Turkey

a Member countries are Iceland, Liechtenstein, Norway and Switzerland.

Source: Information provided by the Israeli authorities.

(ii) Tariffs and other border levies

(a) Forms of tariffs

22. Since January 1988, Israel's tariff classification has been based on the Harmonized System (HS) and the 1996 revision of the HS has been implemented as of 1996. Out of the 9,842 tariff lines at the HS eight-digit level in the Israeli Tariff (1999), *ad valorem* duties are levied on 86% of the total tariff lines, while non-*ad valorem* duties apply to 14% of the tariff lines, which is about the same as in 1993. Specific duties (expressed as a fixed monetary amount per quantity), applying to 70 items, are most frequent in the HS sections covering live animals and animal products (40% of the specific rates), and prepared food, etc. (26%). Compound duties (comprised of *ad valorem* and specific

<sup>10</sup> WTO (1997).

duties) are levied on 250 items, including live animals and animal products (45% of the compound rates), and textiles and textile articles (34%). Alternate duties (either *ad valorem* or specific or compound, according to the threshold level of the duty in the heading "not more than" or "not less than") are levied on 1,004 items, mainly textiles and textile articles (64% of the alternate duties), and vegetable products (13%). The authorities have indicated that steps are being taken to replace specific, compound and alternate duties with *ad valorem* duties such that by 1 September 2000, only *ad valorem* duties will be applied on Chapters 25-97.

23. The following tariff analysis is based on *ad valorem* equivalents (AVEs) made available by the authorities to the Secretariat. AVEs were calculated as the value of customs duty actually paid on the MFN rates for all relevant shipments in 1997 (figures for 1998 were not yet available), divided by the value of these shipments. For 536 items no AVEs were available, as there was either no import in 1997 or there was a change in classification; these items have been excluded from the analysis.

(b) Tariff levels (applied rates and bindings)

24. With most products from the United States, the European Union and the European Free-Trade Association receiving duty-free status in the Israeli market, relatively few of Israel's imports are subject to customs duties. Tariffs on imports from countries that do not have a free-trade agreement with Israel are being lowered under a nine-year liberalization programme, which started on 1 September 1991: on the first day of September each year, tariffs were lowered in equal proportion on a straight-line basis by one fifth or one ninth of the rate prevailing the previous year depending on the term. However, tariffs on textiles and other sensitive items were to be reduced over a seven-year period, which ended in 1998, or a nine-year period, which ends in 2000. A proposal approved by the Government in 1994 to reduce import tariffs over a seven-year period on food products - which had previously been largely excluded - was implemented on 1 January 1996. Maximum tariffs duties of 12% on industrial products (HS 25-97) (compared to 110% in 1991) are envisaged by September 2000, at the latest.

25. Since its last review, Israel has lowered its simple average MFN tariff (excluding AVEs) from 8.3 to 7.6% (Table III.2); including AVEs the simple average tariff now stands at 8.8%.<sup>11</sup> However, tariff averages by sector have evolved in different directions. As a result of the Uruguay Round and the "tariffication" process, overall tariff protection for agricultural products has increased substantially. The average tariff for agricultural products (whether calculated on HS chapters 1 to 24 or the Uruguay Round definition) has risen more than two and a half fold since 1993, while tariff protection for all industrial products has declined somewhat. Under an HS section classification, the tariff profile (including AVEs) shows peaks for live animals and animal products, vegetable products, works of arts etc., prepared food etc., and textiles and textile articles (Chart III.1). Sectoral tariffs are discussed in further detail in Chapter IV.

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<sup>11</sup> Israel accords at least MFN treatment to imports from all trading partners, including countries not members of the WTO, but all shipments from non-MFN members require import licences.

**Table III.2**  
**Summary of the Israeli MFN tariff structure, 1993 and 1999**  
(Per cent)

	Mid-1993	1999	
	Excluding AVEs <sup>a</sup>	Excluding AVEs <sup>a</sup>	Including AVEs <sup>b</sup>
Number of rates	85	128	481
Whole economy (simple average)	8.3	7.6	8.8
Standard deviation (whole economy)	10.9	13.7	15.8
Duty-free lines	44.3	44.1	43.8
Maximum tariff	100	250	250
Domestic tariff "spikes" (over three times the overall tariff average)	9.0	3.6	6.8
Share of <i>ad valorem</i> rates	85	86	86
Collection rate (c.i.f. customs duty revenue divided by imports)	2.1	1.0 <sup>c</sup>	1.0 <sup>c</sup>
<b>By sector:</b>			
By HS: Agriculture (HS 1-24)	6.9	19.9	21.9
Uruguay Round Agriculture <sup>d</sup>	7.3	20.2	22.0
Industry (HS 25-97)	8.5	5.7	6.6
By ISIC: Agriculture (ISIC group 1)	5.0	20.8	23.2
Mining and quarrying (ISIC group 2)	0.3	0.3	0.3
Industry (ISIC group 3)	8.5	7.1	8.2

a Specific rates have been excluded from the analysis and the averages for combined and alternate rates have been calculated on the basis of the *ad valorem* component of such rates.

b *Ad valorem* equivalents (AVEs) of specific, combined and alternate rates were calculated by the authorities as the value of customs duty actually paid on the MFN rate in 1997 divided by the import value of these shipments.

c 1998 data.

d HS chapters 01-24 less fish and fishery products (HS 0301-0307, 0509, 1504, 1603-1605 and 230120) less some selected products (HS 290543, 290544, 3301, 3501-3505, 380910, 382360, 4101-4103, 4301, 5001-5003, 5105-5103, 5201-5203, 5301, and 5302).

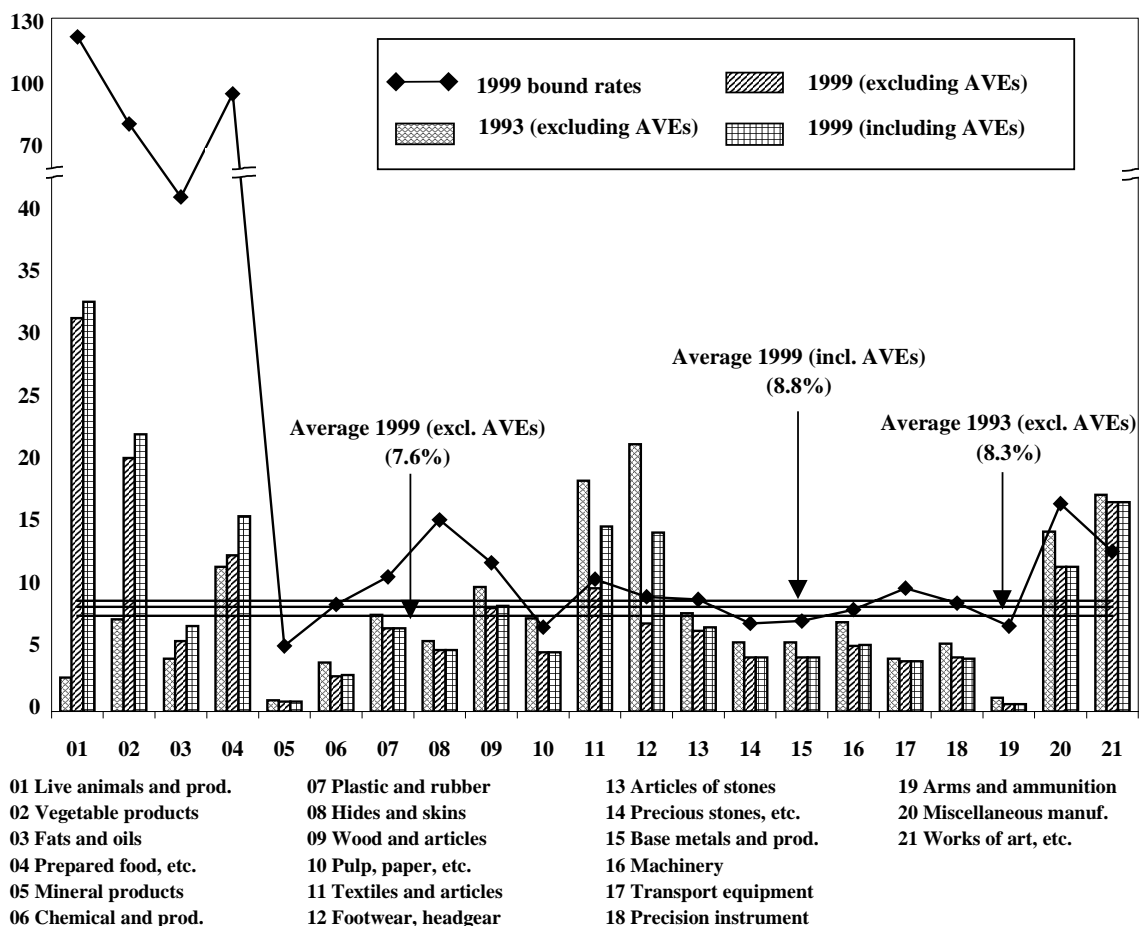
Source: WTO Secretariat based on data provided by the Israeli authorities.

26. Before the conclusion of the Uruguay Round negotiations, Israel's bindings covered around 12% of tariff lines in the old classification. As a result of the Uruguay Round and the Information Technology Agreement (ITA), some 53% of Israel's tariff lines were bound; all agricultural lines (Uruguay Round definition of agriculture) and some 46% of non-agricultural goods were bound. The share of bound lines by HS section is presented in Chart III.2. At the end of the implementation period (2005), bound rates will range from 0 to 560% on agricultural goods, while bound rates on non-agricultural goods will range from 0 to 272%. Applied rates are generally well below the bound rates in 1999, and even lower than the final bound rates to be in place in 2005, thus allowing Israel the flexibility to modify its imports tariffs while remaining in line with its WTO commitments. MFN tariffs shown in Chart III.1 include all tariff lines, bound and non-bound. It should be noted that in some categories only few lines are bound and/or the applied tariffs on non-bound products differ substantially from bound rates. Thus in some sections - textiles and textile articles, footwear, headgear, etc., and works of art, collectors' pieces and antiques - the applied 1999 MFN rates appear to be higher than the bound rates, but this is a reflection of the fact that few lines are bound while a much larger number of lines, included in the calculation of applied rates, are unbound. Details on Israel's tariffs and bound rates by the end of the implementation period are provided in Table AIII.1.

Chart III.1

Applied MFN tariffs 1993 and 1999 and bound rates 1999, by HS section

Per cent

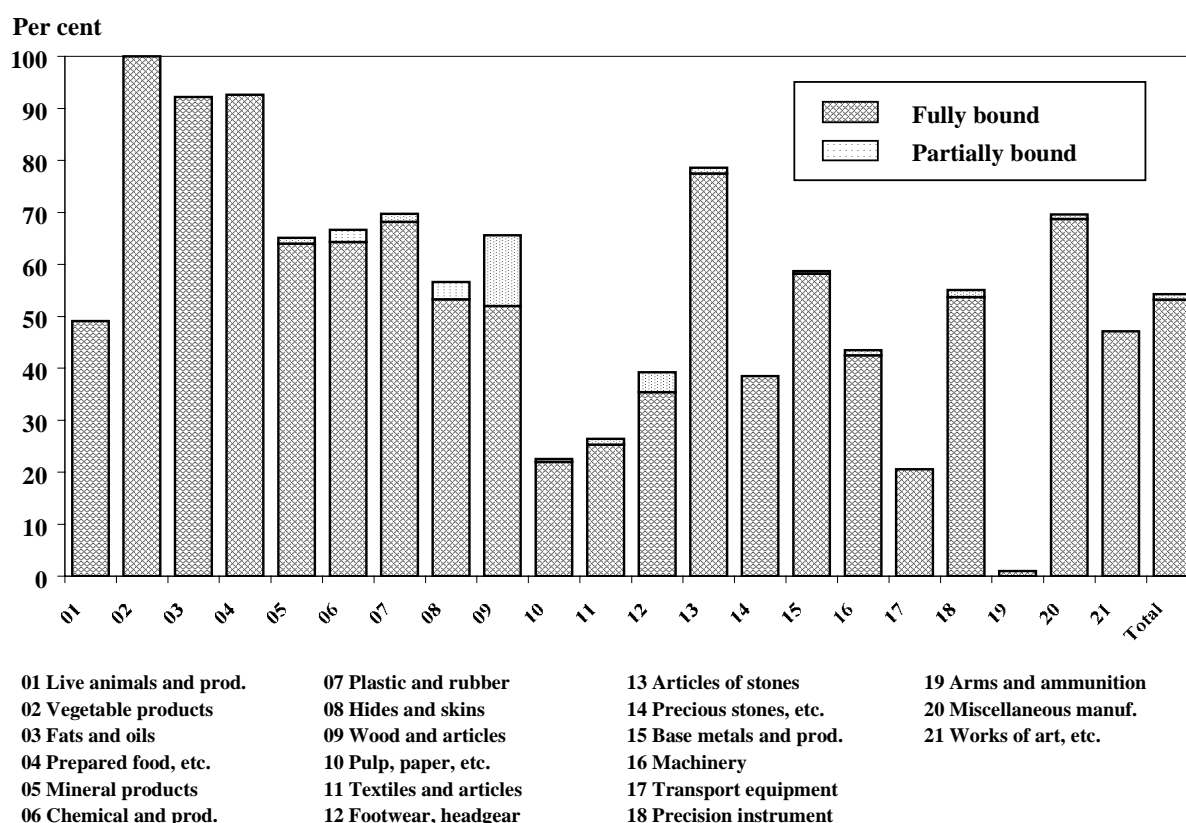


Note: For 1993 and 1999 (excluding AVEs), specific rates have been excluded from the MFN tariff analysis and averages for compound and alternate rates have been calculated on the basis of the ad valorem component of such rates. The bound rate analysis includes Israel's commitments under the Information Technology Agreement (ITA).

Source: WTO Secretariat based on information provided by the Israeli authorities.



**Chart III.2**  
**Share of bound tariff lines by HS section, 1999**



**Note:** The bound rate analysis includes Israel's commitments under the Information Technology Agreement (ITA).

**Source:** WTO Secretariat based on information provided by the Israeli authorities.

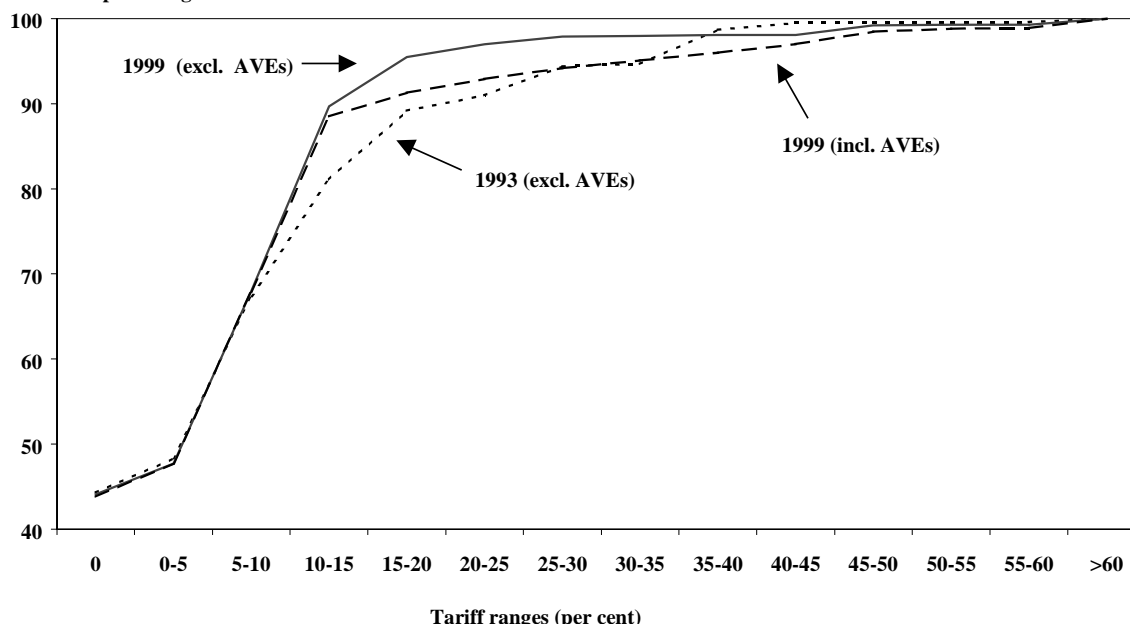
(c) Tariff dispersion

27. From an economic welfare point of view, a uniform tariff system is preferable to a tariff structure with wide disparities in tariff levels. The lower tariff dispersion, the more economic agents act according to market signals, thereby allowing a more efficient resource allocation. Moreover, a uniform tariff system is easier to administer and provides increased transparency. It also reduces the incentives to under-invoice imports. Another argument for a uniform tariff system is that it may reduce rent-seeking pressures on government officials. The dispersion of applied MFN tariffs in Israel, as measured by the overall standard deviation, has risen since 1993 due to "tariffication" in agriculture and fisheries (Table III.2). Moreover, tariff dispersion (including AVEs) is higher in agriculture (32.2 percentage points calculated on HS 1-24) compared to industrial products (9.4 percentage points calculated on HS 25-99). As in 1993, the distribution of applied MFN rates (including AVEs) is highly skewed towards the lower rates, with rates between 0 and 5% covering about 48% of the tariff lines (Chart III.3). The maximum tariff has increased since 1993 from 100 to 250%. Domestic tariff "spikes" (over three times the overall average) apply to less than 7% of the tariff lines.

Chart III.3

## Tariff structure by cumulative frequency distribution, 1993 and 1999

Cumulative percentage share of tariff lines



**Note:** For 1993 and 1999 (excluding AVEs) specific rates have been excluded from the analysis and averages for compound and alternate rates have been calculated on the basis of the ad valorem component of such rates.

**Source:** WTO Secretariat based on information provided by the Israeli authorities.

## (d) Tariff escalation

28. In 1993, Israel maintained a tariff system with lower rates on unprocessed products than on semi-processed or final goods, thereby providing higher levels of effective protection to the manufacturing sector than that reflected by the nominal rates (Table III.3). However, during the review period, tariff escalation has not been maintained in all stages of processing. Overall, the tariff displays negative escalation ("de-escalation") from raw materials to intermediate goods, implying lower effective protection for the next stage of processing than is evident from the nominal rates, unless intermediate goods producers are able to secure concessional rates to offset the higher rates on their material inputs. Under an ISIC two-digit classification, de-escalation from raw materials to intermediate goods is most evident (expressed in absolute differences in tariffs) in food, beverages, and tobacco industries (Chart III.4). On the other hand, overall, the tariff displays tariff escalation in the stage from intermediate to processed goods; this is most pronounced in sectors such as manufactures of food, beverages, and tobacco; and textile, wearing apparel and leather industries.

**Table III.3**  
**MFN tariff (simple average) by stage of processing, 1993 and 1999**  
(Per cent)

	Mid-1993	1999	
	Excluding AVEs <sup>a</sup>	Excluding AVEs <sup>a</sup>	Including AVEs <sup>b</sup>
All products	8.3 (10.9)	7.6 (13.7)	8.8 (15.8)
<b>By stage of processing:</b>			
Raw materials	3.0 (7.6)	12.9 (23.3)	14.2 (6.8)
Intermediate goods	7.1 (10.2)	4.1 (5.7)	4.3 (6.2)
Processed goods	9.7 (11.3)	8.6 (14.1)	10.2 (16.5)

a Specific rates have been excluded from the analysis and the averages for combined and alternate rates have been calculated on the basis of the *ad valorem* component of such rates.

