

# WORLD TRADE ORGANIZATION

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## SUBSIDIES

### NOTIFICATIONS PURSUANT TO ARTICLE XVI.1 OF THE GATT 1994 AND ARTICLE 25 OF THE AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

#### ISRAEL

The following communication, dated 26 October 1996, has been received from the Permanent Mission of Israel.

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## Introduction

This notification relates to measures which are currently in force and provides, as far as possible, statistical information at least up to the end of 1995.

A considerable effort has been undertaken by the Government of the State of Israel to submit comprehensive notifications in accordance with the requirements of the Subsidies Agreement. The notifications follow, as far as possible, the elements required by Article 25.3 of the Subsidies Agreement and the new questionnaire.

In accordance with Article 25.7 of the Subsidies Agreement, the fact that a measure has been notified, does not prejudice either its legal status under GATT 1994 and this Agreement, or the nature of the measure itself. Furthermore, this does not come to imply in any way, that any of the measures notified, wholly or partly, amounts to a specific subsidy.

In addition, the notification does not prejudice either the non-actionable status that a programme would have under Article 8 of the Subsidies Agreement, had it been notified according to the provision of Article 8.3, or the non-actionable nature of certain programmes under the provisions of footnote 35 to Article 10 of the Subsidies Agreement.

## **Research and Development Grant**

### The authority responsible for the subsidy

The office of the Chief Scientist at the Ministry of Industry and Trade.

### Legal basis

The "Law for the Encouragement of Industrial Research and Development, 5744-1984".

### The purpose of the programme

The purpose of the Law is to encourage and support industrial research and development in order to foster the development of technology oriented industry in Israel and to create employment opportunities for Israel's scientific and technological workforce.

This programme consists of subsidies within the meaning of Article 8.2(a) of the SCM Agreement.

### Form of the subsidy

Grants up to 66 per cent of the cost of industrial research.

Grants shall be repaid in the form of royalties as a percentage of the total revenues derived from the sale of the product developed up to the entire amount of the grant, in US\$ terms.

### To whom the subsidy is provided

The support is provided to projects of research and development 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.

Duration

Ongoing.

Budget/expenditure

Actual annual expenditure

(In thousands US\$)

1993: 168,296

1994: 225,036

1995: 247,789

Trade effects

The programme finances research and development expenditures, as such it has no effect on production costs. The products or procedures financed by the programme are innovators and cannot therefore compete with existing products.

Therefore, the programme has no effect on trade.

**Magnet**

The authority responsible for the subsidy

The Office of the Chief Scientist at the Ministry of Industry and Trade.

Legal basis

Regulations of the Director General of the Ministry of Industry and Trade.

Policy objective and/or purpose

The purpose of the subsidy is to encourage the development of innovative generic technologies in order to strengthen and expand Israel's technological infrastructure.

This programme consists of subsidies within the meaning of Article 8.2(a) of the SCM Agreement.

Form of the subsidy

Grants calculated as 66 per cent of the approved R&D expenses.

To whom the subsidy is provided

The subsidy is provided to a consortia of manufacturers and academic institutions.

Budget/expenditure

Actual annual expenditure

(In thousands US\$)

1993: 4,137

1994: 5,114

1995: 15,003

Duration

Ongoing.

Trade effects

Since the programme is aimed at expanding the technological infrastructure, it has no effect on trade.

Other information

The subsidy is provided annually during the project's approved duration and it is 66 per cent of the approved budget of the project.

**The Incubators Programme**

The authority responsible for the subsidy

The Office of the Chief Scientist at the Ministry of Industry and Trade.

Legal basis

The instructions of the Director General of the Ministry of Industry and Trade.

Policy objective and/or purpose

The purpose of the programme is to promote product development projects carried by start-up companies which are in need of infrastructure and administrative and managerial guidance.

This programme consists of subsidies within the meaning of Article 8.2(a) of the SCM Agreement.

Form of the subsidy

Grants.

The grants shall be repaid in the form of royalties derived from the sale of the product developed up to the entire amount of the grant.

To whom the subsidy is provided

The subsidy is provided to start up companies which were selected by the Incubators programme management and approved by a steering committee for the Incubators Programme.

Budget/expenditure

(In thousands US\$)

1993: 9,150

1994: 19,816

1995: 25,081

Duration

Ongoing.

Trade effects

The subsidy is granted to a variety of projects and sectors, therefore it is not possible to present statistical data permitting an assessment of trade effects.

Other information

This programme has proved itself as one of the most efficient and productive employment creating opportunities for scientists. The management of the programme has set itself, as a primary target, to aid the scientists and inventors among the new immigrants who arrived in Israel in the last few years.

Statistics show that at least 50 per cent of those supported by this programme are new immigrants.

**Small Business Authority**

The authority responsible for the subsidy

The Small Business Authority of Israel.

Policy objective and/or purpose

The purpose of the programme is to aid owners and entrepreneurs of small businesses in establishing, managing and expanding their business, or in preventing their collapse.

Form of the subsidy

Grant.

