-Israel-

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GENERAL FEATURES OF TRADE POLICY

Israel has a technologically advanced market economy with substantial government participation. It depends on imports of crude oil, grains, raw materials, and military equipment. Despite limited natural resources, Israel has intensively developed its agricultural and industrial sectors over the past 20 years. Israel is largely self-sufficient in food production except for grains. Cuts diamonds, high-technology equipment, and agricultural products (fruits and vegetables) are the leading exports. On the back of strong exports Israel's economy rose by 5.9% in 2000. However, the economy's buoyancy has been somewhat undermined by the Palestinian unrest, which dampens the tourism, agriculture and construction sectors. Moreover, the slowdown in the US economy since the last quarter of 2000 will continue to hit Israel's exports of technology products and services.

Israel's consumer inflation recorded zero growth in 2000, stemming from the relatively tight monetary policy and strong shekel (Israel's currency). However, relaxation in monetary policy coupled with a gradual depreciation of the shekel in the course of this year may lead to slightly higher inflation. The inflation targets of the Bank of Israel are 2.0-3.0% for 2002 and 1.0-3.0% for 2003.

Concerned about its growing public debts, the Israeli government pledged to gradually reduce its budget deficit. As a result of an increase in tax revenues from the economic recovery, Israel's fiscal deficit was only 0.6% of GDP in 2000, compared with a target of 3.6% of GDP. However, with the persistent regional and domestic instability, an increase in defence expenditure is predicted.

Israel is gradually reforming its economy to enhance competitiveness through deregulation and privatisation of state-owned enterprises. As part of the reform programmes, Israel has lowered its value-added tax (VAT), as well as corporate income tax rate. In addition, the government has sold off all or portions of its share holdings in over 80 companies over the past decade. In 2001, the Israeli government is likely to sell to private investors its stake in the banks as well as Bezeq -- the state telecommunications company.

Israel follows an export-oriented policy due to its geographic situation and lack of resources. These efforts have resulted in the conclusion of separate free trade agreements with the European Union, the US and Canada. Israel has a free trade zone, the Red Sea port city of Eilat, and three free ports, namely, Haifa Port, Port of Ashdod and Port of Eilat. Qualified enterprises in these areas are offered tax incentives and exempt from indirect taxation.

Israel-EU Trade Relations

The EU's policy towards the Mediterranean region as a whole as well as Israel is governed by the Euro-Mediterranean Partnership launched at the 1995 Barcelona Conference, between the European Union and its 12 Mediterranean Partners (Barcelona Process, overarching bilateral and multilateral EU relations). The bilateral relations with each MEDA country including Israel should thus also be seen in the context of the objective to foster mutual trade and the increasing network of Euro-Mediterranean Association Agreements, allowing for a free trade area across the Mediterranean.

EU-Israel trade statistics are traditionally distorted by the substantial trade in precious stones (diamonds), which accounts for more than 30% of total bilateral trade. Excluding this specific sector, and based on preliminary figures for 2001, Israeli exports to the EU represented 31% (€ 7.8 billion) of total Israeli exports and Israeli imports from the EU 41% (€ 12.9 billion) of total Israeli imports. The trade deficit of Israel with the EU was € 5.11 billion in 2001. The breakdown of trade flows by main sectors, excluding diamonds, is the following: Israel's main exports to the EU are electrical machinery and equipment (39%); chemical products (17%), plastics and rubber (9%) and optical measuring and medical instruments (8%). Its major imports from the EU are electrical machinery and equipment (35%), chemicals (13%) and base metals (6%).

EU-Israel trade is increasing in importance as a share of the EU's trade. In the last 20 years, the share of their exchanges in their total trade has almost doubled. With Israel's share in total EU trade of 1% for imports and 1.7% for exports, Israel ranks as EU's 15th export market.

The total trade in services between the EU and Israel increased from 1996 to 1998 (last data available). In 1998 the services balance was slightly in favour of the EU, which that year imported around 1500 million € and exported 1743 million €.