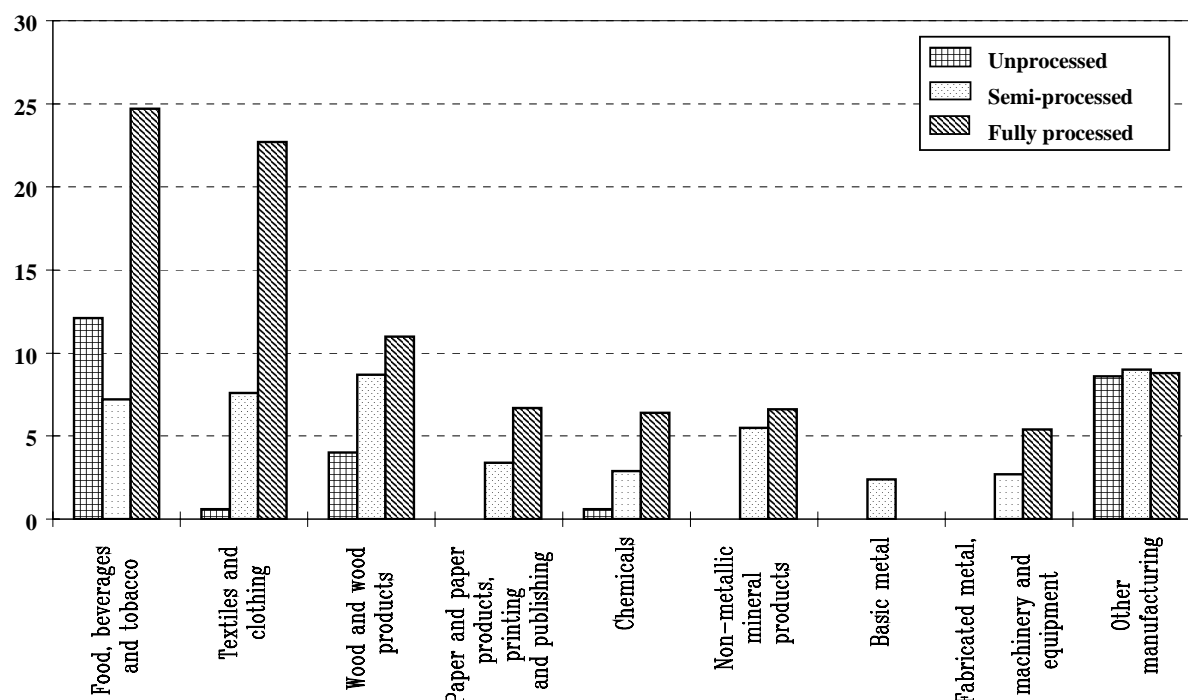
b *Ad valorem* equivalents (AVEs) of specific, combined and alternate rates were calculated by the authorities as the value of customs duty actually paid on the MFN rate in 1997 divided by the import value of these shipments.

Note: Data in parenthesis show standard deviation. The data by function is based on the UN Broad Economic Classification (BEC).

Source: WTO Secretariat based on data provided by the Israeli authorities.

**Chart III.4**  
**Tariff escalation by 2-digit ISIC industry, 1999**

Per cent



Note: The tariff analysis includes *ad valorem* equivalents of specific, compound and alternate duties, as available.

Source: WTO Secretariat based on information provided by the Israeli authorities.

## (e) Tariff concessions and exemptions

29. Concessional duties on imports are granted within the framework of several schemes (Table III.4). The wide range of specified end-use tariff schemes available for importers severely complicates the administration and reduces the transparency of the Israeli tariff; end-use provisions apply to 117 tariff lines for 25 different end-users (Table AIII.2). Concessional duties are also granted through a duty-drawback scheme, which provides for refund of customs duty and domestic internal taxes paid on imported inputs, after realization of exports with imported inputs. The drawback method is based on the customs duties and domestic internal taxes actually paid on inputs used for the production of exported goods. Newly arrived immigrants and returning residents are also exempted from duty or subject to a reduced rate on households belongings and personal effects. In addition, Israel offers duty-free imports for foreign country representations, international organizations, and international aid organizations. Performing troupes of artists and entertainers, and petroleum companies are also allowed to import duty free.

**Table III.4**  
**Concessional entry schemes in Israel, 1999**

Scheme	Eligibility	Incentives
1. End use-provision schemes	An importer listed in the Customs Tariff Book <sup>a</sup>	Duty free on 201 items in total (1997)
2. Duty-drawback system	Any exporter	After realization of exports with imported inputs, refund of customs duty and domestic internal taxes paid on imported inputs, based on a drawback method
3. Temporary imports	Any importer for temporary use on government procurement projects	Duty free
4. Immigrants programme	Newly arrived immigrants	Duty free on households effects imported in accompanying (maximum four) cargo, work tools, households effects, and reduced rate on boats and trailers, radios, cars, motorcycles, motor scooters; passenger vehicles (25%), and certain additional household appliances (50% of MFN rate)
5. Returning residents programme	Returning residents	Duty free on personal effects, work tools, (up to a value of US\$1,000), and households effects
6. Programme under the Petroleum Law of 1952	Petroleum Services Co. Ltd. or the Oil Refineries Co. Ltd.	Duty-free imports
7. Programme under the Petroleum Pipeline Concession Law of 1968	Not available	Not available
8. President of the State		Duty free on goods imported or acquired from a licensed warehouse for the use of the President
9. President Dr. Chaim Weizmann Memorial House		Duty free on goods for the use in late President Dr. Chaim Weizmann Memorial House
10. Foreign country representation	Embassy, legation, general consulate, consulate or consular agency of foreign country, etc.	Duty-free imports
11. International organizations	United Nations and international organizations	Duty-free imports (except tobacco, motor vehicles, and office equipment)
12. International agreements <sup>b</sup>	35 international organizations or countries	Duty-free imports
13. Programme under Section 2(D) of the Red Shield of David Law of 1950	Not available	Not available
14. International aid organizations		Duty-free imports
15. Performing troupes of artists and entertainers		Duty-free imports

<sup>a</sup> For details, see Table AIII.3.

<sup>b</sup> The agreements are listed in the Customs Tariff Book, section Group 1: Goods Meant for Those Specified in the Addition to the Customs, Excise and Purchase Tax (Repeal of Special Exemption) Act, No. 5717 of 1957.

Source: GATT (1995a), *Trade Policy Review - Israel*, and WTO Secretariat based on the 1997 Customs Tariff Book.

(f) Seasonal tariffs

30. During the period under review, Israel has introduced a number of seasonal tariffs; these apply to agricultural products. One of the intriguing consequences of seasonal tariffs is that seasonal goods, such as apples and other fruit, are more expensive for domestic consumers when they are in season than when they are not in season. Seasonal tariffs apply to 23 items at the eight-digit level (Table AIII.3).

(g) Tariff quotas

31. As part of the "tariffication" process under the Uruguay Round, Israel maintains 12 tariff quotas for MFN imports of animal products and certain fruit, vegetable, oilseed and cereal products (Table III.5). However, for some of these products the in-quota rate is above the MFN 1999 rate, thus rendering the quota redundant. In addition to the MFN tariff quotas, Israel maintains a number of tariff quotas on agricultural goods in the context of its preferential trade agreements, most of them introduced since 1994. With the exception of the agreement with EFTA, all of Israel's preferential trade agreements include provisions on tariff quotas on agricultural goods (Table AIII.4). In contrast to the MFN tariff quotas, most of the tariff quotas under preferential trade agreements do contain an element of preference as the in-quota rate is lower than the MFN rate; the MFN rate is equal to the in-quota rate only for about 2% of the tariff quotas. See Chapter IV(2)(iv) for further details on tariff quotas.

**Table III.5**  
**Tariff quotas applied to agricultural MFN imports**  
(Per cent and tonne)

Product	Imports (tonnes)		WTO-committed in-quota rate (%) 1995 / 2004	MFN 1998 rate (%)
	1997 quota	1997 imports		
1. Walnuts (08.02.31, 08.02.32)	121	2,437 <sup>a</sup>	22-24 / 18-20	22
2. Wheat and meslin (10.01)	450,000	694,239 <sup>b</sup>	100 / 85	0,50
3. Edible fats and oils (15.16.11.10)	540	0 <sup>a</sup>	US\$0.8/kg. but not more than 12% / US\$0.8/kg. but not more than 12%	8
4. Sweet corn (20.05.80.00)	245	371 <sup>a</sup>	20 / 20	25% + NIS 1.1/kg.
5. Citrus fruits, concentrates (20.09.10-30)	118	3,119 <sup>b</sup>	26 / 26	19
6. Bovine, live and meat (01.02.10; 01.02.90.00; 02.01-02, 16.01-03)	37,250	66,411 <sup>b</sup>	15, 50, 120 / 15, 50, 120	0-213
7. Sheep and goats, fresh (02.04)	360	425 <sup>a</sup>	100 / 100	50
8. Milk cream, less than 1.5% fat (04.02.10.00)	1,200	2,389 <sup>b</sup>	100 / 85	182
9. Milk cream, more than 1.5% fat (04.02.20.00)	75	350 <sup>b</sup>	215 / 215	215
10. Processed cheese (04.06.30.00)	51	102 <sup>b</sup>	150 / 150	NIS 19/kg. or 100
11. Other cheese (04.06.90.00)	810	543 <sup>b</sup>	250 / 250	NIS 19/kg. or 100
12. Prunes (08.13.20.00)	600	1,608 <sup>b</sup>	10 / 10	20% + NIS 1.8/kg. but not more than NIS 6/kg.

Note: Data in parenthesis show corresponding HS code.

a Total imports.

b In-quota data only.

Source: WTO Secretariat.

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(h) Variable import levies

32. In 1994, variable import levies affected a wide range (about 211 items by broad category) of fresh and processed agricultural products, such as millet, rapeseed, sunflower seed, sugar, pasta products, jams, fruits and nuts, wine, powdered milk, cheese and frozen fish.<sup>12</sup> The rate of the variable levy was set as the difference between world prices and prices in the Israeli market for these products. According to the authorities, there are currently no variable levies in force on MFN imports. However, variable import levies are applied in the context of the bilateral preferential trade agreements with the EU and the United States.

33. Variable import levies are applied on imports into Israel of the agricultural component of processed agricultural goods in the context of Israel's bilateral preferential trade agreement with the European Union. The preferential trade agreement between Israel and the United States also contains provisions on variable import levies.

(i) Plurilateral and bilateral tariff preferences

34. Since its previous Trade Policy Review in 1994, the importance of tariff preferences in Israel has increased from an already high level (Chapter II(3)). About three quarters of Israel's trade (excluding diamonds) is currently undertaken within the framework of free-trade agreements, compared with 70% in 1994. The significance of preferential trade is also indicated by the difference between the simple average MFN tariff and the collection duty rate (i.e. customs duty revenue divided by imports); while the simple average 1999 MFN tariff (including AVEs) is 8.8%, the collection rate was only 1.0% in 1998. The key features of Israel's preferential trade agreements, of which the majority have been concluded over the past four years, are described in Table II.2.

35. Imports from the United States, followed by EFTA are granted the lowest overall Israeli import duty (Table III.6).<sup>13</sup> Preferences mainly cover industrial products. As in the MFN tariff system, the preferential rates show higher overall rates on raw products than on intermediate goods, but lower on intermediate goods than on processed goods.

(j) Other border levies and charges

36. So-called safeguard levies are collected on a number of imported goods in accordance with the Trade Levies Law of 1991.<sup>14</sup> In this context it should be noted that Israel has, according to the authorities, no safeguard legislation within the meaning of Article XIX of the GATT 1994 and the Agreement on Safeguards and no such levies are in effect. The safeguard levy is partly used as an instrument to enhance flexibility of the tariff system. While increases in the MFN tariff require approval by the Parliament, the imposition of the safeguard levy does not. The Israeli customs book carries a separate column indicating the items on which the safeguard levy applies. In 1994, based on agricultural policy considerations, Israel imposed safeguard levies on a wide range of agricultural products. In 1999, 81 items at the HS eight-digit level, equivalent to 0.8% of the total tariff lines, were subject to such surcharge, down from 268 items, equivalent to some 2.7% of tariffs lines, in 1992 (Table AIII.5). The rate differs depending on the origin; imports of U.S. origin are generally subject to a lower safeguard levy than other imports. The Trade Levies Act also provides for the imposition of research levies. As in 1994, no such levies are currently in effect.

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<sup>12</sup> GATT (1995a), Annex IV.2

<sup>13</sup> Under the Protocol on Economic Relations between Israel and the Palestine Liberation Organization (PLO), the flow of goods is not subject to customs duty.

<sup>14</sup> The framework for the imposition of safeguard, anti-dumping and countervailing levies is described below in section (iii)(d).

**Table III.6**  
**Israeli tariff preferences by agreement and import volumes, 1999**  
(Per cent)

Trading partner	Share of total imports (1998)	Simple average tariff rate	Agricultural products (HS01-24)	Industrial products (HS25-97)	Raw material	Intermediate goods	Processed goods
Total imports	100.0						
MFN trading partners	22.9	7.6	19.9	5.7	14.2	4.3	10.2
European Union	48.5	2.1	16.1	0.0	11.5	0.1	1.7
United States	19.6	1.6	11.9	0.0	7.4	0.1	1.5
European Free Trade Association (EFTA)	5.8	1.8	13.6	0.0	8.7	0.1	1.7
Jordan	0.1	6.2	15.0	4.8	7.0	3.6	7.5
Canada	1.2	2.5	18.4	0.0	11.7	0.2	2.3
Turkey	1.6	2.9	19.9	0.2	12.8	0.4	2.7
Czech Republic	0.1	3.1	18.6	0.7	12.8	0.9	2.8
Slovak Republic	0.0	3.1	18.6	0.7	12.8	0.9	2.8
Hungary	0.1	3.1	19.0	0.6	12.3	0.8	2.9
Poland	0.1	3.2	18.9	0.8	11.8	0.9	3.1
Slovenia	0.0	3.0	19.4	0.3	12.7	0.6	2.7

Note: Specific rates have been excluded from the analysis and the averages for combined and alternate rates have been calculated on the basis of the *ad valorem* component of such rates.

Source: WTO Secretariat calculations based on information provided by the Israeli authorities.

37. Another border charge is the wharfage fee. Until 1995, Israel's port authorities charged importers 1.5% of the c.i.f. cost of imports into Israel for the use of ports, whereas exporters using the same services faced no charges. This implied that importers were subsidizing the use of such services by exporters. Since then, the "playing field" has levelled between exporters and importers as the importer fee has been reduced to 1.1% and exporters are charged a fee of 0.2% on the c.i.f. value of containers.

#### (k) Indirect taxation

38. Most imports, like domestic products, are also subject to purchase tax and value-added tax, while certain items (such as fuels and tobacco) are subject to additional taxes (Table III.7). The number of indirect levies and charges applied to imported goods and services seems to have decreased since the previous Review. Entertainment tax and fuel tax have been abolished since 1994, and Israel has reduced or eliminated the level of purchase tax on many products.

39. The purchase tax is levied on the wholesale price. Israel uses a system called "TAMA" (the Hebrew acronym for additional rate of increase) to approximate the local wholesale price of an imported good by adding estimated profits, insurance and inland freight to the declared value of an import for purposes of calculating purchase taxes; coefficients for calculation of the TAMA vary from industry to industry and from product to product. However, since 1991, importers have had the option of declaring the actual wholesale value of their products but it has not often been used (five importers used it in 1998); importers cite several problems with the optional system, including the inability to modify prices once they have been declared.<sup>15</sup>

<sup>15</sup> USTR (1998).

**Table III.7**  
**Taxes levied on imported and domestic goods and services**

Tax	Product	Rate (%)	Base	
			Imports	Domestic
Value-added tax (VAT)	Major exempted items: fresh fruit and vegetables, ships and airlines for service on international lines, travel tickets for international sea-and air-lines, cargo transportation by sea and air, consumption of several foreign tourism services, in the Eilat area	17%	Value of goods for customs purpose plus customs duties, port and stevedoring fee, levy (if applicable)	Value of transaction
Purchase tax	Certain luxury and consumer goods, most notably motor vehicles, consumer electrical goods, alcoholic beverages and a limited number of intermediate goods	5-120%	Customs value plus customs duties plus the TAMA (if applicable)	Wholesale price
	Tobacco	55% + NIS 51/1,000 cigarettes	Retail price before VAT	Retail price before VAT
Excise taxes	Gasoline	NIS 2,019/1,000 litre		
	Kerosene	NIS 70/1,000 litre		
	Diesel	NIS 106/1,000 litre		
	Heavy fuel oil	NIS 10-14/ tonne		
	Gas	NIS/14-19 tonne		
	Coal	NIS 7/ tonne		
Stamp duties	Several types of contracts and financial transactions	0.4-3.0%	The amount written in the document	Value of transaction according to the contract

Source: Information supplied by the Israeli authorities and IMF (1998), "Israel - Background Studies, Information Notes, and Statistical Appendix", *Staff Country Report No. 98/28*, Washington D.C., April.

### (iii) Non-tariff border measures

#### (a) Import prohibitions

40. Prohibited import products, contained in Annex 2 of the Custom Order (Regulation of Imports) of 1986, relate mainly to public morals, health or safety considerations (Annex 5 of the Free Import Order of 1978 concerns drugs and prohibited chemicals in accordance with international obligations). The list of prohibited products contains, by broad categories, 34 items (Table III.8), with no items added since Israel's previous Review. In addition, since December 1994, Israel has implemented a complete ban on imports of non-Kosher meat and meat products. However, the Government permits limited domestic production, sale and consumption of non-Kosher meat (section (4)(iii)).

41. The trade agreement between the EU and Israel prohibits import restrictions for bilateral trade except under strict conditions for safeguard measures or balance-of-payments reasons.

42. A special import regime applies to imports from those countries that have no diplomatic relations with Israel and do not allow imports from Israel. Imports from the 17 countries affected by the regime are generally prohibited; these countries are Afghanistan, Algeria, Bahrain, Bangladesh, Iraq, Iran, Kuwait, Lebanon, Libya, the Democratic People's Republic of Korea, Pakistan, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen. Israel also maintains an embargo on trade with Iraq, based on U.N. Security Council resolutions.



**Table III.8**  
**Import prohibitions, as at June 1999**

Items subject to import prohibition	Reason for prohibition
1. Invertebrate live animals at all levels of development, including insects and mites except for bees (01)	Protection of human health
2. Tropical and subtropical fruit trees and fruit shrubs and parts thereof including fresh fruit except for dried fruit, almonds, nuts of all types, copra, processed dates in commercial packaging (06-14)	Protection of human health
3. Vegetative cultivating material whose country of origin is in a tropical or subtropical region (06-14)	Protection of human health
4. Fresh root fruit and vegetables, onion, garlic, whose country of origin is in a tropical or subtropical region (06 to 14)	Protection of human health
5. Fruit tree and fruit shrub vegetative breeding material of the <i>Hordeum</i> genus (06 to 14)	Protection of human health
6. Cotton plants and parts thereof, except for seeds and fibres for industry (06 to 14)	Protection of human health
7. Earth, sand, organic fertilizer, compost (06 to 14)	Protection of human health
8. Food items containing cyclamate (16-21)	Protection of human health
9. Alcohol in a movable container whose capacity is greater than 230 litres (22.07)	Protection of human life
10. Intoxicating beverages in a container which does not have a label with the details of the beverage, name, description, quantity, country of production, filler's name, strength, the country from which the container is imported (22)	Protection of human health
11. Wine, spirits products and grape juice, whether it is called by a geographical name which is not its place of origin or by a name which incorporates such a geographical name or which may give the impression that it incorporates such a geographical name (22) <sup>a</sup>	Protection of human health
12. Liquids other than butane or propane gas or mixtures thereof, in a container greater than 234 litres, if its flash point is greater than 73° Fahrenheit (27.10)	Protection of human life
13. Inflammable liquids in a container greater than 230 litres and its flash point is greater than 73° Fahrenheit excluding butane or propane gas mixtures thereof when they are liquid (28-29)	Protection of human life
14. Food colourings not in accordance with the People's Health Regulations (Food Colourings) of 1966 (32)	Protection of human health
15. Matches made from white or yellow phosphorus (36.05)	Environment protection
16. Licentious or indecent films (37.06)	Public morals
17. Insecticides containing or purporting to contain DDT and of which an active layer remains on the surface after surface spraying or dusting (38.08)	Protection of human health
18. Tear gas, if approval has not been given by the Inspector General of Police (38.23)	Security
19. Used equipment for bee farming (44.21)	Protection of human health
20. Currency notes, bank notes or coins which are legal tender in any country or which have been at some time legal tender in any country, whether counterfeit or imitation (49.07, 71.18, 97.04)	Public morals
21. Tickets or publicity items for lottery or gambling (49.11)	Public morals
22. Sales invoice form that is a form or other paper which purports to be a form which it is possible to fill in blank spaces so as to use it as a sales invoice for goods from foreign countries (48.20, 49.11, 47.07, 49.01, 49.02, 49.08)	Public morals
23. Printed matter and other products which are licentious or indecent (49.10, 49.11, 97.01, 97.04)	Public morals
24. Used bags for packaging vegetable material (63.05)	Protection of human health
25. Knives and folding knives having a serrated point or sharp blade, whose blade is longer than 10cm, and also any knife whose blade is drawn or thrown open from its sheath by means of a spring or other mechanism, excepts for knives which are of a kind for professional work or domestic use (93)	Security
26. Receivers which warn of police radar (85.26)	Public morals
27. Pornographic recordings and productions (85.27)	Public morals
28. Any sword, dagger, bayonet and any other item of this heading which has a serrated point or sharp blade, except for a sword whose blade is blunt and is of a type which is used for an ornament or collecting (93.07)	Protection of human life
29. Firearms resembling a pen, starting pistols, items activated by gas, etc. (93.03, 95.04)	Security
30. Games of chance or part of them as defined in the Penal Code of 1997 (95.04, 95.08)	Public morals
31. A toy which emits fire or a substance which is likely to be harmful or cause explosion; a toy made as a replica of a firearm or ammunition and has the appearance of a real firearm or ammunition; a toy which is likely to cause personal damage or nuisance by the emission of liquid, tears, sneezing, noise, air pollution or any other damaging or nuisance phenomena (95.05, 95.06)	Protection of human health
32. Goods of all types which carry a false commercial description as defined in the Consumer Protection Law of 1981	Public morals
33. Postal packages containing live creatures such as vipers, explosives, inflammable materials and other dangerous packages	Protection of human health
34. Used equipment for bee farming which the Inspector General of the Police has determined are within the framework of being a danger to the public or which are likely to become such a danger.	Protection of human life

a Prohibition applies if words were added to the name such as: "type", "imitation", or any other addition even if its genuine place of origin is noted, and if the beverage has another misleading commercial description.

