

# **Chile-Israel Joint Study Group on the Feasibility of a Free Trade Agreement (FTA)**

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## **I. INTRODUCTION**

### **I.1. MAIN CHARACTERISTICS OF THE CHILEAN/ISRAEL ECONOMY AND INSTITUTIONAL FRAMEWORK**

- Israel has no formal constitution; there are several constitution-like laws, formulated as "basic laws" and a series of decisions by the Supreme Court which lay down the foundations for government and the rights of individuals.
- There are three levels of general courts: Magistrate, District, and the Supreme Court, which try both civil and criminal matters.
- All tribunals are supervised by the Supreme Court, which has ultimate judicial authority.
- Legislative authority rests with the Knesset (the unicameral parliament), which is comprised of 120 members elected by universal suffrage every four years (subject to dissolution), on the basis of proportional representation.
- Chief of State: President Shimon Peres (since 15 July 2007).
- Executive powers lay with the Government, led by the Prime Minister - Binyamin Netanyahu (since 31 March 2009).
- Elections: The presidency is largely a ceremonial role and the president is elected by the Knesset for a seven-year term (limited to one-term only); elections were last held in 13 June 2007; following legislative elections, the president assigns a Knesset member, traditionally the leader of the largest party, the task of forming a governing coalition.

Israel: Basic Economic Data,<sup>a</sup> 2000–2008

Table I.1

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Mean population ('000)	6,289	6,439	6,570	6,690	6,809	6,930	7,054	7,180	7,306
Population growth rate (percent)	2.7	2.4	2.0	1.8	1.8	1.8	1.8	1.8	1.7
Israelis employed ('000)	2,216	2,265	2,284	2,330	2,401	2,494	2,574	2,682	2,777
GDP (NIS billion, 2008 prices)	557	555	552	562	590	620	652	687	714
GDP growth rate (percent)	8.9	-0.4	-0.7	1.8	5.0	5.1	5.2	5.4	4.0
Per capita GDP (\$ '000, current prices)	19.7	18.9	17.0	17.6	18.5	19.2	20.4	22.8	27.3
Unemployment rate (percent)	8.8	9.3	10.3	10.7	10.4	9.0	8.4	7.3	6.1
Real wage per employee post (percent change)	6.2	3.0	-6.2	-3.0	2.5	1.0	1.3	1.6	-0.9
Nominal wage per employee post (NIS per month, current prices)	6,850	7,133	7,074	6,909	7,051	7,221	7,468	7,630	7,909
Change in real income of family in lowest quintile (percent)	2.8	1.7	-7.6	-2.4	-1.7	2.4	7.6	4.1	
Rate of employment in 25- to 64-year age group (percent)		66.4	66.0	66.2	66.7	67.5	68.5	70.1	71.0
Inflation rate (during the year, percent)	0.0	1.4	6.5	-1.9	1.2	2.4	-0.1	3.4	3.8
NIS/\$ exchange rate (percent change, during the year)	-2.7	4.8	9.8	-6.4	-1.2	6.2	-8.9	-7.1	-0.9
Nominal effective exchange rate (percentage change, during the year) <sup>b</sup>	-9.5	0.9	16.6	3.5	4.4	0.0	-3.5	-1.4	-8.3
Public expenditure (percent of GDP)	47.3	49.7	51.1	50.3	47.4	45.2	44.7	44.0	43.3
Tax revenue (percent of GDP)	37.0	36.9	36.2	35.4	35.5	35.6	36.1	36.5	33.9
Actual budget deficit (percent of GDP)	0.6	4.1	3.5	5.3	3.6	1.8	0.9	0.0	2.1
Gross public debt (percent of GDP, year-end)	85.1	89.9	97.6	99.9	98.2	94.2	85.7	79.4	78.0
Goods and services exports (\$ billion, current prices) <sup>c</sup>	39.5	34.9	32.5	35.7	43.1	47.1	53.3	60.7	70.8
Goods and services imports (\$ billion, current prices) <sup>c</sup>	40.3	38.4	36.1	37.2	43.6	48.4	53.4	64.1	75.4
Current account (percent of GDP)	-1.8	-1.6	-1.1	0.5	1.7	3.1	5.0	2.6	0.8
Net external debt (percent of GDP)	6.3	3.4	-0.6	-4.3	-8.5	-16.3	-21.8	-24.9	-25.1

<sup>a</sup> Annual averages

<sup>b</sup> The average shekel exchange rate against the currencies of Israel's trading partners, weighted according to the volume of Israel's trade with them.