EU FDI inflows from Israel in 1999 amounted to € 116 million (0.1% of EU total) and the outflow amounted to € 155 million (0.1% of EU total). Inward stocks amounted to € 1052 million and outward stocks to € 613 million (both 0.1% of the respective EU investment stocks).

Israel's level of economic development is in relative terms much higher compared to that of any other member of the MEDA Partnership. For this reason Israel in not a recipient of EC funds under the MEDA bilateral financial co-operation. Israel however is covered by the MEDA regional component.

Israel has in the past benefited of four Communities financial protocols, mainly used for global loans for the financing private investment projects. Israel signed a Framework Agreement with EIB in June 2000.

The new Euro-Med Association agreement entered into force on 1st June 2000. It was signed on 20.11.1995 and replaces the old 1975 EC-Israel co-operation agreement. It confirms the free trade regime for industrial products existing since 1989 and provides for reciprocal additional agricultural concessions.

The Association Agreement establishes for the first time an institutional political dialogue between the EU and Israel. This represents a new development in the already very close relations which existed between Israel and the EU.

In addition to the political dialogue, the Association Agreement sets out a large number of areas for possible future cooperation. For example, in the field of economic cooperation, the agreement covers areas such as industry, energy, standards, financial services, information infrastructures and telecommunications, transport and tourism. The agreement also opens up possibilities for cooperation in fields such as audiovisual matters and the cultural sphere.

The first Association Council took place in Luxembourg, 13 June 2000. The first Association Committee took place in Brussels 21 May 2001.

Other bilateral agreements

- The 1999 agreement on scientific co-operation. Israel has been associated respectively to the 4th and the 5th Community R&D Framework Programmes, enjoying a status equivalent to that of any other M.S.
- Two separate agreements on Public Procurements concluded in 1996;
- An agreement on Good Laboratory Practices concluded in 1999.
- Since March 2000 Israel has gained "Co-operating State" status in the COST (Research) programme.
- Since June 2000 Israel is member of the Eureka (Research) Network.

The following table is an overview of the tradeflow between the European Union and Israel

Section	Year	Import(Euro)	Export(Euro)
Animals & animal products	1996	17,452,120	48,238,980
	1997	20,620,220	52,889,050
	1998	20,499,120	56,274,050
	1999	19,608,010	43,243,980
	2000	22,751,790	40,753,390
	2001	20,777,280	47,345,700
	2002	21,363,580	42,246,120
	2003	22,781,850	38,307,110
	1996	529,199,000	61,761,820
	1997	551,863,110	86,242,910
	1998	594,523,530	67,400,580
	1999	564,197,270	80,227,720

Vegetable products	2000	620,900,100	121,316,600
	2001	640,418,790	116,217,170
	2002	569,154,650	96,766,030
	2003	551,005,630	84,955,100
Animal or vegetable fats	1996	1,401,930	12,193,120
	1997	1,556,630	11,713,080
	1998	3,155,250	15,911,810
	1999	2,144,450	14,345,060
	2000	2,627,180	18,020,400
	2001	3,045,920	16,920,230
	2002	3,456,670	19,691,100
	2003	2,154,840	25,307,910
Prepared foodstuffs	1996	164,967,220	265,212,950
	1997	162,658,790	340,839,220
	1998	168,667,800	333,094,170
	1999	180,496,990	313,396,310
	2000	212,814,300	351,344,770
	2001	220,771,220	419,243,790
	2002	213,191,000	413,930,810
	2003	208,784,850	356,352,060
Mineral products	1996	93,887,920	99,945,060
	1997	129,657,400	85,086,260
	1998	158,675,320	62,980,940
	1999	130,754,340	139,470,820
	2000	258,843,590	332,301,580
	2001	214,195,390	170,242,450
	2002	160,025,710	115,852,620
	2003	169,155,390	92,089,010
Chemical products	1996	646,404,790	866,902,690
	1997	773,255,600	1,028,262,670
	1998	812,159,620	1,052,694,890
	1999	991,030,760	1,127,765,400
	2000	1,209,147,960	1,332,328,350
	2001	1,354,079,950	1,416,394,520
	2002	1,361,326,720	1,447,384,000
	2003	1,247,813,420	1,333,554,630
Plastics & rubber	1996	362,495,210	441,774,400
	1997	444,416,090	490,289,870
	1998	482,881,480	532,535,700
	1999	505,472,460	544,993,370
	2000	617,020,020	641,942,750
	2001	611,211,230	599,923,770
	2002	587,271,500	543,335,210
	2003	583,509,260	519,859,390
Hides & skins	1996	10,011,790	24,145,810
	1997	10,180,740	24,729,770
	1998	11,132,010	22,847,720
	1999	11,090,230	18,197,970
	2000	12,267,900	22,278,520
	2001	12,456,490	25,373,430
	2002	14,219,180	19,230,050
	2003	7,689,670	15,531,270
Wood & wood products	1996	7,737,450	117,806,410
	1997	7,625,730	153,566,810
	1998	7,549,190	145,094,710
	1999	7,892,520	140,063,750
	2000	9,730,680	164,808,760
	2001	8,348,410	153,207,630
	2002	2,480,650	135,898,590
	2003	2,769,480	115,913,550
	1996	33,511,080	261,954,950