Note: The corresponding HS code is provided in parenthesis.

Source: Information provided by the Israeli authorities (Annex 2 of the Custom Order (Regulation of Imports) of 1986).

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(b) Quantitative restrictions

43. Since its previous Review in 1994, Israel has eliminated most of its import quotas, except on a few agricultural products, which are maintained under Annex 5 of the WTO Agreement on Agriculture (Chapter IV(2)(iv)), and on ozone depleting substances, under the Montreal Protocol.

(c) Import licensing and authorization

44. Products subject to import licensing are included in Annex 1 of the Free Import Order of 1978. By broad category, Annex 1 includes about 125 items, many of which are related to safety and security reasons (Table III.9).

45. The customs tariff book contains a column indicating whether a product is subject to licensing when imported into Israel. About 836 tariff lines equivalent to 8.5% of Israel's national tariff lines (at the eight-digit level) are currently subject to import licensing, down from 1,877 items or 19.2% of the tariff lines in December 1992 (Chart III.5). Under an HS-section classification, the import licensing profile shows peaks for arms and ammunition (100% of the lines are covered), vehicles, aircraft, vessels and associated equipment (47%), and live animals and animal products (44%). It should be noted that in some cases only part of the tariff line at the eight-digit level is subject to import licensing.

46. Licences are issued by the Ministries of Industry and Trade, Agriculture, Health, Transportation, and Labour, depending on the type of goods to be imported. The validity period of licences varies, depending on the type of merchandise. An import licence is normally issued within seven to ten days. For items subject to automatic licensing, a licence must be issued within 14 days, otherwise the import licence is considered as granted.<sup>16</sup>

47. A special import regime applies to imports from countries that have no MFN agreement with Israel or apply restrictions, de jure or de facto, on imports from Israel. Imports from these countries are generally subject to licensing. The regime applies to Albania, Armenia, Azerbaijan, Belarus, Bosnia Herzegovina, Brunei, Cambodia, Chad, Croatia, Cuba, Estonia, Georgia, Indonesia, Kazakhstan, Lithuania, Macedonia, Malaysia, Mali, Mauritania, Mongolia, Morocco, Mozambique, Oman, Qatar, Republic of Congo, Serbia-Montenegro, Sri Lanka, Tajikistan, Turkmenistan and Viet Nam. Egypt, Guinea, India, Moldova, Russia, Slovenia and Ukraine were removed from the list in the period 1994-98. Most recently, in February 1999, Israel abolished the need for import licensing on products coming from Uzbekistan, Latvia, the Kyrgyz Republic, Burundi, and Guyana. The decision was made after Latvia, the Kyrgyz Republic, Burundi, and Guyana were admitted to the WTO, and after Uzbekistan signed an economic cooperation agreement with Israel in September 1998.<sup>17</sup>

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<sup>16</sup> GATT (1995a).

<sup>17</sup> *Reuters*, 7 February 1999.

**Table III.9**  
**Imports requiring a licence, April 1999**

Description of item	Reason for licence
<b>A. Safety, security, etc.:</b>	
1. Asbestos (25.24)	Dangerous material (Safety)
2. Phosphorus (28.04.7000)	Dangerous material (Safety)
3. Chlorates (28.29.1000)	Dangerous material (Safety)
4. Nitrites (ex 28.34.2900)	Sodium nitrate (security reasons: may be used for production of bombs)
5. Carbon tetrachloride, trichlorofluoromethane, dichlorodifluoromethane, trichlorotrifluoroethanes, dichlorotetrafluoroethanes, chloropentafluoroethane, other derivative perhalogenated only with fluorine and chlorine, bromochlorodifluoromethane, bromotrifluoromethane, dibromotetrafluoroethanes, certain other perhalogenated derivatives, (29.03.1400, 29.03.4100, 29.03.4200, 29.03.4300, 29.03.4400, 29.03.4500, 29.03.4600, 29.03.4700)	CFC: Montreal Protocol
6. 3,5 – Dinitro-o-toluamide (D.O.T.) (29.24.2940)	Dangerous materials (Safety)
7. Enrofloxacin, ofloxacin, ciprofloxacin, perfloxacin, norfloxacin, enoxacin, lomefloxacin, danofloxacin, vegetable alkaloids, natural or produced by synthesis, and their salts, ethers, esters, and other derivatives (ex. 29.33.4000, 29.39)	Dangerous materials (Safety)
8. Antibiotics (29.41)	Ministry of Health
9. Ammonium, nitrate, whether or not in aqueous solution (31.02.3000)	Security reasons: may be used for production of bombs
10. Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles (for example, sulphur-treated bands, wicks and candles, and fly-papers) (38.08 excluding 38.08.9090)	Safety reasons (maintenance of soil and water purity)
11. Mixtures containing two or more different halogens (ex38.14.0010)	CFC: Montreal Protocol
12. Mixtures containing two or more different halogens (ex38.24.7000)	CFC: Montreal Protocol
13. Plastic products with electronic alarm device (ex39.26.9059)	Security
14. Products with electronic alarm device of ch. 42.02 (ex. 42.02)	Security
15. Articles of asbestos-cement, of cellulose fibre-cement or the like (68.11)	Dangerous materials
16. Fabricated asbestos fibres; mixtures with a basis of asbestos or with a basis of asbestos and magnesium carbonate; articles of such mixture or of asbestos (for example, thread, woven fabric, clothing, headgear, footwear, gaskets), whether or not reinforced, other than goods of headings 68.11 or 68.13 (68.12)	Dangerous materials
17. Friction material and articles thereof (for example, sheets, rolls, strips, segments, discs, washers, pads), not mounted, for brakes, for clutches or the like, on a basis of asbestos, of other mineral substances or of cellulose, whether or not combined with textile or other materials (68.13 not including 68.13.9010)	Dangerous materials
18. Fork-lift trucks, other works trucks fitted with lifting or handling equipment (84.27)	Safety and security
19. Self-propelled bulldozers, angledozers, graders, levellers, scrappers, mechanical, shovels excavators, shovel loaders, tamping machines and road rollers (84.29)	Safety and security
20. Other moving, grading, levelling, scraping, excavating, tamping, compacting, extracting or boring machinery, for earth, minerals or ores; pile-drivers and pile-extractors; snow-ploughs and snow-blowers(84.30)	Safety and security
21. Certain machinery for public works (84.79.1019)	Safety and security
22. A battery having a thermomagnetic cam, for a voltage of 25v, and an operating time not exceeding 120 seconds (85.06.1020, 85.06.4020, 85.06.5030, 85.06.6020, 85.06.8020)	Safety and security
23. Electrical signalling, safety or traffic control equipment for railways, tramways, roads, inland waterways, parking facilities, port installations or airfields (other than those of heading No. 86.08) (85.30)	Safety and security
24. Certain ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships and certain underground cables (85.44.3090, 85.44.6090)	Safety and security
25. Tractors (other than tractors of heading no 87.09) (87.01)	Safety and security
26. Certain buses (87.02.1010, 87.02.9010, 87.02.9096)	Safety and security
27. Certain motor vehicles for the transport of goods (87.04.1010, 87.04.2110, 87.04.2120, 87.04.2150, 87.04.2290, 87.04.2390, 87.04.3110, 87.04.3120, 87.04.3153, 87.04.3154)	Safety and security

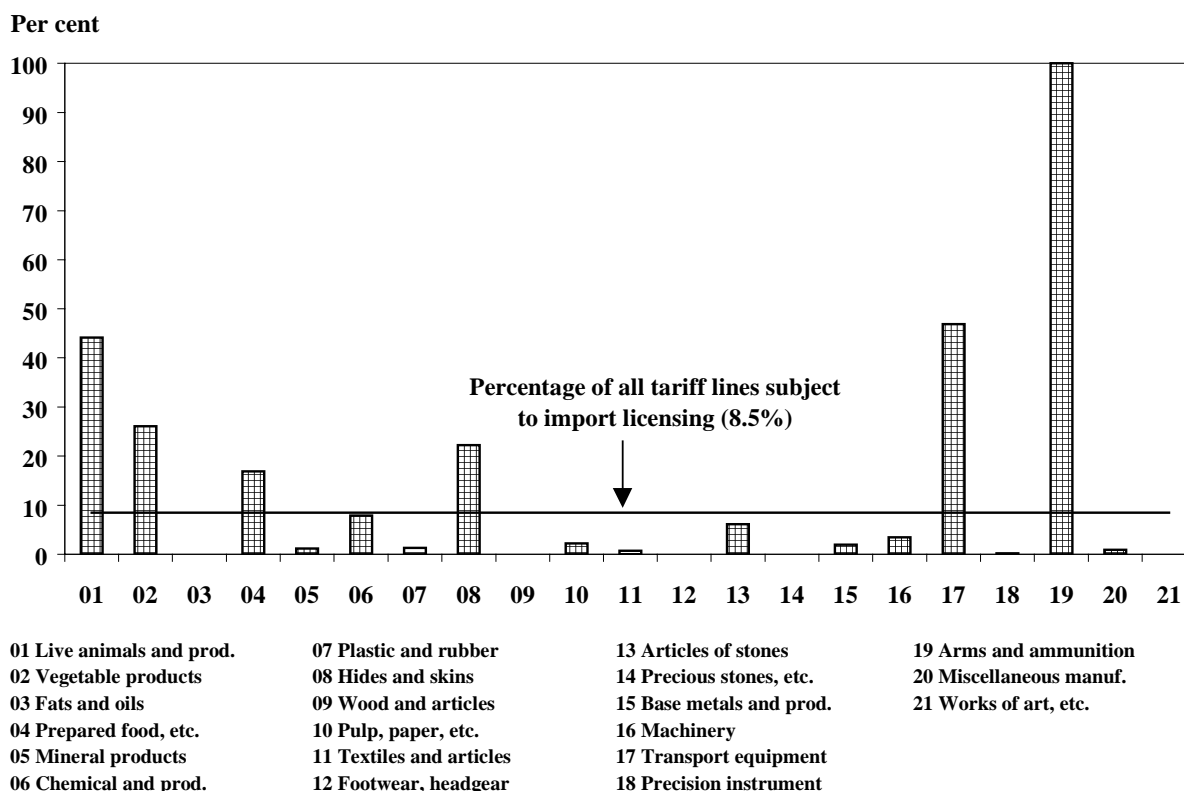
Table III.9 (cont'd)

Description of item	Reason for licence
28. Certain motor vehicles for the transport of goods (87.04.1020, 87.04.2130, 87.04.2140, 87.04.2210, 87.04.2220, 87.04.2310, 87.04.2320, 87.04.3130, 87.04.3140, 87.04.3210, 87.04.3220, 87.04.3230)	Safety, security and end-use provision
29. Special purpose motor vehicles other than those principally designed for the transport of persons or goods (e.g., breakdown lorries, crane lorries, fire fighting vehicles, concrete-mixer lorries, road sweeper lorries, spraying lorries, mobile workshops, mobile radiological units) (87.05)	Safety and security
30. Chassis fitted with engines, for the motor vehicles of headings 87.01 - 87.05 (87.06)	Safety and security
31. Balloons and dirigibles: gliders, hang gliders and other non- powdered aircraft (88.01)	Safety and security
32. Other aircraft (e.g., helicopters, airplanes); spacecraft (including satellites) and sub-orbital and spacecraft launch vehicles (88.02)	Safety and security
33. Cruise ships, excursion boats, ferry-boats, cargo ships, barges and similar vessels for the transport of persons or goods, with motor (ex 89.01)	Safety and security
34. Fishing vessels, factory ships and the vessels for processing or preserving fishery products with motor (ex 89.02)	Safety and security
35. Yachts and other vessels for pleasure or sports, with motor (ex 89.03)	Safety and security
36. Other vessels, including warships and lifeboats other than rowing boats, with motor (ex 89.06)	Safety and security
37. Taximeters, with accumulated registration of activities that cannot be erased (90.29.1010)	Safety and fiscal
38. Arms and ammunition, parts and accessories thereof (93)	Security
39. Sporting products and toys with arrows (ex 95)	Security
<b>B. Phytosanitary etc.:</b>	
1. Un-manufactured tobacco, and tobacco refuse (2401)	Phytosanitary and fiscal
2. Guano and other natural fertilizers, of animals and vegetables, mixed together or not, having undergone no chemical treatment (31.01.0010)	Phytosanitary
<b>C. Waste management:</b>	
1. Waste, parings and scrap of plastic (39.15)	Waste management
2. Waste, parings and scrap of rubber (other than hard rubber) and powder and granules obtained therefrom (4004)	Waste management
3. Recovered (waste and scrap) paper or paperboard (47.07)	Waste management
4. Used clothing and other used articles (63.09)	Sanitary
5. Cullet and other waste and scrap of glass; glass in the mass (70.01)	Waste management
<b>D. Other:</b>	
1. Lamb meat, fresh, chilled or frozen (02.04)	In accordance with commitments under the WTO Agreement on Agriculture
2. Fresh or chilled fish fillets or fish meat (03.04.1099)	Licensing to ensure correct classification (duty-free item)
3. Eels and certain other fish approved by the Ministry of Industry and Trade not grown or fished in Israel or in the Mediterranean sea (03.04.2060, 03.04.9000)	Licensing to ensure correct classification (duty-free item)
4. Poppy plant of bulbs, tubers, tuberous roots, corms, crowns, rhizomes, and certain other live plants (06.01.1011, 06.01.1021, 06.01.2011, 06.01.2031, 06.02.9091, 06.03.1010)	Safety and health
5. Poppy plant of cut flowers and certain other flowers (06.03.9020)	Safety and health
6. Certain mosses and lichens of poppy plant (06.04.9120, 06.04.9921, 06.04.9991)	Safety and health
7. Certain plants and parts of plants of a kind used primarily in perfumery, in pharmacy, or for insecticidal, fungicidal or similar purpose (12.11.9010)	Safety and health
8. Vegetable saps and extracts of opium (13.02.1100)	Safety and health
9. Saps and extracts of belladonna, aloes, curare, etc. (13.02.1910)	Safety and health
10. Certain wire of iron or non-alloy steel confirmed by the Ministry of Industry and Trade that it is not the kind of item produced in Israel (72.17.1093, 72.17.2093, 72.17.9093)	Licensing to ensure correct classification (duty-free item)

Note: The HS code is provided in parenthesis.

Source: WTO Secretariat based on information provided by the Israeli authorities.

**Chart III.5**  
**Import licensing by HS section, 1999**



*Source :* WTO Secretariat calculations based on data provided by the Israeli authorities.

(d) Anti-dumping, countervailing and safeguard actions

48. Israeli legislation on anti-dumping, countervailing and safeguard measures (Trade Levies Law, 5751 - 1991), which came into effect on 1 January 1991, has not been amended since the previous Trade Policy Review.<sup>18</sup> The Trade Levies Law provides for the imposition of four types of levies: anti-dumping levy, countervailing levy, safeguard levy and research levy. The key provisions of the procedures related to anti-dumping, countervailing and safeguard measures are presented in Box III.1.

49. Israel's legislation on anti-dumping and countervailing measures was reviewed in a meeting in the WTO Committee on Anti-Dumping Practices in October 1996.<sup>19</sup> During the review process as well as during subsequent meetings (both in the Committee on Anti-Dumping Practices and the Committee on Subsidies and Countervailing Measures), Members noted that Israel's legislation did not fully reflect the requirements of the WTO Agreement in several areas. Questions were posed regarding the following aspects: (i) the de minimis rule; (ii) the earliest time, after the initiation of an investigation, in which a provisional measure can be imposed; (iii) refund of duties collected; (iv) price averaging; (v) standards examined to determine if sales are made below cost; (vi) "specificity", and non-actionable ("green") subsidies; (vii) threat of material injury;

<sup>18</sup> WTO document G/ADP/N/1/ISR/2, 10 January 1996.

<sup>19</sup> WTO document G/ADP/M/9, 8 April 1997.

(viii) verification of standing; (ix) notification prior to initiation; (x) treatment of proprietary information; (xi) new shippers; (xii) the basis for calculating normal value; (xiii) determination of dumping and injury; (xiv) provisional measures; (xv) definition of a subsidy; (xvi) domestic industry support; (xvii) time limits involved for each of the stages of the procedures; (xviii) review of the need to maintain a duty; (xix) investigating procedures; (xx) complaint of dumped imports; (xxi) price comparison with a like product; (xxii) rules for price equalization; (xxiii) procedures and timeline for anti-dumping investigative processes; (xxiv) definition of export price; (xxv) sales below cost; (xxvi) powers of the Advisory Committee; (xxvii) sunset clause; and (xxviii) preliminary determination of dumping.

50. In response, the Government of Israel said that the language of the law regarding anti-dumping and countervailing duties was worded in such a way that in practice the officials are able to comply with the provisions of the WTO Agreement on Subsidies and Countervailing Duties and the Agreement on the Implementation of Article VI of GATT 1994. In any case, the law was being amended to bring it into conformity with the WTO Agreements. The draft law includes provisions on all aspects of the investigation, including time limits, the requirement concerning the domestic industry's support of a complaint, rules concerning sales below cost; retroactivity of duties in the case of critical circumstances, etc. Meanwhile, in the case of a direct contradiction between the WTO Agreements and the domestic law, the provisions of the domestic law would override. However, according to the authorities, officials do comply with the provisions of the WTO Agreement on Subsidies and Countervailing Duties and the Agreement on the Implementation of Article VI of GATT 1994.

51. Israel has not been an active user of its anti-dumping and countervailing legislation. As shown in Chart III.6, in the period January 1993 to 23 December 1998, Israel imposed definitive anti-dumping measures in seven cases. Measures by cases initiated mainly affected textiles, and wood and wood products. One quarter of cases initiated (six cases) affected products of German origin. Table III.10 contains the anti-dumping duties currently in force on Israeli imports. Israel has no countervailing measures in force.

52. Chapter two of the Trade Levies Law contains provisions on safeguard measures. A safeguard levy may be imposed by the Minister of Industry and Trade on imports and exports of goods and services, on the possession of goods or on the provision of services, in a wide range of circumstances, such as to regulate production, demand or consumption of agricultural and fishery products; or to protect local production against substantial injury caused by imports; or to restrict the export of raw materials produced or mined in Israel, in order to prevent shortages in the local market (Box III.1). As noted in section (2)(ii)(j), the safeguard levy applies to 81 items (at the HS eight-digit level) equivalent to 0.8% of the total tariff lines, down from 2.7% in 1992.

53. Although the Trade Levies Law was notified to the WTO Committee on Safeguards in June 1995, Israel has, according to the authorities, no safeguard legislation within the meaning of Article XIX of GATT 1994 and the Agreement on Safeguards.<sup>20</sup> Moreover, since the establishment of the WTO, Israel has not applied safeguard measures within the meaning of Article XIX of the GATT and of the Agreement on Safeguards.<sup>21</sup>

<sup>20</sup> WTO document G/SG/W/180, 12 June 1996.

<sup>21</sup> WTO document G/SG/W/180, 12 June 1996.

