U.S.-Israel Free Trade Area Agreement

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In 1985, Israel became the first country to sign a bilateral Free Trade Area Agreement (Agreement) with the United States. Israel, isolated from regional trade by the Arab boycott, sought to integrate itself into the global economy in an effort to overcome the limitations of its small domestic market. U.S. interest in the Agreement was sparked by a readiness to further trade relations in general, and by the awareness that the EEC-Israel free trade agreement of 1975 had been partially responsible for a reduction in U.S. merchandise and agricultural exports to Israel.

The U.S.-Israel Agreement's principal goal was the elimination of all duties on trade between the two countries. The Agreement applied not only to tariffs but also to licenses, subsidies, and other trade restrictive measures for both agricultural and industrial products. While the agreement phased out tariffs on nonagricultural products, eliminating all duties by January 1, 1995, Article VI of the agreement permitted each country to maintain nontariff barriers for the protection of sensitive, domestically produced, agricultural products. Israel maintained levies and fees on a wide range of agricultural products and placed quotas and bans on others.

The Agreement is a dynamic document and under regular scrutiny. It provides a consultative mechanism between the parties and in 1996, the United States and Israel agreed on a 5-year program of gradual and steady liberalization of Israel's market for food and agricultural products. One objective of the 1996 Agreement on Food and Agriculture (AFA) was to provide for immediate access for all U.S. farm products, which was to have been achieved by January 1, 1995 under the 1985 Agreement. However, this was not achieved, as nontariff barriers (NTB's) and technical barriers to trade continue to hamper U.S. access to the Israeli market. On the other hand, the reduction in duties and setting of tariff-rate quotas (TRQ's) for nearly 100 products has helped increase certain U.S. exports such as frozen fruit and breakfast cereals to Israel.

In addition to its GATT multilateral trade commitments and its agreement with the United States and the European Union (EU), Israel also has trade agreements with Canada, Turkey, Slovakia, the Czech Republic, Hungary, European Free Trade Association states, and Jordan. With respect to all other countries, Israel substituted steep tariffs for NTB's and is now reducing these tariffs. Israel's import liberalization program and new trade agreements have diluted U.S. advantages under the bilateral Agreement.

U.S. Agricultural Trade with Israel

In the 5 years prior to the Agreement (1980-84), Israel's total agricultural imports averaged $827 million; and in the 5 years following (1986-90), $965 million per year. The U.S. share of Israel's agricultural imports averaged 38 percent in the 5 years prior to the agreement and dropped to 29 percent in the following 5 years. The EEC share rose from 29 percent to 42 percent. Bulk commodities dominate U.S. agricultural exports to Israel, with 93 percent of the total value prior to the agreement and 87 percent in the following 5-year period.

U.S. agricultural imports from Israel have historically been relatively low, averaging $55 million in the 5 years prior to the Agreement and $80 million in the 5 years following. This represents 0.3 percent of total U.S. agricultural imports and about 6 percent of Israel's agricultural exports. Two-thirds of total U.S. agricultural imports from Israel are consumer-oriented goods such as dairy products, biscuits, and wafers, which grew 44 percent following the Agreement, while horticultural imports from Israel doubled. The data show that trade growth has not been reciprocal but rather that the Agreement benefitted Israel more.

Motives for the Agreement On Food and Agriculture

The substantial nontariff barriers on agriculture in Israel led to the 1996 Agreement on Food and

Agriculture. In addition, the 1996 AFA was negotiated in an effort to reconcile the inconsistencies between the 1985 Agreement and the global trade rules that resulted from the Uruguay Round of the GATT. The Uruguay Round and Israel's membership in the newly formed WTO required the Government to transform into tariffs all administrative or nontariff barriers to trade; these had been allowed by the U.S.-Israel Agreement.

Many products that were banned or subject to small quotas are now covered by TRQ's or tariffs under the 1996 AFA. The AFA is comprehensive and provides for immediate and meaningful access for U.S. farm products. The AFA categorizes products as: (1) those free from duty or other restrictions, (2) those imported duty-free within a specified TRQ, and (3) those subject to preferential tariff treatment. The AFA reduced duties and established TRQ's for nearly 100 U.S. products and allowed the free entry of many U.S. products. The AFA is to last for 5 years, at which time the two governments commit to seek further improvements.

Obstacles to free trade between the United States and Israel remain, however, including national treatment, weights and measures, kashrut (Kosher) certification, and violation of Article 6 of the 1985 Agreement regarding products not produced domestically. In 1994, Israel established the Israeli Kosher Meat Import Law prohibiting all imports of non-kosher meat. The ban is administered in violation of both the 1985 Agreement and WTO's "national treatment" provisions (Article 8 of the 1985 Agreement and GATT article III) as non-kosher meat is already produced and sold in Israel. The 1997 Trade Estimates Report for Israel estimates that once the kosher certification problem is resolved and U.S. slaughterhouses meet the veterinary requirements imposed by Israel's religious authorities, the potential market for U.S. beef and beef products could be $25-$100 million annually. In early 1998, however, the Israeli Parliament (Knesset) approved an amendment to the basic law—Freedom of Occupation—that makes the current ban on imports of nonkosher meat permanent. In this case, neither the 1985 Agreement nor the 1996 AFA was of any help in lifting this nontariff barrier.

Israel's labeling and standard weights requirement has been a persistent problem for the United States. Israel requires that many household products be sold in fixed package sizes (e.g., 200, 400, or 500 grams) using metric weights and measures. This requirement effectively precludes exports of many U.S. products, as does the lack of an English translation for certain regulations and Israeli standards of certification. In the 1994 Trade Policy Review of Israel done by the GATT, Canada, which also has a free trade agreement with Israel, raised similar issues of packaging, marking, and labeling as obstacles to their trade with Israel. Such trade barriers hurt U.S. exports of important value-added products—in particular, prepared vegetables, fruits, and pasta. However, in mid-1998, Israel undertook to cancel all weights and measures standards on food, which is expected to take effect later in the year. However, until that happens, packaging and labeling standards will continue to prevent the importation of a broad range of U.S. foods, with a potential value of $20-$40 million. These imports are not expected to detract from domestic producers' market share; they are likely to shift the source of supply from the EU to the United States.