Wood pulp products	1997	49,066,420	297,100,580
	1998	51,170,180	317,246,290
	1999	54,839,020	336,880,000
	2000	74,361,780	395,877,440
	2001	86,893,460	357,056,870
	2002	96,816,510	356,668,510
	2003	94,627,110	306,853,300
Textiles & textile articles	1996	474,050,910	479,167,290
	1997	514,945,400	517,939,290
	1998	492,121,630	506,005,340
	1999	508,443,370	463,070,410
	2000	504,459,050	481,493,550
	2001	411,201,330	438,713,120
	2002	364,102,950	356,746,510
	2003	323,133,680	289,778,550
Footwear, headgear	1996	11,083,900	84,277,200
	1997	14,740,040	90,407,330
	1998	14,244,730	89,181,150
	1999	14,123,830	78,337,950
	2000	11,353,190	86,576,050
	2001	7,330,840	92,482,630
	2002	7,122,410	74,410,460
	2003	6,992,450	47,748,750
Articles of stone, plaster, cement, asbestos	1996	37,169,180	265,491,470
	1997	34,514,000	282,450,130
	1998	40,737,860	259,867,420
	1999	44,545,370	245,340,290
	2000	65,508,570	258,519,820
	2001	64,139,290	259,249,780
	2002	61,133,610	222,611,110
	2003	54,441,250	167,797,640
Pearls, (semi-)precious stones, metals	1996	1,062,386,680	2,418,234,240
	1997	1,322,390,730	2,864,126,170
	1998	1,257,791,500	2,344,398,400
	1999	1,430,332,560	3,242,426,220
	2000	1,981,752,810	3,983,251,510
	2001	1,711,292,820	3,030,191,020
	2002	1,756,090,550	2,885,303,650
	2003	1,350,196,360	2,764,371,520
Base metals & articles thereof	1996	232,735,610	715,675,100
	1997	254,086,050	684,519,800
	1998	311,561,050	611,544,850
	1999	317,639,700	545,178,200
	2000	407,101,850	625,822,790
	2001	421,801,040	590,590,260
	2002	403,335,610	539,248,540
	2003	362,048,630	491,631,600
Machinery & mechanical applicances	1996	958,463,310	1,980,019,360
	1997	1,203,389,260	2,057,130,920
	1998	1,544,823,600	2,173,771,840
	1999	1,705,121,780	2,505,446,380
	2000	2,580,813,030	3,540,819,280
	2001	2,313,169,340	3,378,224,880
	2002	1,705,763,350	2,760,266,480
	2003	1,469,895,680	2,512,968,550
Transportation equipment	1996	49,170,920	1,099,813,020
	1997	33,168,420	1,174,875,900
	1998	60,053,280	835,828,920
	1999	62,746,150	947,692,740
	2000	107,116,330	1,369,910,930
	2001	95,586,590	1,440,209,300