**Box III.1: Summary of Israel's anti-dumping, countervailing and safeguard procedures**

**Anti-dumping duties** may be imposed when goods are imported at dumped prices, and when such imports will, or are liable to, cause material injury to a branch of production, or are liable to prevent the development of productive enterprises for the production of similar goods. A dumped product is a product with an export price less than the "normal" value of identical or similar goods; the normal price is defined as the price paid in the ordinary course of business for identical or similar goods intended for consumption in the country in which they were produced.

**Countervailing duties** may be imposed when it is proven that the exporter or the foreign manufacture of the goods receive direct or indirect subsidies, and the importation of such goods may cause serious injury to certain industries or may curtail the development of an industry in Israel.

The Commissioner, appointed by the Minister of Industry and Trade, heads an anti-dumping and countervailing unit in charge of, *inter alia*, initiation of complaints, the carrying out of investigations and the adoption of preliminary determinations. However, the law grants the Minister the authority to impose anti-dumping and countervailing duties. At the Minister's disposal is an Advisory Committee, made up of seven members (three representatives of the public, two staff members of the Ministry of Industry and Trade, of which one may be the Commissioner, a staff member of the Ministry of Finance, and a staff member of the Ministry of Agriculture).

The examination is required to be completed within 21 days of receiving the complaint if there is any *prima facie* basis for a complaint, and decisions to initiate an investigation are published in the *Official Gazette* and in two daily newspapers. The interested parties have a maximum of 30 days from the day of publication to respond. The Commissioner brings the results of the examination before the Committee within 21 days of the end of the period of the submission of document and replies. The time-limits may be extended by an additional 30 days. The Committee delivers its conclusion no later than 60 days after the complainant was brought before it (or 45 days after the day when it received additional evidence), on, *inter alia*, the existence of dumped or subsidized imports, and proposals on the imposition of anti-dumping or countervailing duties, the rate and period of effect. The maximum at which the anti-dumping levy may be set is at the rate equivalent to a share of the difference between the normal price and the export price, while a countervailing levy is set as a share of the subsidy. The "lesser duty rule" is applied in Israel when imposing the levies.

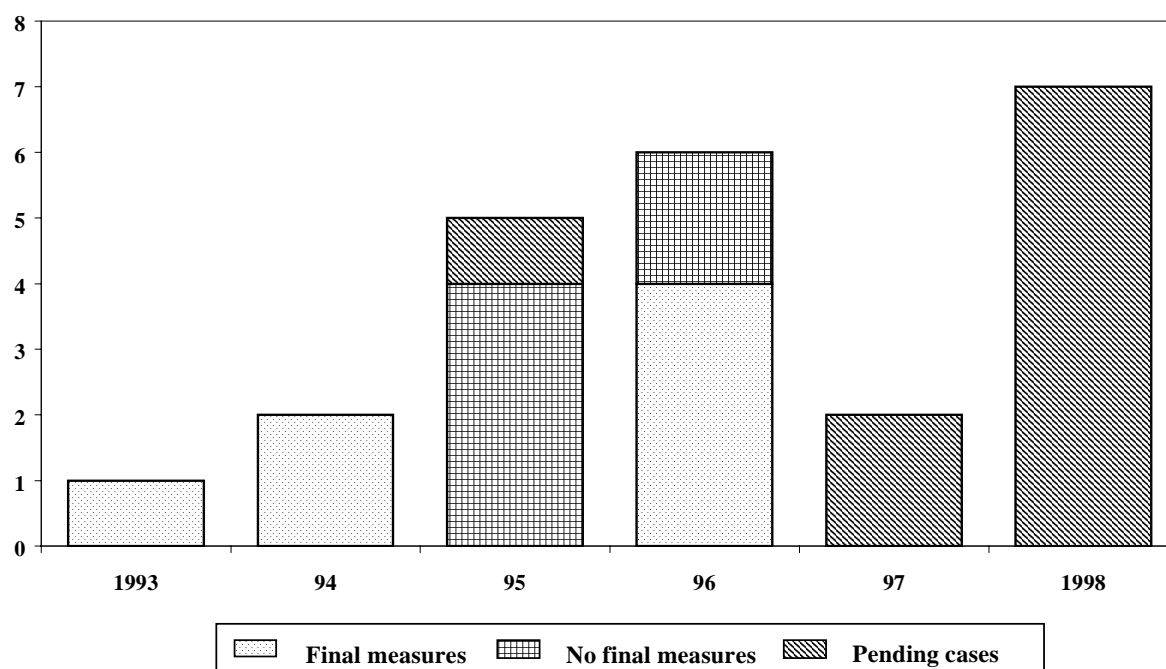
The final decision is taken by the Minister of Industry and Trade within 30 days of the day on which the Committee's recommendation was delivered. The measure remains in force for a maximum period of three years from the day of its imposition; upon the Committee's recommendation the Minister may reimpose the duty, if the conditions for its imposition continue to exist. Appeals can be filed with the district court and the burden of proof rests upon the appellant.

Provisional anti-dumping measures, which take the form of a "temporary surety", are required for a period of six months (which can be extended for two months) in cases where it appears to the Commissioner that goods that have been imported or are about to be imported are dumped or subsidized imports, and if it appears that injury is liable to be caused to a branch of production. The Law does not state any time-limit for the duration of an investigation. If no duty is imposed within six months of the date on which surety was provided, the temporary surety is returned.

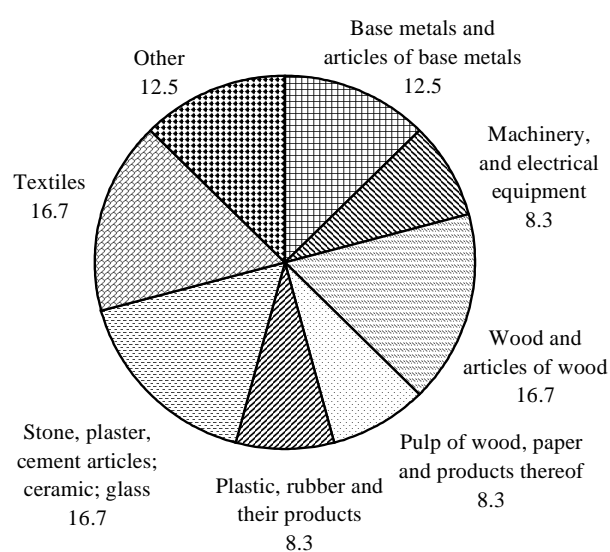
A **safeguard levy** may be imposed by the Minister of Industry and Trade on imports or on exports of goods and services in any of the following circumstances: (i) to prevent deterioration of Israel's balance of payments or foreign currency reserves; (ii) to regulate production, demand or consumption of agricultural and fishery products; (iii) to protect production against substantial injury caused or which may be caused by competing imports; (iv) to prevent the exhaustion of mineral deposits; (v) to restrict the export of raw materials produced or mined in Israel, in order to prevent shortages in the local market, or to regulate the price of these raw materials; (vi) to absorb or prevent excess profits due to legislative provision; (vii) to absorb assistance or benefits accorded by the Government in respect of goods intended to be used in Israel but which actually were exported; (viii) to adopt economic countermeasures against any States that violated an agreement with Israel; and (ix) to restrict or prevent imports from any countries that prohibit or restrict trade with Israel or impose discriminatory measures against Israeli products.

A safeguard levy is in effect for a period of not more than two years; the Minister may reimpose the levy or extend its effect by order, as long as it is required for one of the purposes enumerated above. A safeguard levy is set as a proportion of the goods' value or a fixed sum or a proportion of the excess profit, or according to any other calculation, all as prescribed by the Minister.

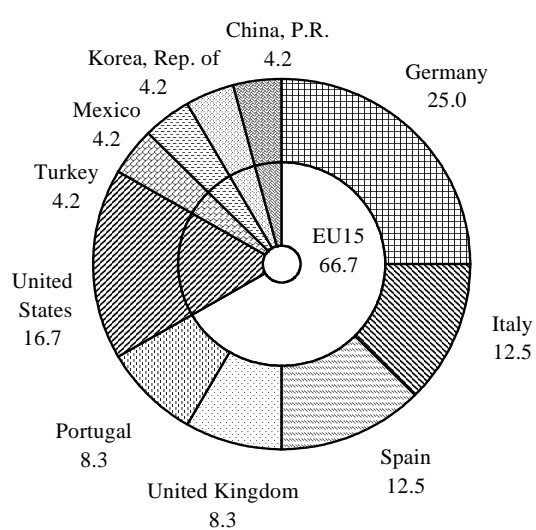
*Source:* WTO Secretariat based on WTO document G/ADP/N/1/ISR/2, 10 January 1996.

**Chart III.6****Anti-dumping cases, 1 January 1993 to 23 December 1998****(a) By number of cases initiated****(b) By products (of cases initiated)**

Per cent

**(c) By origin (of cases initiated)**

Per cent

**Source :** Notifications by Israel to the WTO.



**Table III.10**  
**Anti-dumping measures in force, April 1999**

	Product	Country	Initiation date of investigation	Date of imposition of definitive duty	Duty
1.	Medium density fibreboard (44.11.2100, 44.11.2990)	Germany Italy Portugal United States	18 December 1996	17 December 1998	US\$18-55 per m <sup>3</sup>
2.	Reinforced steel deformed bars (round) (72.14.2000)	Italy	6 January 1994	25 June 1998	US\$12-22 per tonne
3.	Glass wool fibre (70.19.3919, 70.19.3990, 70.19.90.90)	Turkey	4 October 1994	24 March 1998	9-12% (c.i.f.)
4.	Gypsum board (69.09.1190)	United States	19 May 1994	12 November 1996	14.8% (f.o.b.)

Source: Information provided by the Israeli authorities.

(e) Balance-of-payments measures

54. Israel disinvoked the balance-of-payments provisions of the GATT 1994 on 15 December 1995.<sup>22</sup> It had used restrictions under these provisions at various times since 1961. The most recent import restrictions applied to agricultural products and were converted into tariffs and tariff quotas, according to its commitments within the framework of the Agreement on Agriculture.

(f) Countertrade (barter, counterpurchase or indirect offsets)

55. During the review period (1994-99), countertrade in government procurement tenders has become subject to specific regulations. Under Israeli law (Preference for Israeli Products and Mandatory Business Co-operation Regulation of 1995), every contract worth more than NIS 1.5 million in June 1999, concluded by government departments and fully owned government companies, must include an "industrial co-operation" clause, obliging foreign suppliers to purchase Israeli goods or services of a value equivalent to 35% of the value of the contract. Alternatively, foreign suppliers can invest in local industries, co-develop, co-produce, or subcontract to local companies, equivalent to the same amount. Agencies and companies subject to these offset requirements are required to obtain clearance from the Industrial Co-operation Authority (see section (4)(iv) for details). Total exports for which offsets have been a requirement amounted to US\$220 million or about 1% of merchandise exports in 1998 (Table III.11).

**Table III.11**  
**Exports where offset has been a requirement, 1994-98**  
(US\$ million, and share of total)

	1994	1995	1996	1997	1998
Regular offset	70	99	98	109	184
Subcontracting	41	30	37	32	36
Total	111	129	135	141	220

Source: Information provided by the Israeli authorities.

<sup>22</sup> WTO document WT/BOP/N/3, 25 September 1995.

(g) State trading

56. No items are imported only by, or on behalf of, the Israeli Government. However, as described in section (3)(v), some items are still exported only by, or on behalf of, the Government.

**(3) MEASURES DIRECTLY AFFECTING EXPORTS**

**(i) Export duties and other charges**

57. Israel has not imposed any export duties, taxes or other charges on exported goods during the period under review.

**(ii) Minimum export prices**

58. Israel has not maintained any official minimum or reference export prices during the period under review.

**(iii) Export restraints and licensing requirements**

(a) Export controls

59. Controlled exports are included in Annexes 1 and 3 of the Free Export Order of 1978. Currently, some 42 items, by broad categories, are prohibited under law for various reasons, such as the control of quality and standards of Israeli goods, compliance with international agreements (including those regarding dangerous drugs and protection of plants and animals), and the conservation of local resources (Table III.12).

60. Israel prohibits direct exports to countries that do not allow trade with Israel or that have no diplomatic relations with Israel.<sup>23</sup> Israel imposes trade embargoes under the provisions of international agreements or to follow United Nations' resolutions with respect to trade embargoes, including with Iraq.

(b) Export quotas

61. Israel does not impose any export quotas.

(c) Export licensing

62. Israel maintains an export licensing system for some food products and fresh agricultural products for sanitary and quality control; diamonds and certain precious stones; certain tools; and Jewish religious articles for religious reasons (Table III.13). Since 1994, jewellery, metal waste, brass, aluminium and other metals have been removed from the list. An export monitoring system is in place for exports of waste (paper and cardboard for environmental reasons).

(d) Voluntary restraints, surveillance and similar measures

63. According to the authorities, Israel does not participate in any arrangements designed to limit or control exports to third countries at the request of foreign governments.

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<sup>23</sup> These countries are Afghanistan, Algeria, Bahrain, Bangladesh, Iraq, Iran, Kuwait, Lebanon, Libya, Democratic People's Republic of Korea, Pakistan, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.

Table III.12  
Export prohibitions, 1999

Items subject to export prohibition	
<b>Annex 1 of the Free Export Ordinance</b>	
1.	Live poultry (01.05)
2.	Dairy produce; bird's eggs; edible products of animal origin, not elsewhere specified or included, excluding natural honey (04)
3.	Bulbs, tubers, tuberous roots, corms, crowns and rhizomes, dormant, in growth or in flower (06.01)
4.	Other live plants (including their roots), cutting and slips; mushroom spawn (06.02)
5.	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared (06.03)
6.	Palm branch, ruscs, myrtle (0.6.04)
7.	Edible vegetables, fresh or chilled (07)
8.	Coconuts, brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled (08.01)
9.	Other nuts, fresh or dried, whether or not shelled or peeled (08.02)
10.	Bananas, including plantains, fresh (08.03)
11.	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens (08.04)
12.	Citrus fruit, fresh or dried (08.05)
13.	Grapes, fresh (08.06)
14.	Melons (including watermelons) and papaws (papayas), fresh (08.07)
15.	Apples, pears and quinces, fresh (08.08)
16.	Apricots, cherries, peaches (including nectarines), plums and sloes, fresh (08.09)
17.	Other fruits, fresh (08.10)
18.	Cereals (10)
19.	Wheat or meslin flour (11.01, 11.02)
20.	Grout, meal or pellets of cereals (11.03, 11.04)
21.	Oil seeds and oleaginous fruits, whole or broken (12)
22.	Seeds, fruit and spores, of a kind used for sowing (12.09)
23.	Cotton linters (14.04.2000)
24.	Animal or vegetable fats and oils and their cleavage products; prepared edible fats, processed (15)
25.	Margarine; fat substitutes; edible vegetable fats or oils (15.16, 15.17)
26.	Dairy food; protein concentrates from soy beans (21.06)
27.	Oil-cake and other solid residues from the extraction of other vegetable oils (23.04, 23.05, 23.06)
28.	Preparations or concentrates of a kind used in animal feeding (23.09)
29.	Unmanufactured tobacco; tobacco refuse (24.01)
30.	Ores, slag and ash (26)
31.	Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations, containing by weight 70% or more petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations (27.10, excluding 27.10.2000)
32.	Petroleum gases and other gaseous hydrocarbons (27.11)
33.	Bitumen; bituminous or oil shale and tar sands (27.14)
34.	Recovered (waste and scrap) paper or paperboard (47.07)
35.	Cotton, not carded or combed (52.01)
36.	Cotton waste (52.02)
37.	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form (71.08)
38.	Other moving, grading, leveling, scraping, excavating, tamping, compacting, extracting or boring machinery, for earth, minerals or ores; pile drivers and pile extractors; coal cutters (84.30.8429)
39.	Tractors (87.01, excluding 87.09)
40.	Dampers (87.04)
41.	Crane, not the kind used for towing vehicles (87.05.1090)
<b>Addition 3 of the Free Export Ordinance</b>	
42.	Elementary phosphorus, Thionyl Chloride, Phosphorus Trichloride, Phosphorus Oxychloride (Phosphoryl Oxychloride), Phosphorus Pentasulfide, Potassium Fluoride, Sodium Fluoride, Potassium Fluoride, Potassium Cyanide, Sodium Cyanide, Chloroethanol (Ethanol-2-Chloro), (Ethylene Chlorohydrin), (B-Chloroethyl Alcohol), (2-Chloroethanol), Pinacolyl Alcohol, Orthochlorobenzaldehyde, Pinacolone, Methylbenzilate, Trimethyl Phosphite, Methyl Phosphonic Acid Diesters, Demethyl Methylphosphonate, (Methyl Phosphorus Acid-Dimethyl-Ester), (DMMP), Diethyl Methylphosphonate, Dimethyl Phosphite, (Dimethyl Hydrogen Phosphite), Diisopropylaminoethyl Chloride, Hydrochloride, Dimethylamine, (N-Methylmethanamine), Dimethylamine Hydrochloride (Dimethyl Ammonium Chloride), Dialkyl Amino Aldyl Chlorides, Diethanolamine, Triethanolamine, N-Alkyl Diethanol Amine, Dialkyl Amino Alcohols, 2- Diisopropylaminoethanol, 2-Dicyclohexacarbodiimide, Diisopropylcarbodiimide, Di-O-Tolylcarbodiimide, 2-Cyanoacetamide, Malononitrile, Dialkyl Amino Thiols, Thiodiglycol, (Thiodiethyleneglycol), (Thiodiethanol), Diethyl N-Dimethylphosphoroamidate, N-Propylphosphonous Dichloride, Ethylphosphonothioic Dichloride, Ethylphosphonousdichloride, Methylphosphonyl Difluoride, (Methyl-Phosphorus Acid-Difluoride), (Difluoro), (DF), (Methylphosphonyl Dichloride), (Methyl-Phosphorus Acid Dichloride), (Dichlor), Methylphosphonothioic Dichloride, Methylphosphonousdichloride (Methyldichlorophosphine), 3-Hydroxy 1 Methylpiperidine, 3-Quinuclidinol, 3-Quinuclidinone, Hydrogen Fluoride, Arsenic Trichloride, Phosphorus Pentachloride, Bensilic Acid, Dethyl Methylphosphonate, Dethyl Phosphite, Ethyl Phosphonyl Dichloride, Ethyl Phosphonyl Difluoride, Di-Isopropylamine, Ammonium Bifluoride, Sodium Bifluoride, Potassium Bifluoride, Sodium Sulphid, Diethyl Etylphosphonate, Phosphinyl Dichloride (28, 29 and 39)

Note: The HS code is provided in parenthesis.

Source: WTO Secretariat based on information provided by the Israeli authorities.

**Table III.13**  
**Export licensing, 1999**

	Items subject to export licensing	Permit issued by
1.	Live animals (01, excluding live poultry specified in 01.05)	Ministry of Agriculture
2.	Meat and edible offal, of the poultry of heading 01.05 fresh, chilled or frozen (02.07)	Veterinarian service in the Ministry of Agriculture
3.	Other meat and edible offal: fresh, chilled or frozen (02.08)	Ministry of Agriculture
4.	Fish and crustaceans, molluscs and other aquatic invertebrates, living in water, fresh, chilled or frozen (03)	Ministry of Agriculture
5.	Natural honey(04.09)	Ministry of Agriculture
6.	Bovine semen (05.11)	Ministry of Agriculture
7.	Sausages and similar products, of meat, meat offal or blood; food preparations based on these products (16.01)	Veterinarian service in the Ministry of Agriculture
8.	Meat, meat offal or blood prepared or preserved (16.02)	Veterinarian service in the Ministry of Agriculture
9.	Diamonds (71.02)	Ministry of Industry and Trade
10.	Precious stones and semi-precious stones (71.03)	Ministry of Industry and Trade
11.	Graded precious stones and semi-precious stones (71.04)	Ministry of Industry and Trade
12.	Hand saws; blades for saws of all kinds (including toothless saw blades) equipped with a layer of diamond grains or diamond powder (82.02)	Ministry of Industry and Trade
13.	Files, rasps, pliers and pincers equipped with a layer of diamond grains or diamond powder (82.03)	Ministry of Industry and Trade
14.	Hand tools (including glaziers' diamonds) with moving parts equipped with a layer of diamond grains or diamond powder (82.05)	Ministry of Industry and Trade
15.	Interchangeable tools for hand tools with moving parts equipped with a layer of diamond grains or diamond powder (82.07)	Ministry of Industry and Trade
16.	Jewish religious articles: torah scrolls, phylacteries, mezuzot (801)	Ministry of Religions

Note: HS code is provided in parenthesis.