To whom the subsidy is provided

The Small Business Authority of Israel initiates the establishment of SBCDs (Small Business Development Centres) and supports them by providing professional guidance and assistance, granting partial financing and placing professional means at their disposal. These centres are meant to serve as a central address for small businesses owners and entrepreneurs planning new businesses. They are designed as "one-stop shop" which respond to a variety of this group's business management needs.

Annual amount budgeted

1995: NIS 5,718,459

Duration

Ongoing.

Trade effects

None.

Other information

The authority was established in 1994, following a recommendation by the Public Committee to encourage small businesses. The Small Business Authority is an autonomous, non-profit organization which is being financed by the Israeli Government.

**Business tutorial programme**

The authority responsible for the subsidy

The Finance Administration at the Ministry of Trade and Industry

Legal basis

Instructions issued by a Ministerial Steering committee.

Policy objective and/or purpose

The purpose of the programme is to supply small- and medium-sized businesses in disadvantaged areas and areas affected by unemployment, with managerial tools, in order to enhance their management and performance.

Form of subsidy

Grant amounting to 75 per cent of the expenses of the tutorial programme.

Annual amount budgeted

1995: NIS 9,033,900

Duration

Ongoing.

Trade effects

The programme aids small- and medium-sized businesses in disadvantaged areas to improve employment opportunities and wages, by the enhancement of their management.

Therefore, the programme has no trade effects.

Other information

The duration of the payment of the tutorial programme is between 6-12 months, but shall not exceed 150 hours of consultancy.

**Introduction of Advanced Managerial Systems**

The authority responsible for the subsidy

The Finance Administration at the Ministry of Industry and Trade.

Legal basis

Regulations of the Director General.

Policy objective and/or purpose

The purpose of the programme is to assist medium-sized manufacturers to adopt innovative managerial systems. This purpose is to be achieved by encouraging the use of advanced quality control technologies and/or the adoption of international standardization processes of industrial quality management.

Form of the subsidy

Grants.

To whom the subsidy is provided

The subsidy is provided to medium-sized manufacturers.

Annual amount budgeted

1995: NIS 2,409,040

Duration

Ongoing.

Trade effects

None.

Other information

The subsidy consists of the payment of 50 per cent of the consultancy fees, up to a ceiling of 400 hours of consultancy.

**On-site factory training - aimed at aiding the training of new employees at work site**

The authority responsible for the subsidy

The Department for Professional Training at the Ministry of Employment and Welfare

Legal basis

Criteria determined by an interministerial committee.

Policy objective and/or purpose

The purpose of the programme is to encourage employers to hire new employees, despite their relatively low production level during the initial period of employment.

Form of the subsidy

Grants.

To whom the subsidy is provided

The subsidy is provided by the Department for Professional Training to any employer who hires new employees that fit the necessary requirements.

Subsidy per unit

During 1995, the subsidy per employee in disadvantaged areas was up to NIS 850 per month.

Duration

Ongoing.

Trade effects

Considering its limited application, low budget and limited economic effect, this programme has no effect on trade.

Other relevant information

The subsidy is given during the first two working months of the new employee.

There is a one-month extension for new employees who are new immigrants, women, or above the age of 45.

The subsidy commences on the date on which the new employee begins working, but not earlier than the date of the application for the subsidy by the employer.



**On-site factory training - aiding the training of new employees who are graduates of universities or professional courses**

The authority responsible for the subsidy

The Department for Professional Training at the Ministry of Employment and Welfare.

Legal basis

Criteria determined by an interministerial committee.

Policy objective and/or purpose

The purpose of the programme is to encourage employers to employ professional workers, graduates of universities or of professional courses who lack work experience and to enable them to gain this experience.

Form of the subsidy

Grants.

To whom the subsidy is provided

The subsidy is provided by the Ministry of Employment and Welfare to employers who hire employees that fit the necessary requirements.

Subsidy per unit

During 1995, the subsidy per employee in disadvantaged areas was up to NIS 850 per month.

The subsidy per employee in the remainder of the country was NIS 750 per month.

Duration

Ongoing.

Trade effects

Considering its limited application, low budget and limited economic effect, this programme has no effect on trade.

Other relevant information

The subsidy is given during the first three working months of the new employee.

The subsidy period commences on the date on which the new employee begins working but not earlier than the date of the application for the subsidy.

Trade effects

Considering its limited application, low budget and limited economic effect, this programme has no effect on trade.

Other relevant information

The payment of the subsidy to the employee is made after he/she has completed six months of work in a high demand job.

The employee is entitled to the subsidy only if he/she commences working not later than 12 months after his/her completion of compulsory military service.

**A grant to newly released soldiers who work in high demand jobs**

The authority responsible for the subsidy

The Employment Service and the National Insurance Institute.

Legal basis

The "National Insurance Law, 1968".

Policy objective and/or purpose

The purpose of the programme is two-fold:

1. To motivate young people after the completion of their compulsory military service, to accept employment rather than to receive unemployment benefits.
2. To encourage unskilled newly released soldiers labour to join sectors in which unskilled labour is in high demand, such as in industry, agriculture, construction and tourism.

Form of the subsidy

Grant.

Subsidy per unit

The subsidy per employee was NIS 5,051 per employee (June 1996).