	2002	85,912,560	1,098,014,230
	2003	74,172,860	750,269,400
Instruments - measuring, musical	1996	238,304,250	234,661,890
	1997	346,028,020	252,426,250
	1998	361,541,740	329,605,110
	1999	442,136,940	402,678,250
	2000	502,271,320	524,012,280
	2001	670,382,690	521,098,050
	2002	506,432,130	519,012,380
	2003	441,011,720	491,825,750
Arms & ammunition	1996	972,170	5,311,480
	1997	31,281,070	5,107,440
	1998	6,935,060	2,655,600
	1999	24,346,290	3,416,970
	2000	19,259,940	4,207,020
	2001	13,372,500	4,494,500
	2002	12,269,650	3,351,590
	2003	58,326,180	4,613,530
Miscellaneous	1996	57,016,590	224,099,800
	1997	60,079,330	257,710,180
	1998	72,111,550	266,740,860
	1999	82,156,260	255,046,970
	2000	97,941,760	308,436,190
	2001	88,396,000	312,017,400
	2002	84,332,930	247,872,780
	2003	93,587,450	167,971,380
Works of art	1996	12,117,740	18,103,480
	1997	12,581,300	7,823,890
	1998	14,323,380	26,889,090
	1999	5,358,940	8,243,350
	2000	14,072,840	6,219,960
	2001	8,420,840	11,104,140
	2002	9,220,260	6,531,450
	2003	7,200,210	13,817,100
Other	1996	35,812,370	32,906,600
	1997	30,091,090	28,635,850
	1998	37,293,730	50,131,070
	1999	44,635,590	29,701,230
	2000	41,632,960	35,953,050
	2001	108,252,450	42,577,540
	2002	97,142,040	34,296,500
	2003	60,389,790	29,606,050

Electronics last updated on 2002-04-29

Telecommunications is one of the most dynamic and rapidly developing sectors of the Israeli economy. The civil telecoms industry grew out of the Israeli defence industry and has benefited from technologies developed in that sector, especially in the field of microwave and mobile communications, radio and satellite, and wireless communications.

Today, Israeli telecommunication companies are among the market and technological leaders, and Israel has become a focus for investment in this field by many international telecommunications companies.

It is estimated that more than 10% of all communications equipment sold around the world comes from Israel. A number of multinational telecommunications manufacturers, have invested in Israeli companies. These include: ALCATEL, BAY-NETWORKS, CISCO, 3-COM, IBM, INTEL, LUCENT, MARCONI, MOTOROLA, NEWBRIDGE, NORTEL and SIEMENS.

The activities of the leading commercial telecommunications manufacturers in Israel include broadband, wireless & wireline access systems, integrated telecom networks for public network operators and corporate customers, 2-way radio, truncated systems and access solutions to WAN and LAN. New telecom start-ups have concentrated their activities on optical transmission, IP communications, and telecom components.

Israel is probably also one of the most advanced country in the world in the Internet fields and is responsible for a significant part of all world's new Internet development.
Israel is also a major international centre for software R& D, and many of the world's leading computer firms have set up R& D facilities in the country.
More than 100 Israeli companies, the majority in the fields of Electronics and software, are listed on American high-tech stock exchange - NASDAQ (National Association of Securities Dealers Automated Quotations).

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TARIFFS AND DUTIES

Israel's import tariffs are classified in accordance with the Harmonised System (HS). Ad valorem duties are imposed on the imports, ranging from 0.8% to more than 80%. Most raw materials and machinery are exempt from customs duties. Higher tariff rates apply mainly to luxury consumer items and manufactured goods which compete with local production. In early 1996, Israel removed administrative barriers on imports of processed food to meet WTO rules. In January 1997, Israel further lowered import duties on most processed food by 12% to 50%, except bakery goods, coffee and chocolates. It has also pledged to reduce the duty rates to 8% by 2002.
The Euro-Mediterranean Association Agreement confirms, for industrial products, full free trade between the EU and Israel prohibiting all customs duties and charges having equivalent effect on imports and exports, while it establishes the principle of progressive liberalisation for agricultural products.

Taxation

On top of custom duties, a value-added tax (VAT) of 17% is applied to almost all imported and domestically produced goods and services. For imports, VAT is levied based on CIF plus the custom duties. Besides VAT, items considered luxury goods, such as vehicles, alcoholic beverages and cigarettes, are subject to purchase taxes of 5-95%.