Source: WTO Secretariat based on information provided by the Israeli authorities (Supplement 2 of the Free Export Order).

#### (iv) Export assistance

##### (a) Export subsidies

64. Within the framework of the Encouragement of Marketing Fund Programme, Israel provides subsidies to exporters. The subsidy - provided to exporters of all sectors intending to build and/or strengthen their marketing infrastructure abroad and who have consolidated a strategic marketing plan for that purpose - provides for grants of 33% of approved infrastructural marketing expenditure, up to a ceiling of US\$400,000. The budgeted amount for this type of assistance in 1995, the latest year for which data is available, was NIS 110 million.<sup>24</sup>

65. Export subsidies may also be granted to agricultural products. Under the Uruguay Round Agreement on Agriculture, Israel made export subsidy commitments regarding six product groups - cotton, fresh flowers, fruit, goose liver and vegetables. For these products, Israel committed to reduce the value of export subsidies by 24% over a ten-year period beginning in 1995, and the quantity of subsidized exports by 14% over the same period. In the marketing year October 1997 to September 1998, actual export subsidies totalled US\$0.98 million compared to an outlay commitment of some US\$50 million for that year<sup>25</sup>; the only product benefiting from export subsidies was fresh flowers. See Chapter IV(2)(iii) for more details.

<sup>24</sup> WTO document G/SCM/N/3/ISR, 28 November 1996.

<sup>25</sup> WTO document G/AG/N/ISR/9, 5 March 1999.

(b) Duty and tax concessions

66. Exporters can benefit from duty concessions on imported inputs, raw materials and capital goods. The features of these schemes are described in section (2)(ii)(e) and summarized in Table III.4. In addition, exporters are exempt from some indirect taxes, such as the value-added tax.<sup>26</sup> Moreover, exporters pay less than importers for the use of ports and stevedores; importers pay 1.1% of the c.i.f. cost of imports into Israel, whereas exporters pay 0.2% of the c.i.f. value of containers.

(c) Export finance, insurance and guarantees

*Finance*

67. According to the authorities, since 1994 Israel has removed the only government-supported export credit programme, which was the Medium and Long-Term Fund. Exporters of capital goods were eligible for financing from the Fund, at the rate applied under the OECD Consensus (Commercial Interest Reference Rates, CIRR), with payments spread over a period of three to seven years. According to the authorities, there was no element of subsidy in the financing programme.

*Insurance and guarantees*

68. The Israel Foreign Trade Risks Insurance Corporation Ltd. (IFTRIC), which is fully owned by the Government, offers a wide range of insurance instruments. Its income consists entirely of premiums, with no transfers from the Government since 1994. Short, medium and long-term activities are profitable, subsidizing losses resulting from IFTRIC's loan guarantee activities.

69. In the area of short-term credit insurance, IFTRIC insures Israeli exports against commercial and political credit risks involved in export transactions with a credit period of up to 360 days. For medium- and long-term credit, IFTRIC insures credits granted by Israeli exporters for transactions over a year against political risk. In both cases, IFTRIC covers up to 90% of losses incurred.<sup>27</sup> Moreover, since June 1998, IFTRIC has expanded its provision of this type of insurance to cover commercial risks, enabling it to provide a solution to the high level of commercial risks in developing countries caused by their privatization programmes. IFTRIC is the only body in Israel that will insure such transactions, with government backing.<sup>28</sup> The insurance in this latter area covers up to 70% of losses incurred and the maximum value is US\$15 million per transaction.

70. During 1998, IFTRIC's credit insurance portfolio totalled about US\$4 billion, covering the commercial and political credit risks incurred by about 500 Israeli exporters. Most of IFTRIC's insurance activities are focused on OECD countries, Israel's traditional export markets, but, in the short-term business, the share of developing countries in IFTRIC's insurance portfolio has recently increased (from 6% in 1996 to 10% in 1997). This increase resulted from intensified activities in Central and South America and the Far East, increased volumes of exports to Poland and Turkey, and, as part of its special programme with backing and involvement of the Government, increased activities in the Russian market. Electronics and high-tech exports accounted for about one quarter of insured exports in 1997. Meanwhile, the share of labour-intensive sectors has dropped, and textiles,

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<sup>26</sup> GATT (1995a).

<sup>27</sup> In September 1995, the Treasury raised the coverage for medium- and long-term transactions from 82.5 to 90%. Coverage of political risks for exporters to medium-risk countries was increased from 80 to 85%. For high-risk countries, political-risk coverage was increased from 70 to 80% (Database of the Economic Intelligence Unit [Online]. Available at: [www.EIU.com](http://www.EIU.com)).

<sup>28</sup> IFTRIC (1998).

fashion and shoes accounted for 7% in 1997. This trend reflects the tight link between the development of the Israeli economy and its export sectors, and changes in IFTRIC's activities.

71. IFTRIC faces competition from foreign companies and three Israeli insurance companies for short-term credit insurance. IFTRIC accounts for 70% of the market segment, thereby holding a central position in the sector. However, its short-term credit insurance segment is expected to be privatized, following the Ministerial Privatization Committee's decision on 10 March 1998 to sell this activity. On the other hand, in the area of medium-term transactions IFTRIC accounts for about 99% of the market.

72. IFTRIC has entered into reinsurance arrangements to reduce its exposure. At the beginning of 1997, about 95% of IFTRIC's insurance portfolio was reinsured at a ratio of 50%; during 1997 IFTRIC agreed to extend the reinsurance treaty to 99% of the company's short-term credit risk portfolio.

73. IFTRIC also guarantees loans (working capital, factoring, shipments, and performance guarantees) granted by domestic commercial banks to Israeli exporters. IFTRIC does not face any competition from the private sector in this area. The maturity of the guarantees are generally up to a half year, but they can be extended at special rates; in the form of buyer's credit under the medium-and long-term scheme, for as long as five years for capital goods and construction projects. The Government and IFTRIC share the risk inherent in issuing guarantees, through joint programmes backed by specific guarantees. For example, for working capital guarantees, the Government undertakes 95% of the risk and IFTRIC the remaining 5%. In recent years, IFTRIC has been cutting the volume of guarantees due to its heavy losses from this activity. In particular, some of the working capital guarantees, totalling US\$25 million (the scope of the guarantees at the end of 1998) are high-risk, and are liable to cause IFTRIC further losses.<sup>29</sup>

(d) Export promotion and marketing assistance

74. Export promotion activities are administered by the Israel Export Institute (IEI). The IEI provides a wide range of services, including product and market promotion and development, specialized support services to exporters (including marketing, quality control and publicity) and participation at international trade fairs. Fairs are financed by the participants, while the remainder of IEI's activities are financed by the Government (55%), and regular or voluntary contributions (45%). The Government's contribution to the IEI amounted to NIS 39.2 billion in 1998.

(v) State trading

75. Some items are still exported only by, or on behalf of, the Israeli Government (Table III.14). These items include ground nuts, ornamental plants, fruit, vegetables, eggs and poultry. The Fruit Board of Israel and the Vegetable Production and Marketing Board establish criteria for other export agencies, according to which export licences are granted to private companies on the basis of export "of at least 30%" of the total export of a product; a maximum of three exporters can operate, in each branch of an export product.<sup>30</sup>

<sup>29</sup> IFTRIC (1998).

<sup>30</sup> WTO document G/STR/Q1/ISR/1, 17 October 1997.

Table III.14  
Exports restricted to State trading agencies, 1999

Products	Responsible agency
1. Ground nuts	Israel Groundnuts Production and Marketing Board
2. Ornamental plants <sup>a</sup>	Production and Marketing Board of Ornamental Plants
3. Fruit <sup>b</sup>	Fruit Board of Israel
4. Vegetables <sup>b</sup>	The Vegetable Production and Marketing Board
5. Eggs and poultry <sup>c</sup>	Egg and Poultry Board

a Some exporters who began their activity before 1976 ("past-traders") retain their export licence. Since 1992, private companies can export dried flowers and propagation materials to countries where the Board does not operate.

b The Board establishes criteria for other export agencies and exports (currently up to three exporters).

c The Board establishes criteria for other export agencies and exports through several different firms. The Board coordinates exports of goose livers and breast of turkeys, but other private traders compete on these products.

Source: WTO document G/STR/N/1/USR/Rev.1, 26 September 1996; and GATT (1995a), *Trade Policy Review – Israel*, Geneva.

#### (vi) Measures maintained by importing countries

76. Israeli exports are currently facing anti-dumping duties on float glass in South Africa (12.10% to 22.84% of export value) and countervailing duties on industrial phosphoric acid in the United States (5.89% of export value). No other areas of concern to Israeli exporters were noted by the authorities.

#### (4) INTERNAL MEASURES

##### (i) Competition policy and related issues

###### (a) Competition laws and regulations

77. Over the past few years, competition issues have become more central to the economic, legal and political debate in Israel. As border protection has been gradually lowered and privatization has been put into effect, competition issues have become more important. Competition issues in Israel are covered by the 1988 Restrictive Business Practices Law. The key legislative changes since 1994 include the amendment in 1996, to the law of 1988, to forbid the abuse of dominant position, mirroring the relevant European Union legislation; the introduction in 1996 of private class action, adding an important tool for private enforcement of the law; and the establishment in 1994 of an anti-trust authority (the Restrictive Business Practices Commission) as an independent agency. In general, Israel's competition regulation places the creation and operation of cartels and monopolies under official supervision and control. It also includes far-reaching provisions on mergers and acquisitions.

78. Operating under the auspices of the Ministry of Industry and Trade, the Restrictive Business Practices Commission is responsible for the enforcement of prohibitions set out in the Restrictive Business Practices Law of 1988 (Table III.15). It is an independent body in the sense that it is not administratively subordinate to the Ministry of Industry and Trade, has a separate line item in the national Budget, and the Controller of the Restrictive Business Practices Commission is appointed by the Government, upon the advice of the Ministry of Industry and Trade. The Commission's main duties include supervising monopolies and cartels, investigating and hindering unlawful business practices, and approving mergers and acquisitions. Under the law all competition-restricting arrangements among individuals or firms must be registered with, and approved by, the Controller.

79. While restrictive arrangements are generally prohibited in Israel, the law explicitly exempts certain activities, such as agricultural marketing boards and arrangements applying to international sea

or air transport. Restrictive arrangements that are established under an enactment are allowed, such as the recommendation by the Israeli Bar on certain legal services supplied by lawyers. Another example is certain organizations entrusted by law to determine entry criteria to the profession. Moreover, approval of a restrictive arrangement - such as a cartel - is granted if the applicant demonstrates that the arrangement contributes to the public welfare (Article 9 of the Restrictive Trade Practices Law). In the past, cartel-like companies were approved under such arrangements, while today the granting of approvals for arrangements that impede competition is rare.<sup>31</sup> However, as long as the text is not altered, the possibility for allowing restrictive arrangements on a wide basis continues to exist. All monopolies (i.e. when a single enterprise supplies more than 50% of the domestic output of a given product or service) are subject to legal restrictions similar to those defined in the EU's Treaty of Rome. A monopoly may also be subject to price regulation, although use of this measure is rare.<sup>32</sup> Israeli legislation does not provide for block exemptions. However, a new bill containing amendments to the Law has been introduced to the Knesset and passed the first reading in April 1999; these amendments contain provisions authorizing block exemptions. The Controller publishes semi-annually a list of products and services that fall into the monopoly category. As of end-1998 the official list of monopolized products and services comprised 67 items.

**Table III.15**  
**Key features of Israel's competition law**

Arrangement	Definition	Substantial provisions
<b>Restrictive arrangements</b>	Arrangements to which at least one of the parties imposes a restriction on himself/ herself which is liable to prevent or reduce business competition	Generally prohibited  <i>Examples of exemptions:</i> <ul style="list-style-type: none"> <li>- those arrangements that are established under an enactment;</li> <li>- those arrangements applying to the cultivation and marketing of several domestically produced agricultural products (fruit, vegetables, field crops, milk, eggs, honey, beef, mutton, poultry and fish);</li> <li>- those arrangements applying to international sea or air transport; and</li> <li>- those arrangements contributing to the public welfare may be exempted.</li> </ul>
<b>Mergers and acquisition</b>	The acquisition of the principal assets of one entity by another or acquisition of shares in such an entity entailing control of more than 25% of issued share capital, voting rights, rights to appoint directors or participation in profits; acquisition can be either direct or indirect, including via a voting agreement	Mergers that substantially affect competition or injure the public through the price level, quality or supplied quantity are prohibited  <i>Mergers requiring prior consent from the Controller:</i> <ul style="list-style-type: none"> <li>- if the transaction would result in control of more than 50% of sale, production, marketing or purchase of a product or service, or group thereof;</li> <li>- if the combined turnover in Israel exceeds NIS 150 million (equivalent to US\$36 million in June 1999) and at least two of the companies involved have a combined turnover of at least NIS 10 million (equivalent to US\$2.4 million in June 1999); and</li> <li>- if one of the entities involved already operates as a monopoly.</li> </ul>
<b>Monopoly</b>	A company supplying more than 50% of a given product or service's output in the domestic market	Arrangements under supervision of the Controller

Source: WTO Secretariat, based on the Restrictive Business Practices Law of 1988.

<sup>31</sup> Examples of instances when Israeli cartels contribute to the public welfare are: a joint venture between insurance companies that will develop a software for computerized assessment of property damages in car accidents; a joint venture between regional franchisees of a cable TV that will purchase programmes from producers abroad and will be engaged in the production of Israel TV programmes; and an arrangement between cable manufacturers to cooperate in foreign markets in instances when they lack capacity to bid alone.

<sup>32</sup> It is more likely that when price regulation is imposed it will be done under the Law for the Supervision of Prices of Goods and Services of 1996, rather than the Restrictive Trade Practices Law.



80. In June 1995, the Controller found the majority government-owned telecommunications company (Bezeq) to be a monopoly, placing the enterprise under the Law's clauses on restricted regulations. The Controller has also demanded that long-term contracts between gas stations and the energy companies be severed. On the other hand, economically justified mergers are encouraged by the Government. Legislation that took effect on 1 January 1994 extends tax-free treatment to mergers between companies in any field, though restrictions apply to changes in activity, disposals of pre-merger assets and changes in shareholdings in the merged company.<sup>33</sup> The number of mergers has risen in recent years; in 1995, 105 mergers were notified compared with 250 in 1998.

81. Legal proceedings in the area of competition have strengthened. According to an old directive, only the company concerned, and not the executives of the company, was charged in anti-trust criminal proceedings. Today, executives are charged as well. Moreover, in 1996 the court (the Jerusalem District Court) for the first time handed down suspended imprisonment penalties in an anti-trust case, but no actual imprisonment has been handed down. Today, violation of the law is punished with imprisonment of up to two years and/or fines. Appeal of a decision by the Controller in questions of competition (such as decisions to grant an exemption to a restrictive arrangement; to approve a merger, to disapprove it or to approve it under certain conditions; and to issue instructions to a monopoly) can be made to Israel's designated anti-trust court (the Restrictive Business Practices Court) and, thereafter, to the Israeli Supreme Court. The appeal process is usually very lengthy. Purely administrative decisions and acts by the Controller and by the Authority can be judicially reviewed directly by the Supreme Court.

(b) Privatization - reforming public companies<sup>34</sup>

82. The State has played a dominant role in production since the establishment of the State of Israel in 1949, when all natural resources were nationalized. The new State developed into a three-sector economy, comprising the public, private and the Histadruth (the General Federation of Hebrew workers) sectors. The Histadruth, which accounts for about 40% of employees, collects dues (3.6% to 5.8% of wages) to finance its trade union organization, social services, education and cultural activities, and economic development projects. The Histadruth is no longer active in the production side of the Israeli economy.

83. In order to increase the efficiency of state-owned companies and to improve competition in the economy, the Government launched a privatization programme in 1986. Progress was initially slow and did not gain momentum until the early 1990s. After reaching a peak of NIS 3.3 million in 1993, privatization proceeds fell during the 1994 stock market crisis (Table III.16). In recent years, considerable headway has been made (notably in the areas of banking and telecommunications) and privatization proceeds reached an all time high of NIS 8.5 billion in 1997 (equivalent to 2.5% of GDP). The Government's policy is to use privatization receipts to lower its debt. Moreover, the Histadruth has in recent years disposed of most of its commercial holdings. According to the most recent data (1997), government-owned companies account for 3.5% of GDP and 8.1% of exports and are concentrated in transportation and communication, water and electricity, and defence. As of end December 1997, 111 companies remained under government control, 52 of which were commercial enterprises; these numbers exclude the six state-owned banks.

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<sup>33</sup> Tax is not paid on income derived as a result of a merger; mergers are also exempt from the land appreciation tax, the land transfer fee, the registration fee, the capital fee and the stamp fee (section (ii)(a)).

<sup>34</sup> This section draws on the Israeli Ministry of Finance web-site (available at: [www.mof.gov.il/prospectus](http://www.mof.gov.il/prospectus)).

**Table III.16**  
**Privatization receipts, 1991-99**  
(NIS billion and per cent)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 <sup>a</sup>
Gross (NIS billion)	1.0	1.2	3.3	0.7	1.8	0.4	8.5	5.1	4.6
Net <sup>b</sup> (NIS billion)	1.0	1.1	2.9	0.3	0.0	-0.6	7.9	..	..
Gross/GDP (%)	0.7	0.7	1.8	0.3	0.7	0.1	2.5	1.5	..

.. Not available.

a Projected.

b Net privatization receipts are government receipts from the sale of its shares in public-sector corporations less injections of share capital into public-sector corporations.

Source: Bank of Israel (1998), *Annual Report 1997*, Jerusalem, March, p. 186.

84. State-owned companies are divided into three groups:

- government companies, excluding state banks acquired pursuant to the Bank Shares Agreement (see below), are those with government ownership of more than 50% of the voting shares;
- mixed companies, in which the Government owns less than 50% of the voting shares; and
- state banks.

85. Government companies, mixed companies and state banks are subject to different legal provisions. Government companies are subject to the provisions of the Companies Law of 1975, as well as directives of the Government Companies Authority set up in 1960. The Companies Law regulates the management and operations of government companies and the procedures under which the Government may sell shares in these companies. Under this Law, mixed companies only remain subject to certain provisions, including the appointment and qualification of the directors chosen by the Government and the establishment of employment terms. Privatization of all state-owned enterprises, other than banks, is administered by the Government Companies Authority. The Privatization Committee (consisting of the Prime Minister, as chairman, the Minister of Finance, and the Minister of Justice) has the power to initiate the privatization of any government company or mixed company and to implement structural changes or other preparatory measures necessary to effect such privatization; the consent of the Minister directly responsible for such company is not required. The Government Companies Authority also has authority relating to the management of government companies, including the rights to convene board meetings and to issue directives to government companies in relation to decisions of the Privatization Committee.

86. Pursuant to the 1983 Bank Shares Arrangement, the responsibility for the privatization of banks is with the Ministry of Finance, through a wholly owned government entity (MI Holding).<sup>35</sup> MI Holding manages privatization according to the Minister's instructions (Chapter IV(4)(ii)).

87. Of the 111 government companies, enterprises slated for privatization including banks, cover a variety of sectors. The most significant privatization has been the sale of a controlling stake in Israel's largest bank (Bank Hapoalim). Privatizations have been realized both through direct sales to investor groups and public equity offerings. The public equity offerings have been placed on the

<sup>35</sup> In 1983, against the backdrop of a stock market crisis the Government entered into an arrangement called the Bank Shares Arrangement. Under the arrangement, the Government bought shares from the banks' shareholders and it gained a controlling share in five of the six largest Israeli banks. The Government intends to sell the State's controlling interest in these banks.

Tel Aviv Stock Exchange (TASE). The defence industry, which is entirely owned and run by the State, remains excluded from the privatization programme.

**(ii) State aid**

**(a) Overview**

88. The Government has cut down on the direct benefits (such as cash grants) offered to investors in recent years, while relying more on incentives (such as tax concessions) with no direct fiscal implication for the budget. Nevertheless, the system of state aid continues to be complex, with several systems running in parallel, at a substantial cost compared with international standards. The total cost in 1996 was estimated at 8.4% of GDP (explicit outlays on investment grants and subsidies were the equivalent of 3.2% of GDP while forgone revenue from total tax expenditures represented 5.2% of GDP).<sup>36</sup> Government outlay on the direct cost of subsidies and financial assistance for some categories is provided in Table AIII.6. The state aid system, as in many other countries, may hinder structural adjustment of the economy and distort resource allocation. The impact of the entire Israeli system has not been evaluated, but a recent comprehensive study shows that the main programme (regional aid system) has resulted in production inefficiencies ranging from 5% to 15%, depending on the degree of subsidies.<sup>37</sup> However, in this context, the authorities noted that productivity is higher in companies receiving research and development (R&D) grants.