Duration

Ongoing.

Trade effects

Considering its limited application, low budget and limited economic effect, this programme has no effect on trade.

Other relevant information

The payment of the subsidy to the employee is made after he/she has completed six months of work in a high demand job.

The employee is entitled to the subsidy only if he/she commences working not later than 12 months after his/her completion of compulsory military service.

**The Encouragement of Marketing Fund**

The authority responsible for the subsidy

The Finance Administration at the Ministry of Industry and Trade.

Legal basis

Regulations of the Director General of the Ministry of Industry and Trade.

Policy objective and/or purpose

The purpose of the programme is to encourage exporters to adopt advanced marketing strategies, to use advanced marketing tools and to assist them in building a marketing infrastructure.

Form of the subsidy

Grant of 33 per cent on approved infrastructural marketing expenditure, up to a ceiling of US\$400,000.

To whom subsidy is provided

The subsidy is 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.

Annual amount budgeted

1995: NIS 110,000,000 million.

Duration

Ongoing.

Statistical data

(In millions of US\$)

Export 1994: US\$17,006

Export 1995: US\$19,028

Trade effects

The amounts granted are so insignificant that we are unable to confirm the existence of a direct relation between the granting of this aid and the trend in export.

Other information

The subsidy finances 1/3 of the approved expenses authorized by the Fund up to a ceiling of US\$400,000.

The grant is repaid by the exporters in the form of royalties at a rate of 3 per cent of the growth of exports, whether a direct link between the granting of the support and the growth of exports, exists or not.

**Assistance for the financing of investment aimed at the reduction of environmental hazards at existing industrial plants**

The authority responsible for the subsidy

The Ministry of Environment.

Legal basis

Written criteria and instructions issued by the Director General of the Ministry of Environment.

Policy objective and/or purpose

The purpose of the subsidy is to provide financial aid to existing industrial plants for the installation of contamination prevention or reduction systems and/or systems handling factory outputs causing environmental hazards in order to comply with environmental legislative requirements.

This programme consists of subsidies within the meaning of Article 8.2(c) of the SCM Agreement.

Form of the subsidy

Grant up to 35 per cent of the cost of the approved investment for the new installation, but not more than NIS 1.125 million (the lowest of the two).

Annual amount budgeted

1995: NIS 25,000,000.

Duration

The programme is planned to end in 1999.

Trade effects

This programme solely supports the elimination or reduction of environmental hazards created by factories from all types of industries.

Therefore the programme is neutral in terms of competition and has no effect on competition in international trade.

Other information

Payment of the grant is made to the plant following the receipt of a confirmation from a consultant, that the programme has been fully implemented in accordance with the Ministry's terms of approval.

Statistical data

For the period of July 1995-June 1996, the average support for an approved project was NIS 377,000.

**The Import Liberalization Fund**

The authority responsible for the subsidy

The Finance Administration at the Ministry of Industry and Trade.

Legal basis

Regulations of the Director General of the Ministry of Industry and Trade.

Policy objective and/or purpose

The purpose of the programme is to assist industrial enterprises to adjust to increased competition resulting from Israel's import liberalization programme, which is implemented by unilateral reduction of customs.

Form of the subsidy

Grants or state guaranteed loans.

To whom the subsidy is provided

The subsidy is provided to manufacturers proved to have been damaged by the import liberalization and who are able to present a business rehabilitation plan.

Annual amount budgeted

1995: NIS 3,011,300

Duration

Ongoing. Started in 1992 after the entry into force of the Liberalization Programme.

Trade effects

The programme aids businesses injured by Israel's unilateral reduction of customs.

Therefore, this programme has no effect on trade.

**The encouragement of capital investment**

The authority responsible for the subsidy

The Investment Centre at the Ministry of Industry and Trade.

Legal basis

The "Law for the Encouragement of Capital Investment, 1959".

Policy objective and/or purpose

The purpose of the programme is to expand the economy's production capacity, to absorb immigration, to create new sources of employment and to encourage the dispersion of the population to disadvantaged areas (development areas).

Development areas are redefined at pluriannual intervals, on the basis of indicators (such as, unemployment, level of income, etc.) and subject to the approval by the Knesset (the Israeli Parliament).

With regard to specific regional assistance, this programme consists of subsidies in the meaning of Article 8.2(b) of the SCM Agreement.

Form of the subsidy

The support given under this programme is in the form of grants and/or reduced rates of taxation and/or state guarantees for loans.

Grants of up to 38 per cent of the approved capital investment are given to approved enterprises located in disadvantaged areas. This percentage was reduced to 34 per cent in 1996.

To whom the subsidy is provided

The subsidy is provided to companies for projects in all types of industries and tourism.

Annual amount budgeted

1993: NIS 1,007,460,000  
1994: NIS 1,117,379,200  
1995: NIS 1,508,661,300

Duration

Ongoing.

Trade effects

The specific assistance under this programme is granted to enterprises located in disadvantaged areas, in order to offset local investment disadvantages and raise the levels of income and employment in structurally weak areas.

Therefore the programme is neutral in terms of competition and has no effect on competition in international trade.