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NON TARIFF BARRIERS

Most goods can be freely imported -- without licences or quota restrictions, with the exception of certain restricted items -- most agricultural products, beverages, explosives and inflammables, certain textiles and clothing, and some specified items of machinery and metal products.

Standards

Mandatory standards, if required, are indicated with an "S" in the Tariff Book of Israel. Normally, mandatory standards are imposed on products that directly affect consumer safety such as electrical appliances, food products, some food additives, and mechanical parts. Other considerations when imposing standards are quality control of the product, maintenance, liability, specific measurement and protection of national economy.

Licences

The licensing system requires an import license in the following cases:
1. When imports are subject to quotas, as is the case of agriculture and goods listed in lists A1, A2 and B.
2. When public health is involved (i.e. meat/foodstuffs and pharmaceuticals) a license is required to verify that imports meet the standards.
3. When importing petroleum and gas, telecommunications equipment and motor vehicles.
4. An import license is required when an (L) indication appears in the Tariff Book of Israel. The Israeli

licensing policy is as follows: agricultural (mainly fresh and processed agricultural products) and defense-related items are subject to prior licensing. Other types of agricultural products are granted automatic license when health, labeling, phytosanitary and veterinary requirements are met. Certain industrial products, are granted a license automatically, if all requirements are met (i.e., standards and other technical requirements). In fact, this license is maintained only for monitoring purposes.
When applying for an import licence, the importer must either be a resident of Israel, a corporation registered in Israel, or a non-profit organisation registered in Israel.

Others

Israel maintains regulations on product labelling and country of origin marking. All imports into Israel must bear a label showing the country of origin; the name and address of the manufacturer; the name and address of the Israeli importer; and the contents, the weight and volume in metric units. All labels must be in Hebrew; English language may be added provided the printed letters are not larger than those in Hebrew.

Agriculture and Fisheries

Sanitary and phytosanitary measures

040076-*Israel- Live bovines, and beef* [2004-09-01]

Import ban on live bovines for reproduction and beef (excluding beef from young bovine: calves younger than seven months and also calves originated from Hungary) because of BSE.

- General statement on BSE to all Third Countries at the SPS Committee on 17/03/2004 in reaction on the statement of the USA

040120-*Israel- lack of phytosanitary legislation for imports* [2004-09-27]

Israel does not have a proper phytosanitary legislation for imports (as is requested in Article 46 of the EU-Israel Association Agreement and in contradiction to WTO rules). At the moment, the system in place is based mainly on import permits and additional phytosanitary declarations, which provoke incertitude on EU exporters and complicate administrative procedures.

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INVESTMENT RELATED BARRIERS

There are no significant barriers to foreign investment except for those that apply to the defense industry and such state-owned interests as the national airline and the power monopoly. Israel otherwise permits 100 percent foreign ownership of businesses, although a foreign-owned entity must register with the government. In 2000, the government opened the telecommunications sector to both foreign and domestic competition.

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IPR

IPR infringements in Israel are a problem. The piracy rates are extremely high resulting from local production, production in the territory under the Palestinian Authority and importation. The enforcement mechanisms available do not appear to be applied in adequate manner. On 1 January 2000 the first phase for Israel to comply with the provisions of the TRIPS Agreement was accomplished. A number of legislative acts have been adopted which should reduce the existing shortcomings with regard to TRIPS compatibility. This problem is a big reason of concern for the Israeli economic operators as well. There are recent indications about some positive developments in the capability of the authorities to enforce IPR violations.

Additionally, as part of a wider, regional problem, it has been brought to our attention that the level of protection available under Israeli law to trial data pertaining to pharmaceutical compounds for which market authorisation is sought appears not to be in accordance with the requirements of Article 39.3 TRIPs. While Israel, in the framework of the so-called "TRIPs 2000 review of implementing legislation" exercise, has argued that its legislation is in compliance with the TRIPs aforementioned provisions, industry reports clearly indicate otherwise.