89. Israel provides incentives mainly through two different programmes. Enhanced benefits are provided to industry and tourism, and in developing peripheral regions, in order to foster economic development and migration. Foreign investors also receive enhanced incentives. The incentives provided under the main regional aid system take the form of investment grants (or exemption from company tax), and reduced company taxation. Israel has also set up a large state-funded R&D programme. The key features of the Israeli state aid programmes are provided in Table III.17. The two main programmes are discussed in more detail below.

**(b) Regional aid programme**

90. Incentives in the form of a grant or reduced tax rates are provided within the framework of the regional aid programme. Based on the Encouragement of Capital Investments Law of 1959, the Israel Investment Centre (IIC) may grant the status of an "approved" investor for capital investments in industry and tourism. To receive an incentive, an investment scheme must consist exclusively of fixed assets, such as new equipment and buildings, and the company must finance at least 30% of the approved project with capital equity paid in cash. The project must be completed within five years of the grant's approval, and at least 25% of the work must be completed within one year. Factors taken into consideration by the IIC in the approval process include the investment's potential to contribute to Israel's national product, use of state-of-the-art technology, technological inventiveness, and its contribution to special local needs and to the creation of employment opportunities.

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<sup>36</sup> IMF (1998).

<sup>37</sup> Bregman et al. (1998).

Table III.17  
Key features of the Israeli state aid programmes, June 1999

Scheme	Eligibility	Incentives	Direct cost
1. <b>Regional aid programme</b> (Capital Investment Law of 1959)	Manufacturing and tourism	- grant up to 24% of investment cost, tax exemption up to two years, tax deduction up to five years or tax exemption up to ten years  <i>or</i> - enhanced tax incentive package	Direct cost of NIS 1,133 million in 1998; NIS 1,240 million in 1994
2. <b>Structural adjustment fund programme</b>	Companies affected by unilateral trade liberalization	- grant up to 20% of investment cost - information advisory services	NIS 1.57 million in 1998; NIS 6.01 million in 1994
3. <b>Research and development programme</b>			
a. Main programme	R&D-oriented projects in all sectors	- grant of 30-66% (standard of 50%) of the cost	NIS 1,140 million in 1998; NIS 793 million in 1994
b. Joint ventures between entrepreneurs and established business entities	Entrepreneurs in need of experienced companies <sup>a</sup>	- grant of 66% of approved R&D expenditures (maximum US\$300,000) per year up to two years	Included in (a) above
c. Generic technologies (Magnet programme)	Advanced generic technology projects	- grant of 66-80% of approved R&D expenditures	NIS 227 million in 1998; NIS 31 million in 1994
d. Incubators programme	Start-up companies (focus on scientist and inventors among new immigrants)	- grant of 85% of approved R&D expenditures (maximum NIS 560,000) per year up to two years	NIS 112 million in 1998; NIS 85 million in 1994
e. Beta sites	Companies ready to establish beta sites	- grant of 50% (30%) of approved expenditures to companies with a turnover of up to US\$6 (US\$30) million for the previous three years; maximum budget is US\$600,000	NIS 15 million in 1998; NIS 9 million in 1994
f. Feasibility studies	Feasibility studies	- grant of up to 50% of a maximum budget of US\$25,000 for market feasibility studies and US\$30,000 for survey involving more than two continents	Included in (a) above
g. Binational industrial research	Joint ventures between Israel and several countries <sup>b</sup>	- grant of generally 50% over three years	Included in (a) above
h. The EU's Fifth Framework Programme	Cooperative projects with EU member countries	- grant normally 50% of project cost (larger subsidies available for small- or medium-sized enterprises)	Data on Membership payment not available
i. Eureka	Cross-border cooperation in advanced technological projects	- assistance to firms and research institutes to find methods for collaboration in high-technology, market oriented cooperative R&D ventures	Not budgeted
j. U.S.-Israel Science and Technology Commission:			
- joint venture programme for high risk technology joint ventures between U.S. and Israeli companies	High risk technology projects	Not available	US\$3 million in 1997
- impediments reduction and infrastructure building programme	Infrastructure building activities	Not available	US\$0.4 million in 1998; US\$0.1 million in 1994
4. <b>Tax concessions</b> (Encouragement of Industry (Taxes) Law of 1969)	Not available	- amortization of patents and know-how at 12.5% per year - expenses for the registration and issue of shares on a stock exchange are tax deductible over three years - a group of industrial companies may file a consolidated tax return - no tax paid on income derived as a result of a merger; mergers are also exempted from land appreciation tax, and transfer fee, registration fee, capital fee and stamp fee	No direct cost

Table III.17 (cont'd)

Scheme	Eligibility	Incentives	Direct cost
5. <b>Capital intensive investments</b> (Encouragement of Investments (Capital Intensive Companies) Law of 1990)	Company of paid-up capital of no less than US\$30 million <sup>c</sup>	- real capital gains from the sale of shares of fixed assets (including real estates) which were used in qualifying activities are taxed at 25% - revenue income of company derived from these activities is taxed at 25% - revenue income which the company derives from dividends paid from a "qualified investment" is taxed at 15%	No direct cost
6. <b>Small and medium-sized companies</b> (Small Business Authority)	Business with up to 100 employees and an annual turnover of US\$50 million	- professional guidance and assistance	NIS 12 million in 1998
7. <b>Employment and training programme</b>			
a. Business tutorial	Small and medium-sized businesses (up to 100 employees) in disadvantaged areas	- grants of up to 75% of the expenses of tutorial programme for 6-12 months	NIS 16.5 million in 1998; NIS 13.2 million in 1994
b. Advanced managerial systems	Medium-sized manufactures	- grants of up to 50% of the consultancy fee, up to a ceiling of 400 hours of consultancy	NIS 2 million in 1998; NIS 0.4 million in 1994
c. On the job training of new employees	Employers hiring employees	- grants of up to NIS 1,700 per employee in disadvantaged areas <sup>d</sup>	Not available
d. Re training of unemployed graduates	Unemployed university graduates	- grants of up to NIS 2,600 per employee for up to six months	Not available
e. Newly released soldiers	Newly released soldiers who work in high demand jobs	- grants of NIS 6,603 per employee (January 1998) <sup>f</sup>	NIS 120 million in 1998; NIS 50 million in 1994
8. <b>Environment</b>	Investment aimed at the reduction of environmental hazards at existing industrial plants	- grants of up to 35% of the cost of the approved investments for the new installation (but not more than NIS 1.125 million)	NIS 28 million until 1998
9. <b>Agriculture</b> (Encouragement of Capital Investments Law (Agriculture) of 1980)	Producers of the following products: flowers (green houses, technical improvements and machinery); vegetables (green houses, technical improvements, and machinery); fruit; infrastructure (water reservoirs, and irrigation systems); beef cattle; fishery; and new plants	- grants of up to 30% (down from 40% in 1995) of total project cost - exemption from income tax - enhanced depreciation	US\$0.4 million in 1998; US\$0.7 million in 1995
10. <b>Income Tax Law</b> (Adjustments for Inflation) of 1985	Not available	Not available	No direct cost

- a With an accumulated turnover of at least US\$5 million over the last three years and/or holding companies with a portfolio in excess of US\$12 million.
- b Israel has research agreements with Canada, France, India, Netherlands, Portugal, Singapore, Spain, and the United States, while funds with the United Kingdom and Korea will be established during 1999; the main one is the Israel-United States Bilateral Industrial Research and Development Fund (BIRD).
- c Share ownership restricted to non-residents, and the aim is either to conduct business in Israel in areas of activity that have been designated as "qualified activities" or invest in Israeli companies whose primary actives are qualifying activities.
- d An additional NIS 850 for new employees who are new immigrants, women, or above the age of 45.
- e Article 8.2 (c)(ii) of the WTO Agreement on Subsidies and Countervailing Measures stipulates that assistance is limited to 20% of the cost of adaptation.
- f The grant is determined as half of the unemployment payment (s)he would have received if working for the average wage in the market.

Note: Estimates on foreign revenue associated with the programmes are not available.

Source: WTO Secretariat, based on information provided by the Israeli authorities.

91. An investor in an approved enterprise may choose between (i) a capital incentive package in the form of a grant equivalent of up to 24% of the investments in fixed assets, or tax holidays, and (ii) an enhanced tax-incentive package. As shown in Tables III.18 and III.19, the benefits under both components of the programme are contingent on the location, the size of the investment, and the sector.<sup>38</sup> Foreign investors receive additional benefits compared to domestic investors.

Table III.18

**Regional aid programme: investment grants or tax exemption, 1994 and 1999**  
(Share of investment in fixed assets and number of years)

	Priority Area A <sup>a</sup>		Priority Area B		Priority Area C	
	1994	1999	1994	1999	1994	1999
<b>1. Investment grants etc.:</b>						
<b>a. Grants (share of investment):</b>						
Industrial projects						
- up to NIS 140 million	38	22	20	10	-	-
- above NIS 140 million	38	20	20	10	-	-
Hotels, and other accommodation	29	24	23	10	16	-
Other tourist enterprises	22	15	11	-	5	-
<b>b. Tax exemption (number of years)</b>	-	2	-	-	-	-
<b>c. Tax deduction (number of years)</b>	7	5	7	7	-	-
<b>Alternative incentive:</b>						
<b>2. Tax exemption (number of years)</b>	10	10	6	6 <sup>a</sup>	2 <sup>b</sup>	2 <sup>c</sup>

- Nil.

a Plus four years of tax benefit for foreign-owned companies.

b Plus eight years of tax benefit for foreign-owned companies.

c Plus eight years of tax benefit for foreign-owned companies.

Note: Area A covers the least-developed parts of the country, including Jewish settlements in the Gaza strip and the West Bank, the north-east areas along the Lebanese and Syrian borders, the Negev desert area in southern Israel, the Golan, the Jordan valley and Jerusalem. Area B covers the township adjacent to the top-priority areas, while area C covers the lower and western Galilee and central Israel.

Source: Ministry of Industry and Trade (1998a), *The Israeli Economy at a Glance 1997*, Jerusalem, May.

Table III.19

**Regional aid programme: rates of taxation, 1994 and 1999**  
(Per cent)

Type of tax	Company owned by local investor	Company owned by foreign investor <sup>a</sup>	Company that is not an "approved" enterprise
	1994/1999	1994/1999	1994/1999
Taxable income	100	100	100
Balance	75	90 - 80	64
Income tax	0	0	0
Tax on undistributed income	25	10 - 20	36
Dividend tax (15% of balance)	11.25	13.5 - 12	16
Total effective tax on distributed income	36.25	23.5 - 32	52

a The rate depends on the foreign investors' rate of rights.

Note: The tax benefits for an "approved" enterprise are granted over a period of seven consecutive years, starting with the first year in which the company earned taxable income, providing that 14 years have not passed since the enterprise began operating.

Source: Ministry of Industry and Trade (1998a), *The Israeli Economy at a Glance 1997*, Jerusalem, May.

<sup>38</sup> Additional tax incentives, but of less importance, include accelerated depreciation of machines, equipment and buildings; exemption from property tax and the building permit fee on rental buildings for which the construction has been approved by the Board; for foreign residents, exemption from land appreciation tax; income tax and capital gains tax exemptions for international trading companies; and exemption (investment in region A) or reduced (region B) employer's tax.

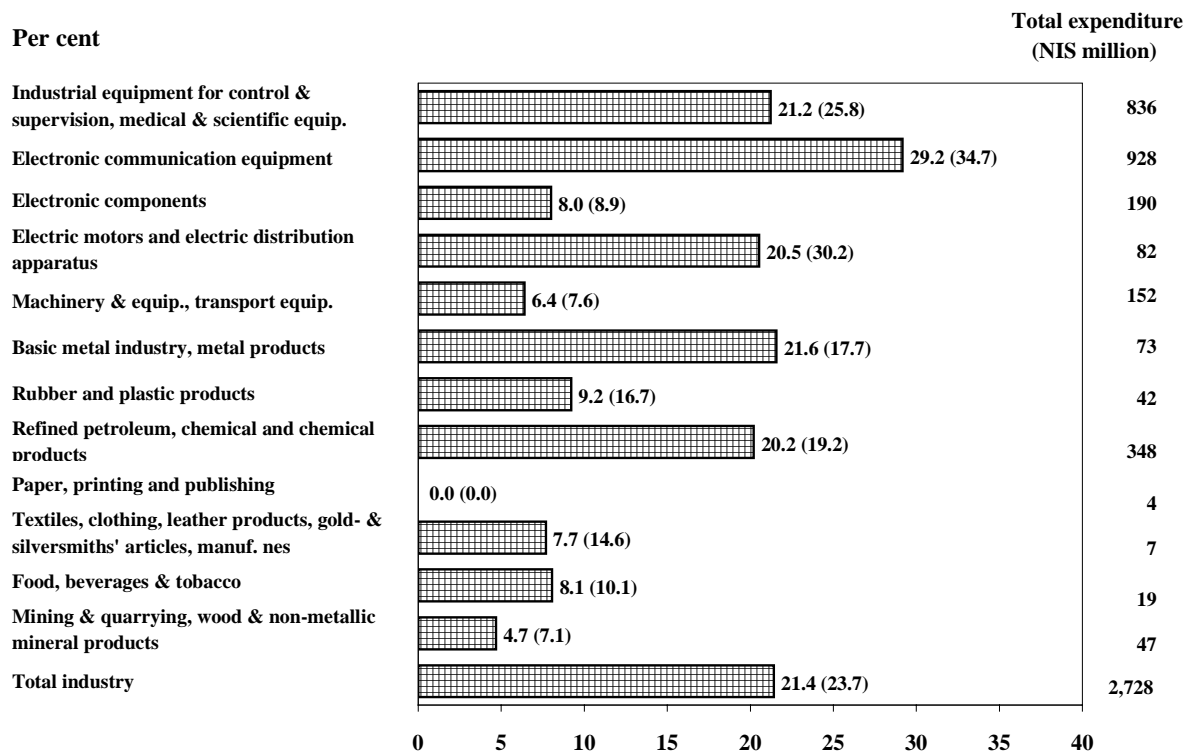
92. Since Israel's previous Review, incentives available to investors have been reduced, mainly as a result of fiscal constraints, while the priority areas have been remapped. In 1994, an approved investor could qualify for grants equal to 38% of the project's cost, compared with 24% in 1999 and the envisaged 20% in 2000. The option to receive government guarantees (up to 85% of the loan) in place of the tax breaks was cancelled in 1997. The priority areas have been redefined since 1994; priority area A, which receives the highest incentives, covers the least-developed parts of the country (such as the Negev desert area in southern Israel, the north-east areas along the Lebanese and Syrian borders, and the Israeli settlements in the West Bank and Gaza regions). Total direct expenditure for the regional aid programme was US\$1,133 million in 1998 compared with US\$1,240 million in 1994; no estimates on forgone revenue are available. The decline mainly reflects the reduced incentive levels offered under the programme, but it also mirrors a reduction in the number of investments granted.

(c) Research and development programmes

93. Israel has traditionally supported R&D activities. Total expenditure rose from NIS 2.1 billion in 1994 to NIS 2.7 billion in 1996 (the latest data available) equivalent to 1% of GDP, which is among the highest in the world. R&D support is concentrated in electronic and electrical industries (44% of total government expenditure in 1996) and most activities are performed by small companies. In the sub-industries, electronic communications equipment; basic metal industry and metal products; and industrial equipment for control and supervision, and medical and scientific equipment, the Government finances 21% or more of total R&D expenditure (1996) (Chart III.7).

94. The Israeli Office of the Chief Scientist (OCS) is responsible for the management of the R&D funds, within the framework of the Encouragement of Research and Development Law No. 5744 of 1984. The support is provided to R&D projects in all sectors, provided they are aimed at the discovery of new knowledge, for the development of new products or processes, or for the substantial improvement of existing products or processes. The approval criteria for new product development includes evaluation of the innovativeness in the development of new technologies; management, production and marketing capabilities of the firms, as well as the marketing strategy for the new product; high-value-added products that can compete in international markets; and the introduction of new technology and expansion of scientific manpower.

95. The structure of R&D programmes has remained broadly the same since 1994. The standard support is 50% of the cost; investments in improvements in existing products, and products for the military market receive somewhat lower support (30%), while R&D undertaken in development zone A receives 60% of the cost (40% for military products). New start-ups, whose only activity is in R&D and where the sole financing comes from those performing the R&D, enjoy support of 66% for a budget not exceeding US\$250,000 per year, for a maximum of two years. If the project results in successful commercial sales, then the grant is to be paid back with interest, through royalties equal to 3% of annual sales during the first three years, 4% for the next three years and 5% from the seventh year. The share of the royalties in financing the R&D budget has increased from about 13% in 1994 to 30% in 1998 and is expected to reach 37% in 1999. A number of other R&D support programmes are also provided to investors (Table III.17).

**Chart III.7****Share of government financing in total industrial research and development expenditure, 1996**

Note: Data in brackets refers to 1994 data.

Source: Central Bureau of Statistics (various issues), *Statistical Abstract of Israel*, Jerusalem.

**(iii) Technical regulations and standards**

96. Since its previous review in 1994, Israel has amended its standards law, aimed at meeting its commitments arising from the WTO Agreement on Technical Barriers to Trade (TBT). In January 1998, the Standards Law of 1953 was amended so that the basis on which a mandatory (official) standard can be declared was narrowed (see below). Standards or parts of standards declared as mandatory ceased to exist if they were not compatible with the amended law. Thus, the status of about 250 standards was changed from mandatory to voluntary or only partially mandatory. Based on government decisions of August 1995 and January 1997, standards are prepared whenever possible in line with international standards. In this context, the Government noted during the preparation of this review the difficulties in harmonizing its standards with its two main trading partners - the European Union and the United States - which apply different standards. Currently, one quarter of the mandatory standards are equivalent to international standards.

97. Technical regulations in Israel cover health, safety, environment and consumer protection. Each relevant Ministry is responsible for the implementation and the administration of Israel's undertakings under the TBT Agreement; the national enquiry point is the Standards Institution of Israel (SII).<sup>39</sup> On 14 May 1997, Israel notified the WTO of its acceptance of the Code of Good

<sup>39</sup> WTO document G/TBT/ENQ/12, 20 August 1998.



Practice for the preparation, adoption and application of standards. The national enquiry point and the national notification authority with respect to the SPS Agreement is the Ministry of Agriculture and Rural Development.<sup>40</sup>

(a) Standards and quality control

98. The Israeli Standards Law of 1953 empowers the SII as the authority for the development of standards, compliance testing, and certification of products and quality assurance systems manufactured in or imported into Israel, and to enact the necessary rules for the general public.<sup>41</sup> The Commissioner of Standards is in charge of standards enforcement. Depending on the type of standards, other agencies such as the Ministries of Health, Communication, Agriculture, and Industry and Trade may become involved in developing standards or enforcing them. Food and health products must be registered with the Ministry of Health before they can be sold on the Israeli market.

99. The SII has published over 2,000 standards (Table III.20). Standards are printed in Hebrew, except electronic, electrical and telecommunication standards, where the adopted standards are published in English only. Standards published until 1976 were translated into English but since then only a few have been translated. Some 533 or 24% of all Israeli standards are mandatory; the Minister of Industry and Trade may declare a particular standard to be a mandatory standard, after consultation with representatives of producers and consumers, and with the consent of the concerned Minister, and if the Minister of Industry and Trade is satisfied that the standard is necessary for protection of public health or safety, environmental protection, or providing information to the consumer (if the standards is the only source of such information). The basis on which a standard can be declared mandatory was recently narrowed and mandatory standards that were not in accordance with the amended law ceased to be mandatory.<sup>42</sup> The SII normally adopts international standards wherever possible. However, a quarter of the mandatory standards, which are most frequent in the food sector (36% of the mandatory standards) and electrical engineering (23%), are equivalent to international standards.

100. The customs tariff book contains a column indicating whether a product is subject to requirements in accordance with technical regulations on importation into Israel. These requirements apply to 3,881 items at the HS eight-digit level or 39.4% of the tariff lines in the 1999 tariff, compared with 31.5% in December 1992 (Chart III.8). Under an HS-section classification, the profile shows peaks for agricultural related products (prepared food etc., live animals and products, vegetable products, and fats and oils). It should be noted, however, that in some cases only part of the tariff line at the eight-digit level is subject to the technical regulations.