<sup>c</sup> Excluding diamonds.

Source: Based on Central Bureau of Statistics data, from "Bank of Israel Annual Report, 2008" Chapter 1 The Economy and Economic Policy.

## I.1.A. Macroeconomic Features

### Economic environment

- Israel's main natural resources are: timber, potash, copper ore, natural gas, phosphate rock, magnesium bromide, clay and sand.<sup>1</sup>
- Demography has been marked by large inflows of immigrants arriving mainly from the former Soviet Union in the late 1980s and early 1990s.
- The population in 2008 was estimated as 7.3 million. The average annum growth rate is approximately 2% during 2000-2008 (Table I.1).
- Israel is a high income country; its gross domestic product (GDP) was US\$ 200.7 billion in 2008<sup>2</sup>, i.e. a per capita GDP of US\$ 27.3 thousand.
- As a small economy based on innovation, Israel depends heavily on international trade (nearly 90% of its GDP); its economic growth is largely export led.
- Israel ranks first worldwide in terms of the ratio of research and development (R&D) investment to GDP, second in terms of the quality of education, and third in terms of entrepreneurship.<sup>3</sup>
- Israel's production pattern has shifted towards high-technology goods and services, intensive in skilled labor.
- The high level of R&D investment has also permitted a number of agricultural activities to be maintained in spite of severe constraints such as limited water resources and the preponderance of desert areas in Israel.
- Since the mid 1990s, Israel has successfully stabilized inflation at low rates, after more than two decades of high inflation.
- Israel accepted the obligations of Article VIII of the IMF Agreement on 21 September 1993.

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<sup>1</sup> CIA (2009).

<sup>2</sup> IMF (current prices).

<sup>3</sup> Institute for Management Development (2005). R&D performance as measured by the ratio of total R&D expenditure to GDP; quality of education as measured by total public expenditure on education as a percentage of GDP and the extent to which university education meets the needs of the economy; entrepreneurship corresponds to managers' entrepreneurship.

**Basic Economic Data: International Comparison<sup>a</sup>, 1998-2008**

	2007				2008				Average 1998-2008			
	Israel	US	Eurozone	OECD	Israel	US	Eurozone	OECD	Israel	US	Eurozone	OECD
GDP growth rate	5.4	2	2.9	3.7	4	1.4	1.5	1.8	3.8	2.7	2.5	3.1
Per capita GDP growth (b)	3.5	1	2.4	3.2	2.1	0.4	1	1.3	1.7	1.7	2	2.5
Per capita GDP (\$'000) (b,c)	22.8	45.1	45.7	40.1	27.3	46.3	50.2	43.8	19.8	38.5	32.4	28.7
Population growth rate (b)	1.8	1	0.5	0.5	1.7	1	0.5	0.5	2.1	1	0.5	0.5
Civilian labor force participation rate	56.3	75.5	73.6	73.7	56.5	–	74	73.9	54.8	6.4	70.5	72.7
Unemployment rate	7.3	4.6	6.7	5.9	6.1	5.7	6.8	5.8	8.9	5	7.6	6.8
Inflation rate (during year)	3.4	4.1	3.2	3.5	3.8	4.9	3.4	4.7	2.4	2.9	2.5	4
Exports (percent of GDP) (d,e)	37.1	12.1	48.5	44.8	38.6	–	–	–	32.1	10.7	45.2	40.9
Gross investment (percent of GDP) (e)	20.1	18.3	22.9	23.5	19.1	–	–	–	19.4	19.2	22.1	22.7
National saving (percent of GDP) (e)	22.8	13.7	21.6	21.8	19.8	–	–	–	20.3	15.3	21.6	21.9
Current account (percent of GDP)	2.6	-5.3	-1.7	-1.3	0.8	-4.9	-2.6	-2.3	0.6	-4.6	-0.7	-0.8
Public expenditure (percent of GDP)	44	37.4	45.2	42.5	43.3	38.6	45.7	42.7	47.5	36.1	46	43.5
Tax revenue (percent of GDP) (e,f)	36.5	28.3	39.6	36.8	33.9	–	–	–	35.9	27.9	38.5	35.9
Gross public debt (percent of GDP) (g)	79.4	62.9	66.8	57.6	78	73.2	68	58.4	91.3	61.5	73.6	62

a Figures for the Eurozone and OECD countries are simple averages of the countries in each group (excluding Luxembourg).

b Population figures for the US, Eurozone and OECD countries for 2008 are estimates.

c At current prices.

d For Israel, exports excluding diamonds.

e The international data are calculated for the period 1998–2007.

f No data were available for Australia, Greece, Japan and Poland for 2007.

g At year end.