101. SII's product certification programmes are open to all manufactures, including those of foreign origin, subject to certain conditions. These programmes include the Standards Mark (over 1,500 consumer products currently bear the mark), Safety Mark (refers only to a product's compliance with safety standards and not to the quality or performance), and Green Label (for environmental friendly products, and introduced in 1993 based on EU Directive 880/92). The SII has adopted the ISO 9000 series of standards for quality system certification. SII has received over 5,000 applications for ISO 9000 certification from Israeli manufactures and service providers since it began its

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<sup>40</sup> WTO documents G/SPS/ENQ/17, 15 September 1998 and G/SPS/GEN/91, 9 September 1998.

<sup>41</sup> Government ministries may also prepare technical requirements for products within their scope of responsibility. However, as a general policy, the ministries use the SII rather than preparing their own technical regulations (GATT, 1995a).

<sup>42</sup> Prior to January 1998, a standard could be declared mandatory if it was deemed necessary by the Ministry of Industry and Trade to protect the health or safety of the public, to ensure adequate quality of or to improve local production, to render the economy more efficient, or to protect the consumer.

programme in 1990. Of these, 3,500 organizations were approved. Currently, some 40% of Israeli companies involved in ISO 9000 certification with SII are from the service industry. SII also offers certification according to ISO 14000 for environmental management systems.

**Table III.20**  
**Israeli standards and their equivalence with international standards, April 1999**

Area	Total number of Israeli standards	Number of mandatory Israeli standards	Number of mandatory Israeli standards equivalent to international	Equivalence (%)
Building	194	25	12	48
Electrical engineering	291	122	85	70
Chemicals	196	22	0	0
Mechanical engineering	219	43	3	7
Food	215	190	3	2
Textiles, leather and paper	188	7	0	0
Polymers	125	16	0	0
Electronics	169	32	21	66
Water appliances	158	31	0	0
Information systems	71	0	0	n.a.
Environmental protection	65	0	0	n.a.
Motor vehicles	65	8	0	0
Medical equipment	96	20	0	0
Packaging	44	8	0	0
Safety	84	9	5	56
Telematics	46	0	0	n.a.
<b>TOTAL</b>	<b>2,226</b>	<b>533</b>	<b>129</b>	<b>24</b>

n.a. Not applicable.

Note: According to the authorities, the Israeli standards are in many cases based on international standards but not equivalent, or equivalent based on one foreign standard.

Source: Information supplied by the Israeli authorities.

102. Testing of domestic products for compliance with the relevant Israeli standards is carried out by the appropriate SII laboratory: Chemistry, Food and Textiles; Mechanical; Calibration Unit; Hydraulics and Energy; Electrical and Electronics; and Building Materials. SII's laboratories also serve as the official arm of the Ministry of Industry and Trade for testing imported products for compliance with the relevant Israeli standards, particularly those involving safety, health and environmental protection.

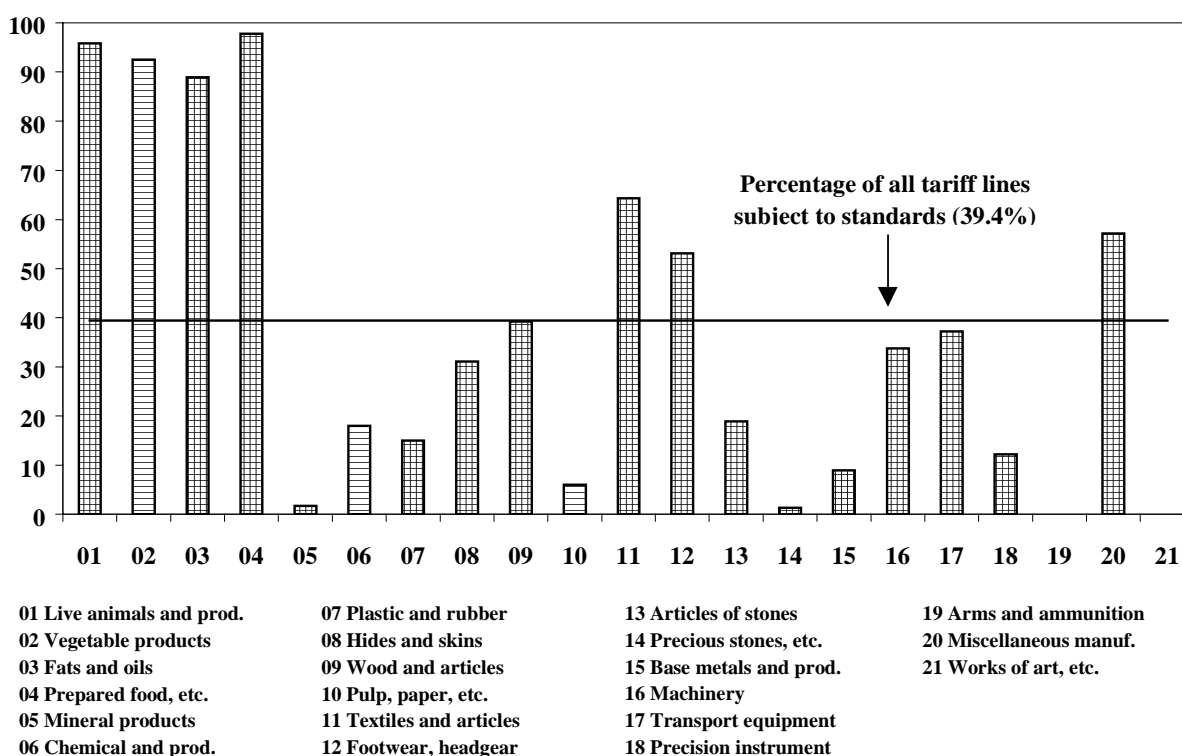
103. Inspection procedures for mandatory standards are not applied in the same way for domestic and imported products; whereas most imports are systematically inspected at ports, domestic products are subject to market inspection.<sup>43</sup> However, if the importer has the SII Standards Mark, the product can enter Israel without being retested. If the importer does not possess the Standards Mark, the product is subject to type approval and batch testing. The procedures for imports without the Mark depend on the degree of product safety and the reliability of the importer. For certain products type approval is made once in four years provided the product and importer do not change. For products subject to a safety concerns, a random inspection of the consignment is undertaken prior to release from customs, except for reliable importers, for whom sample testing may be performed from their warehouses.

<sup>43</sup> Inspection procedures for imported products are governed by two regulations (Regulation No. 401 of 1991 on Policy for Establishing the Inspections Procedures for Imported Goods required in accordance with Free Import Order; and Regulation No. 402 of 1993 on Free Import Order - Inspection of Imported Goods - General Instructions).

**Chart III.8**

**Technical regulations on imports by HS section, 1999**

Per cent



*Source :* WTO Secretariat calculations based on data provided by the Israeli authorities.

104. Israel has not signed any mutual recognition agreements with other countries. On recognition of test data from foreign countries, SII has signed such agreements with several certification and testing organizations world-wide (45 organizations in 20 countries). It has also signed Memoranda of Understanding for mutual recognition of ISO 9000 registration with various organizations (nine organizations based in nine countries).

(b) Sanitary and phytosanitary measures

105. Sanitary, phytosanitary and health regulations apply to a number of products including feeds, plants and plant products; imports of live animals; raw meat and raw meat products; some animal products; vaccines, sera, micro-organisms and vectors; animal feeds or ingredients of animal feed containing animal products; and bee-hive products. Shipments of cattle must be accompanied by a health certificate signed by a government veterinary office stating that no contagious disease has existed in the area six months prior to the shipment and that the animals are free from disease (Animal Disease (Transfer Arrangements for Cattle) Regulations of 1972).<sup>44</sup> Requests for import permits of breeding cattle and other animals are considered individually according to animal species and sex, and to the current epidemiological status of the exporting country. According to the authorities, the requirements are formulated in conformity with the guidelines of the International Animal Health

<sup>44</sup> GATT (1995a).

Code (OIE). Sanitary certificates for shipments of frozen and chilled meats must state that the meat is fit for human consumption and had been properly frozen or chilled up to the time it was placed on board. Sanitary certificates are also required for shipments of hides and animal parts (skin, bone, hoofs, wool, hair, and bristles). In addition, sanitary certificates and/or import permits (issued before shipment of goods) are required for all plant propagation material (including seeds) and most other plants and materials, fresh fruits, vegetables, certain dried fruit, nuts, and cut flowers. Certificates are required for imports of liquors and whiskey.

106. For certain foods - meat in particular - "Kosher" (meaning "fit" or "proper") certificates may be required.<sup>45</sup> The competent authority for Kosher certification is the Chief Rabbinate in Israel. A number of Rabbis located abroad have been approved by the Chief Rabbinate to issue Kosher certificates. The party seeking certification must pay the "costs" of rabbinical inspection to determine that the ingredients and manufacturing of the products satisfy religious standards. According to the authorities, the fee charged is based on the cost of sending the inspector to the premises of the manufacturer (including flight, accommodation, and a predetermined per diem fee). U.S. businesses have complained that the process of granting "Kosher" certificates in Israel is discriminatory, non-transparent and serves to protect domestic producers.<sup>46</sup>

107. The Ministry of Health is the regulatory agency responsible for the safety of cosmetic and pharmaceutical products. The legal framework providing the regulatory authority regarding cosmetics is the Order for the Supervision of Goods and Services (Cosmetics) of 1973. To market or import any cosmetic, the manufacturer/importer must file a form, provide a sample of the cosmetic, a list of the ingredients, the specificity of the cosmetic, laboratory test results, and, if imported, a Good Manufacturing Practice (GMP) certification for the facility in the country of production and certification that the product is freely marketed in the country of export. Regarding ingredients, the Ministry of Health has issued lists of substances that are prohibited or limited in concentration. The Pharmacists Ordinance of 1981 regulates the registration both of domestically produced and imported pharmaceutical products.

108. Some WTO Members have raised concerns regarding Israel's sanitary measures affecting imports of live cattle, beef and offal of bovine origin. As of 1 April 1997, Israel restricts trade in meat because of concerns related to bovine spongiform encephalopathy (BSE). The measure include the requirement that bovine meat exported to Israel has to come from cattle with a maximum age of 36 months; it is applied irrespective of the sanitary conditions in the country of origin. WTO Members have expressed the view that this measure is not in conformity with the SPS Agreement, primarily because of its unclear scientific basis.<sup>47</sup> In response, the Israeli authorities said that the import restrictions on live cattle, beef and offal of bovine origin are based upon the OIE International Animal Health Code (IAHC) (Chapter 3.2.13 of May 1998).<sup>48</sup>

109. In December 1994, Israel implemented a complete ban on imports of non-kosher meat and meat products, although domestic production, sale and consumption on non-kosher meat is permitted.

110. Israeli health and safety standards apply both to imports and domestically produced products. However, until recently, enforcement of some mandatory standards that included quality requirements

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<sup>45</sup> Kosher refers to those foods than can be eaten in accordance with Jewish dietary laws, in particular the separation of meat and milk. Companies wishing to obtain the Kosher certificate must comply with these dietary laws and be approved by the Chief Rabbinate (GATT, 1995a).

<sup>46</sup> USTR (1998).

<sup>47</sup> WTO documents G/SPS/R/7, 29 April 1997, G/SPS/GEN/104, 23 November 1998, and G/SPS/R/13, 15 January 1999.

<sup>48</sup> WTO document G/SPS/GEN/120, May 1999.

were frequently applied to foreign goods but not to domestically produced goods. In this regard, some 280 import standards that applied to various products were cancelled in March 1998.

(c) Marking, labelling and packaging

111. Israel has strict marking, labelling and packaging requirements.<sup>49</sup> The complete list of items subject to these regulations is available only in Hebrew. Marking of goods should be by printing, engraving, stamping or any other means on the goods or the package. On a multi-layered package, the external layer should be marked. There is a prohibition against the importation of goods bearing any name or trade mark being or purporting to be the name or trade mark of a manufacturer, dealer, or trader in Israel, unless the name is accompanied by an indication of the country in which the goods were made or produced.

112. Imports into Israel must be accompanied by an indication of the country of origin, the maker's name and address, the importer's name and address, the content, and the weight and the volume in metric units. While Hebrew must be used in all instances, labels in English may be added provided that the printed letters are not larger than those in Hebrew.<sup>50</sup> Special labelling requirements apply to imports of some consumer goods, paper products, handbags, musical recordings, fertilizers, insecticides, chemicals, pharmaceuticals, some food products, seeds, and alcoholic beverages. Outside and inside containers of dangerous articles - such as poisons, insecticides, drugs, flammable goods, ammunition, explosives, reptiles, insects, bacteria and radioactive materials - should be clearly marked. In 1995, the Ministry of Industry and Trade allowed products to be labelled in Israel (with the exception of textiles and cigarettes). Previously, marketing and labeling requirements had to be met prior to shipment to Israel.<sup>51</sup>

113. Food products to be sold in Israel must be packaged in fixed package sizes, using the metric weights and volumes system or bear indication of the unit weight price at retail. Special requirements apply to fruit, plants and meat. While some regulations are intended to protect the health of consumers, others are intended to allow consumers to compare prices of similar pre-packaged products. For example, it is prohibited to use any packaging materials for foodstuffs which transmit substances likely to be injurious to human health. In July 1998, the Uniform Contents of Pre-packaged Food Regulations was amended to allow all sizes of food packages entry into the Israeli market and, at the same time, unit pricing procedures were adopted.

(iv) Government procurement

114. The Israeli Government and government agencies are significant buyers of goods and services. Purchases by the Central Government represent some 12% of Israel's GDP; about 15% of the contract value was awarded to foreign-based suppliers in 1998.<sup>52</sup> Several elements of preferences, - such as to domestic industries, certain regions, local subcontracting, are part of the Israeli government procurement framework. While these preferences existed in practice at the time of the previous review, their implementation has become more transparent as the legislation has been amended to reflect the preferences. The instances when procurement is exempt from normal tender requirements are extensive.

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<sup>49</sup> Dun & Bradstreet (1998), and USTR (1998).

<sup>50</sup> GATT (1995a).

<sup>51</sup> Dun & Bradstreet (1998).

<sup>52</sup> Data on purchases made by the entire Government is not available, partly as a result of the non-existence of a central government purchasing agency.

115. Israel is a signatory to the WTO plurilateral Government Procurement Agreement (GPA). The rules require signatories to accord national and MFN treatment to government purchases (except for procurement by government agencies of goods for their own use). However, the obligation to extend such treatment only applies to purchases made by the government agencies listed by each member country in the annexes to the Agreement and in respect of procurement above certain threshold values.<sup>53</sup> In the case of Israel, the Agreement covers most government entities and government-owned corporations; the main agencies excluded are defence establishments (including the Ministry of Defence), the Office of Internal Security, and the aircraft industry. The Agreement generally prohibits measures to "encourage local development or improve the balance-of-payments accounts by means of domestic content, licensing or technology, investment requirements, countertrade or similar requirements" (so called offsets). However, the GPA allows developing countries to deviate from this rule (Article XVI). Israel has invoked developing-country status in the GPA; its offset arrangements are, inter alia, that they may be required on up to 35% of the contract, declining to 30% on 1 January 2001 and 20% on 1 January 2005.

116. Israel's WTO obligations in the area of government procurement are reflected in the Mandatory Tenders Law No. 5752 of 1992 and related regulations. Israel prescribes the procurement method to be used according to a scale of threshold values (Table III.21). Above a certain threshold, government entities and government-owned corporations are normally required by law to procure by tender (Article 2 of Mandatory Tenders Law). However, regardless of the threshold value, there are exemptions from mandatory tenders, while a closed tender procedure, instead of a public tender, is allowed in some cases. Data on the total value of government procurement by procurement method are not available. Public tenders are published in two daily Israeli newspapers, in Hebrew, in one daily or weekly Arabic language publication, and on an Internet site; they must include the following information: type of contract, general information on the contract, option to continue the contract, period of the contract, conditions to participate in the tender, where to obtain the tender information and forms, and the place and date for submitting bids. In the case of a tender under the GPA, the information must also be published in an English language newspaper (either the Jerusalem Post or the International Herald Tribune-Ha Aretz). Regarding post-award information, the purchasing agency is required to notify all the participants in the tender of its final decision.

117. Since 1 January 1995, government agencies and state-owned companies are legally required to follow an offset policy, designed to promote national manufactures (Mandatory Tenders Regulation (Preference for Israeli Products and Mandatory Business Cooperation) No. 5755 of 1995).<sup>54</sup> All international public tenders with a value of NIS 1.5 million (equivalent to some US\$0.4 million in June 1999) or above must include a clause on "industrial cooperation" (IC) with Israeli entities in the amount of at least 35% of the value of the contract (Table III.21). To satisfy the IC offset requirement, a foreign supplier can subcontract to local companies, invest in local industry, undertake a know-how transfer, or acquire goods made in Israel or from work or services performed in Israel.<sup>55</sup> Agencies and companies subject to offset requirements are required to obtain clearance from the Industrial Co-operation Authority (ICA).

<sup>53</sup> The Israeli thresholds for 1998-99 is provided in WTO document GPA/W/66/Add.7, 21 August 1998.

<sup>54</sup> Although not a legal requirement, this practice had been widely used prior to 1 January 1995.

<sup>55</sup> For direct investment in advanced technology in Israel or in Israeli industry, as well as industrial R&D in Israel, the credit towards the IC target is in a rate equal to one and half times the actual investment.

Table III.21  
Key features of Israel's procedures on government procurement

Method	Instances when the method is applied
<b>Procurement procedures</b>	
1. No tender	<p><i>Contracts up to:</i></p> <ul style="list-style-type: none"> <li>- NIS 39,000 (or about US\$9,500 in June 1999) for Ministry, other than defence;</li> <li>- NIS 15,600 for defence establishment; and</li> <li>- NIS 156,000 for government company or subsidiary</li> </ul> <p><i>Examples of other instances:</i> a contract that is urgently needed in order to prevent substantial harm; a contract pertaining to a transaction for which a tender is liable to cause substantial harm to national security; additional contracts within three years of the conclusion of the first contract; and a contract concerning the subject of marketing of agricultural produce, advertising in the media, cultural, artistic, entertainment, or certain areas of medicine</p>
2. Closed tender (award is based on most advantageous offer, mainly based on price)	<p><i>Contracts:</i></p> <ul style="list-style-type: none"> <li>- from NIS 39,000 up to NIS 312,000 for Ministry, other than defence; and</li> <li>- from NIS 15,600 up to NIS 156,000 for defence establishment</li> </ul> <p><i>Examples of other instances:</i> selective tendering procedure based on a list of qualified suppliers for the acquisition of goods with special properties and with "uncommon characteristics"; for the acquisition of medical equipment; insurance; research and development activities</p>
3. Public tender (award is based on most advantageous offer, mainly based on price)	<p><i>Contracts above:</i></p> <ul style="list-style-type: none"> <li>- NIS 312,000 for Ministry, other than defence;</li> <li>- NIS 156,000 for defence establishment; and</li> <li>- NIS 156,000 for government company or subsidiary.</li> </ul>
4. Extraordinary tender (award is based on price, and technical and administrative details)	<p><i>Contracts:</i></p> <ul style="list-style-type: none"> <li>- transaction with respect to R&amp;D or scientific work;</li> <li>- when no technical specification is available;</li> <li>- for educational or vocational training; and</li> <li>- when because of defence consideration the Ministry will need to make investments in infrastructure.</li> </ul>
5. Shortened tender (award is based on price only)	Closed tender for purpose of shortening procedures, applicable to tenders up to NIS 30,000
<b>Preferences for domestic industries</b>	
A.	All international tenders, except for GPA tenders: price preference of up to 15% to domestic suppliers
<b>Preferences for "priority areas"</b>	
B.	All tenders, including domestic, except for GPA tenders: price preference of 5% in respect of goods and services from Area B and 15% from Area A <sup>a</sup>
<b>Preferences for local subcontracting</b>	
C.	Tenders offering local subcontracting, except for GPA tenders: a foreign company receives a 1% price advantage over other foreign companies for the first 10% and an additional 1% for every additional 5% subcontracting, up to a maximum 35% of the contract; the maximum preference for local subcontractors may not be greater than 5%
<b>Business cooperation</b>	
D.	International public tenders with a value of above NIS 1.5 million: minimum "cooperation" of 35% of the value of the contract <sup>b</sup>

a The sum of these preferences and the domestic suppliers preferences may not exceed 15%. Areas A and B are within the meaning of the priority areas defined in the Capital Investment Encouragement Law (see section 4(ii)).

b The offset requirement can be satisfied in the form of subcontracting to local companies, investment in local industry, know-how transfer, or acquisition of goods made in Israel or of work or services in Israel.

Source: WTO Secretariat, based on Mandatory Tenders Law of 1992; Mandatory Tenders Regulations of 1993; Mandatory Tenders Regulations (Defense Establishments Contracts) of 1993; Mandatory Tenders Regulations (Preference for Israeli Products and Mandatory Business Cooperation) of 1995; Mandatory Tenders Regulations (Preference for Products from National Priority Areas) of 1995; and Mandatory Tenders Regulations (Preference for Products from National Priority Areas) of 1998.

118. Amendments to tendering regulations in 1995 and 1998 awarded a price preference to local suppliers, certain regions and local subcontracting, but these do not apply to members of the GPA.<sup>56</sup> These preferences are:

<sup>56</sup> Article 5(A)(b) of the Mandatory Tenders Law of 1992 states that "Regulations under this Law shall apply to the extent that they do not conflict with an undertaking of the State in an international agreement", such as the GPA.

- a price preference of up to 15% for Israeli companies in public tendering competitions. In addition, there is a 5-15% price advantage given to domestic suppliers located in priority development areas, also available to foreign companies located in the same areas provided that they are registered under Israeli law. The sum of these preferences may not exceed 15%; and
- foreign companies willing to provide Israeli companies with subcontracting work are granted a price advantage over other foreign companies in competing for government tenders; a foreign company receives a 1% price advantage for the first 10% and additional 1% for every additional 5% subcontracting with an Israeli company, up to a maximum of 35% of the contract.

119. Bid and performance bonds are generally required. Their amount and form are negotiable unless the project is publicly tendered with the guaranteed requirements stipulated in the tender documents. The amount of the performance bond is generally between 5% and 15%.

120. Challenges regarding an award of a contract may be heard in the Israeli courts, which may cancel the awarding of the tender, on the basis of incorrect procedures, or temporarily hold up the tender until the facts are checked.

121. Israel has signed a number of bilateral agreements containing clauses on government procurement. An agreement with the United States lowers the minimum value of the contracts open to a partner-country supplier to US\$50,000. An agreement with the EU provides for a mutual opening of procurement in the telecommunications sector. Moreover, Israel undertook to amend its GPA obligations as follows: further market opening only vis-à-vis the EU regarding urban transport (except bus services), while indicating its willingness to open this market to other GPA members on a reciprocity basis, and further market opening in a few services and certain medical dressings vis-à-vis all GPA members. Under an agreement with Hungary, which is not a member of the GPA, Israel grants Hungary access to Israeli tenders according to the GPA in exchange for "no less favorable treatment" in the public procurement by Hungary. Similar provisions are found in Israel's agreements with Poland (the provisions on procurement to enter into force by 31 December 2000), the Czech Republic, and the Slovak Republic.

**(v) Protection of intellectual property rights**

**(a) Overview**

122. The WTO Agreement on Trade-Related Intellectual Property Rights (TRIPS) sets provisions for the protection and enforcement of intellectual property rights. Israel is in the process of amending its intellectual property laws to comply with its TRIPS obligations; it has invoked developing-country status with respect to the TRIPS Agreement, which results in a transition period up to 1 January 2000 to bring its legislation into conformity. Israel currently provides national and MFN treatment. According to the authorities, several of Israel's intellectual property right provisions need to be revised in order to be TRIPS compatible, but the main IPR problem in Israel is related to enforcement. Israel is party to a number of IPR agreements, including the Bern and Paris Conventions, and is a member of the World Intellectual Property Organization (WIPO) (Table AIII.7).

**(b) Selected areas of intellectual property rights**

123. Copyrights and related rights, patents, trade marks, industrial designs, geographical indications, trade secrets, layout designs of integrated circuits and new plant varieties are all legally recognized in Israel. A summary of Israel's intellectual property rights is provided in Table III.22. In order to meet Israel's TRIPS obligations, the Government is preparing amendments to the intellectual



property right laws. To avoid any inconsistencies between its own legislation and the TRIPS requirements, the amended laws will, to the extent possible, transpose the legal text of the TRIPS Agreement into Israeli legislation.

124. Copyright protection is extended to any original literary, dramatic, musical and artistic works (including computer and software). Duration of copyright, for most categories of works, will last for the life of the author plus 70 years. Phonograms and photographs are protected for a period of 50 years from the making of the original plate or negative. The term of performer's rights is 25 years from the first performance. Israeli law provides rental rights for cinematographic works and sound recordings and grants retransmission rights to producers of phonograms as well as for other works capable of electronic retransmission, such as audiovisual works retransmitted through a hotel's closed-circuit television system. Additionally, original compilations of data, catalogues and directories are protected by copyright. The Act (section 19) provides for non-voluntary licensing (compulsory licences) of musical works for the reproduction of sound recordings. No statistics are available on the number of compulsory licences granted. Musical works that have been previously recorded may be re-recorded by anyone wishing to make a recording if the owner has been notified of the individual's intention to make the recording, and the individual has agreed to pay the owner royalties; no other compulsory licensing provisions are recognized under the Israeli law of copyright.<sup>57</sup> The Act (section 16) provides that the term of protection in the case of joint ownership is measured from the death of the last surviving joint author. The Performer's Rights Law (section 10) provides a 25-year term of protection for performers. It also (section 13) states that it does not apply to performances given outside Israel unless there is an express order from the Minister of Justice to that effect.<sup>58</sup>

125. Patent, protection is provided to any invention (product or process) that is new, useful and susceptible of industrial or agricultural application, and involves an inventive step. A patent is protected for 20 years from the date of filing; patents for medicaments may be extended for up to an additional five years. The Patents Law of 1967 provides for granting compulsory licences on the grounds that the patentee is not exploiting the invention in Israel by way of manufacture, and that the patentee is capable of exploiting the invention in Israel.<sup>59</sup> In addition, the Patents Law (section 53) provides that persons who, prior to the grant of the patent, exploited in Israel in "good faith" the invention for which a patent is requested, are entitled to exploit that invention without paying a consideration.<sup>60</sup> Over the past ten years, about five compulsory licences have been granted with regard to patents; no applications are currently pending.

126. In February 1998, the Knesset passed a separate amendment to the Patent Law, exempting from infringement the experimental use of patented inventions for the sole purpose of obtaining a licence to market the patented invention post patent expiration. Any product manufactured as part of this licensing process during the patent term cannot be used for any other purpose even post patent expiration. Patents for medicaments which lost marketing time due to licensing procedures may be eligible for a patent term extension of up to five years as compensation. Where a similar extension has been granted in a country which is a Member of the Paris Convention, then the Israeli extension will be effective until the lapse of the first parallel extension, but in no case can the extension in Israel exceed five years.

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<sup>57</sup> Kluwer Law & Taxation Publishers (1995).

<sup>58</sup> European Union (1998).

<sup>59</sup> Kluwer Law & Taxation Publishers (1995).

<sup>60</sup> European Union (1998).

Table III.22

## Summary of intellectual property protection in Israel, June 1999

Form	Main legislation	Coverage	Selected exclusions and limitations	Duration	Sanctions
<b>Copyright and related rights</b>	United Kingdom Copyright Act of 1911; Copyright Ordinance of 1924; Copyright Order (Berne Convention) of 1953; Copyright Order (Uniform Copyright Convention) of 1955; Performer's Rights Law of 1984	Any literary, dramatic, musical and artistic works (including computer, software and layout designs on integrated circuits) Related rights include performers' and broadcasters' rights and moral rights	Fair use of copyrighted materials; performances which occur outside of Israel	Life of the author plus 70 years (70 years from publication for anonymous and pseudonymous works; 50 years from the making of the original plate or negative for phonograms and photographs; 25 years for performances)	Imprisonment of up to three years and fines up to NIS 1 million
<b>Patents</b>	Patents Law of 1967; Patents Regulations (Office Practice, Rules of Procedure, Documents and Fees) Law of 1968	Any invention (product or process) that is new, useful and susceptible of industrial or agricultural application, and involves an inventive step	Methods of therapeutic treatment of the human body; and new varieties of plants and animals, except microbiological organisms not derived from nature	20 years from the date of filing; patents for medicaments may be extended for up to an additional five years	Civil remedies, and punitive damages for wilful infringement
<b>Layout designs of integrated circuits</b>	Protected in accordance with copyright law	See copyright section above	See copyright section above	See copyright section above	See copyright section above
<b>Trade marks</b>	Trade Marks Ordinance (New Version) of 1972; Trademarks Rules (Amendment) of 1983; Merchandise Marks Ordinance of 1929	Trade marks, service marks, collective marks, certification marks, geographical indications	Marks contrary to morality or public policy; deceptive marks and non-distinct marks	Seven years from filing, renewable for periods of 14 years for as long as the mark is used	Imprisonment for up to one year
<b>Industrial designs</b>	Patents and Designs Ordinance (Amendment) Law of 1960; Designs Rules	Protects a design which is novel, and appealing to the eye <sup>a</sup>		Five years, renewable for two additional five-year periods	Civil remedies
<b>Geographical indications (including appellation of origin)</b>	Appellations of Origin (Protection) Law of 1965; Merchandise Marks Ordinance; Trade Marks Ordinance	Protection for appellations of origin of agriculture, industrial and handicraft products	Possibly, non-wine appellations of origin which conflict with earlier trade mark rights; non-misleading geographical indications, except with respect to wine products	Appellations of origin: 10 year from filing, renewable for additional 10-year periods or for as long as protected in the country of origin Trade marks law: seven years from filing, renewable for additional terms of 14 years <sup>b</sup>	Imprisonment for up to one year
<b>Undisclosed information (including trade secrets)</b>	Common Law; Unjust Enrichment Law of 1984; Contracts Law of 1973	Information which is not generally known or readily accessible, has commercial value		For as long as the information is kept confidential	Civil and, possibly, criminal liability of up to six-months imprisonment
<b>New plant Varieties</b>	Plant Breeders' Rights Law, and Regulations	New, distinctive, and sufficiently uniform and stable as to its fundamental characteristics. Foreign applications from UPOV members will be accorded a one year priority right	Limited experimental use	Generally 20 years from the date of registration; 25 years for varieties of vines, fruit trees, forest trees and other perennial plants	Imprisonment for up to two years

a Features of shape, confirmation, pattern or ornament applied to any article by an industrial process or means, whether manual, mechanical or chemical, separate or combined, which in the finished article appeal to, and are judged solely by, the eye, but does not include any mode or principle of construction or anything which is in substance a mere mechanical device provided that such design is either new or original and not previously published in Israel.

b False geographical indication may never be registered or used with regard to wine products.

Source: Table provided by the Israeli authorities.

127. Controls on anti-competitive practices in contractual licences are set forth in the Restrictive Business Practices Law of 1988, which regulates restrictive business practices, including in the fields of anti-competitive contractual licensing, monopolies and mergers of companies. Additionally, a government agency, the Restrictive Business Practices Commission, monitors restrictive business practices; there is a special court to deal exclusively with claims arising under this law.

128. Regarding parallel imports, according to the Patents Law, patentees have the exclusive right in respect of an invention that is either a product or a process to prevent "any act that is one of the following: production, use, offer for sale, sale, or import". In the context of this review, the authorities pointed out that the extent of importation rights is not yet fully settled as the Supreme Court has yet to address this issue; however, at least one District Court has taken the position that patentees have the exclusive right to authorize the importation of items covered by the patent. In the areas of trade marks, industrial designs and copyright (including layout-designs of integrated circuits) there are no statutory provisions relating exclusively to importation rights. However, based on case law, it is likely that parallel importation of authentic trade marked and copyrighted goods is permitted. Conversely, with regard to design rights, the scope of any importation right appears to be unsettled as no court has yet been asked to make a determination on the question of design rights and parallel importation.

(c) Enforcement

129. It has been noted that there is extensive piracy of certain copyrighted works in Israel, which is partly explained by weak enforcement.<sup>61</sup> According to the International Intellectual Property Alliance, U.S. manufacturers and distributors of motion pictures, sound recordings, musical compositions, and computer programs lose close to US\$150 million (1997) of business in Israel due to piracy.<sup>62</sup> As a result of weak copyright enforcement, Israel remains on the U.S. "priority watch list" of countries regarding protection of American firms' intellectual property rights, as specified under the "Special 301" provision of the 1974 Trade Act.<sup>63</sup>

130. To address enforcement weaknesses, the police has recently received funding to finance a special unit to investigate possible intellectual property rights violations. This unit has been operational since May 1999. Other measures aimed at strengthening enforcement include the appointment of the Director-General of the Ministry of Industry and Trade to coordinate inter-agency activities. A series of directives have been issued by different ministries to clarify and strengthen intellectual property protection over recent years, and seminars on intellectual property have been held by the Ministry of Justice for legal counsels and prosecutors in the public sector. Moreover, an inter-agency forum (including interested parties in the private sector) has been set up by the Ministry of Industry and Trade to monitor intellectual property related issues.

(vi) Price and distribution control

131. Retail prices, constituting some 18% of the consumer price index, remain under the control of the Government (Table III.23). These prices are either directly set by the Government (such as certain utilities, and communications and transportation fees) or are subject to supervision, requiring approval before they can be increased (such as certain food stuffs, school books and medicines).

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<sup>61</sup> European Union (1998), USTR (1999), and the Database of the EIU [Online]. Available at: [www.eiu.com](http://www.eiu.com).

<sup>62</sup> The International Intellectual Property Alliance (IIPA) is a coalition formed in 1984 to represent the U.S. copyright-based industries in bilateral and multilateral efforts to improve international protection of copyrighted works.

<sup>63</sup> Bureau of International Affairs (1999).

132. The Law for the Supervision of Prices of Goods and Services of 1996 authorizes the Treasury and the Ministry of Industry and Trade to impose price controls on goods and services if they are supplied by a monopoly, or in the framework of restricted trade; and if the producers benefit from government support. The Law may also be applied if (i) the product is essential and the restriction is in the public's best interest; (ii) the product is scarce because of special circumstances; or (iii) the price should be restricted, in the view of the authorities, as part of an economic plan for reducing inflation. For the two latter cases, the order is applicable for up to a year, after which it needs to be reviewed before renewal under government approval. If necessary, the Law can be applied only on certain parts of the country.

**Table III.23**  
**Regulated prices in the consumer price index, 1994 and April 1999**

Controlled prices (specific law or government fees)		Weight (%)		Prices under supervision (Supervision of Price of Goods and Services Law)		Weight (%)	
		1994	1999			1994	1999
1.	Train	0.2	0.35	1.	Flour	1.5	1.0
2.	Municipal taxes	20	21	2.	Margarine <sup>a</sup>	0.8	0.6
3.	Electricity (for domestic use)	18.4	19	3.	Milk <sup>b</sup>	6.7	5.8
4.	Water (for domestic use)	8.6	9.9	4.	Basic bread	1.2	1.4
5.	Mail services	0.5	0.5	5.	Cheese (cottage and yellow)	5.8	5.1
6.	Phone services (local calls)	16.1	17.2	6.	Edible salt	0.1	0.1
7.	Vehicle fees	5.4	5.7	7.	Butter	0.5	0.5
8.	Vehicle mandatory insurance	9.1	11.4	8.	Eggs	4.5	3.1
	TOTAL	78.3	85.05	9.	School books	2.5	1.7
				10.	Medicines	4.2	6.2
				11.	Cigarettes	9.8	11.8
				12.	Mother's milk substitute <sup>c</sup>	0.4	0.6
				13.	Day care centres and Kindergarten	11.8	13.1
				14.	Malt beer	0.1	0.1
				15.	Pasta <sup>d</sup>	0.6	0.7
				16.	Fuel <sup>e</sup> and oils	14.4	19.8
				17.	Domestic flights	0.1	0.15
				18.	Public bus transportation	14.7	14.6
				19.	Taxi rides	3.4	4.5
				20.	Bank commissions <sup>f</sup>	0.2	0.2
					TOTAL	83.4	91.05

a Product of Israel Food Industries (IFI) only.

b Milk in bags and cartons only, not enriched milk or in plastic containers.

c Product of MABAROT company only.

d Product of OSEM company only.

e Reduced-lead benzene and 96-octane benzene only.

f When there is a monopoly or reduced competitiveness.

Source: Based on information provided by the Israeli authorities (Ministry of Finance).

133. The Ministry of Industry and Trade handles applications for price increases on industrial goods manufactured by monopolies, while the decision to raise prices of public goods and services (such as transport) is taken by the Treasury together with the Ministry responsible for the domain. The staff of the Ministry of Industry and Trade evaluates monopolies' price-increase applications once every 12 months on the basis of economic and wage indicators. The recommendations are reviewed by an inter-ministerial committee headed by the Director-General of the Treasury. Once a year, applications for price increases are evaluated on the basis of the producer's income statements, to determine whether erosion of profits justifies an increase. However, in the case of a market that is open to competing imports, price control on products produced by monopolies or cartels is limited to a 30-day prior-notice requirement for price increases; if the Ministry of Industry and Trade does not object, the approval is automatic.<sup>64</sup>

134. Regarding production and marketing boards, there are six statutory boards covering citrus fruit, eggs and poultry, groundnuts, non-citrus fruit, ornamental plants, and vegetables; these are

<sup>64</sup> Database of the Economist Intelligence Unit [Online]. Available at: [www.EIU.com](http://www.EIU.com).

unchanged since the previous Review. The statutory boards' objectives are to stabilize production by eliminating surpluses, ensure a minimum revenue for Israeli farmers, finance promotion and marketing programmes, and finance research programmes. The boards also deal with exports, including granting of export licences (section (3)(v)).

**(vii) Performance and local-content requirements**

135. Israel has no general rules on either performance requirements or local-content requirements. According to the authorities, Israel has no measures contrary to the WTO Agreement on Trade-Related Investment Measures (TRIMs). As noted above, in some international public tenders (contract value of NIS 1.5 million or above), foreign companies are required to agree on industrial cooperation in the form of, *inter alia*, buying Israeli goods, works or services. Moreover, in the telecommunications sector, broadcasters are required to reserve at least 2-10% (depending on their share of the market) of their transmission time for Hebrew works (Chapter IV(4)(iv)).

**(viii) Special economic zones**

136. With the objective of promoting production and exports, the Government of Israel has established a free-trade zone in Eilat, a free-port area in Eilat, and free-processing zones (none in existence as of June 1999). Companies established within one of these areas enjoy a wide range of tax concessions and, for the free-trade zone in Eilat, a refund of a part of the wages paid to the employees. Data on the annual cost is not available.

*Free trade zone*

137. The purpose of the Eilat Free Trade Zone Law of 1985 is to encourage the development of the city of Eilat. The Law provides for several tax concessions and other benefits. Most products (imported or domestically produced) purchased in Eilat are exempt from value-added tax. This tax benefit is available to Eilat residents and companies, for products consumed in Eilat. Employers receive refunds for employers of up to 20% of gross wages paid to employees. Resident individuals receive tax credits of up to 10% of their taxable income from employment in Eilat.

*Free port zones*

138. The Free Port Zone Law of 1969 sets out the framework of operations and practices of the free ports in Israel. Currently, there is one port operating in accordance with the Law (Port of Eilat).<sup>65</sup> Enterprises operating in this port qualify for incentives including, *inter alia*: (i) exemption from income taxes for seven years, and thereafter to a maximum tax rate of 30%; (ii) a tax of 15% (compared with the usual tax rate of 36%) on dividends paid out of the above income with no stipulated time limit; (iii) no capital gains tax on inflationary gains, and no capital gains tax to foreign shareholders on selling their share in the enterprise, when the shares are purchased in foreign currency; and (iv) exemption from property tax.

*Free processing zones*

139. In 1994 the Israeli Parliament passed legislation authorizing creation of free-processing zones (FPZs) (the Free Export Processing Zone Law of 1994). Companies operating in the zones are exempt from direct taxation for twenty years, and imported inputs are not subject to import duties or most licensing requirements in effect in Israel, regardless of whether the processing is for the domestic or the export market. Such companies are also exempt from collective bargaining and minimum-wage requirements, although arrangements regarding working hours, annual leave and severance pay require ministerial approval. As of June 1999, there were no FPZs in operation.

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<sup>65</sup> This status was terminated for the ports of Haifa in 1996 and Ashdod in 1997.