Source: OECD Economic Outlook, 2008; IMF World Economic Outlook, 2008; OECD Revenue Statistics 2008 and Bank of Israel.

**a. Gross Domestic Product**

Following five years of rapid growth, the GDP grew at a slightly slower rate in 2008 (only 4.0%). This rate is a reflection of slower growth in the business sector. The slow growth was the result of the economy approaching full employment at the beginning of the year and the trickling down of the global crisis to the domestic market towards the end of 2008.

However, there are encouraging signs: the pace of contraction among trading partners is already easing; the decline in the State-of-the-Economy index has slowed considerably; and there are encouraging signals in business and consumer surveys. Annual inflation has already fallen from 5.1% in the third quarter of 2008 to 3.4% in the first quarter of 2009.

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**b. Inflation**

Since the mid 1990s, Israel has successfully stabilized inflation at low rates, after more than two decades of high inflation.

Despite the high economic growth and the rapid increase in demand in the mid of 1999-2000, inflation remained low, owing mainly to excess domestic supply, the appreciation of the shekel, the reduction of purchase taxes on some durable goods, and the tight monetary policy stance. In 2000, the CPI inflation was nil, well under the official target of 2% to 3%. However, in early 2002, the shekel depreciation largely passed-through to domestic inflation and the CPI inflation jumped to 6.5%; in response, the Bank of Israel sharply raised its headline rate. This and the improvement in the political environment, the appreciation of the shekel against the U.S. dollar and the weakness in economic activity rapidly reduced inflationary pressures. In 2003, the CPI inflation rate turned negative, to -1.9%, compared to 1.2% in 2004. During the 12-month period up to November 2005, the CPI inflation rate reached 2.4%, within the inflation target of 1% to 3%. Inflation had climbed steadily after mid-2007, surpassing the upper bound (3%) of the inflation target in December 2007. In 2008 the upper limit of the targeted range was exceeded, and amounted to 3.8%.

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c. Export Sector

- Israel's merchandise exports increased strongly in 1999 and 2000, thanks to a global economic environment mainly favorable to the high-tech and tourism subsectors.
- Israel's economy is considered to have a comparative advantage in the export of high-tech goods.
- Israel's comparative advantage in the export of high-tech services is greater than it is in the export of high-tech goods.

Additional information regarding the Export sector will presented in chapter I.2. And I.3.

d. Foreign Investment

- Israel encourages both local and foreign investment by offering a wide range of incentives and benefits.
- The Government provides enhanced incentives to foreign-owned companies.
- To facilitate and promote foreign investment in Israel, the Government has set up an investment marketing agency designed to be a "first-stop shop" for foreigners interested in investing in Israel.
- Between 1997 and 2003, about 50% of total foreign investment in Israel was in the form of direct investment, while about 29% was in the form of portfolio investment.
- In 2004 non-resident investment grew slightly, but with a sharp decline in direct investment and a strong increase in portfolio investment (81% of total investment by non-residents in 2004).

- Despite the grave global economic crisis, the flow into Israel of direct foreign investment and of investment abroad by residents did not abate in 2008.

e. Investment & Savings

- The rate of saving is characterized by an upward trend that is flattening over time as a result of the economy-building process and capital accumulation. Once this trend is removed, it appears that savings adjusted to the business cycle or in other words followed the consumption-smoothing model. Thus, it fell during the last period of recession and rose during the period of rapid growth.
- The decrease in the rate of saving in 2008 is a result of the decrease in public saving which is due to the negative surprise in tax collection and a small decline in private saving.
- The increased investment in fixed assets is indicative of sustained growth and an expansion in the economy's production capacity. This trend began in 2006 and differed from that in 2004 and 2005 when higher output mainly resulted from the increased utilization of existing factors of production. The growth in investment reflects inter alia the success of the policy of reducing the government's share in economic activity and the decrease in the government's domestic borrowing requirements, which has freed resources for increasing the business sector's share in investment.
- The rate of investment from gross national income also fell in 2008 to a level of 18.6 percent, against the background of the increased risk premium in the business sector.

f. Employment & Salaries

- In the short term (up to 2010), the Government expects GDP to grow at an annual rate of 2.7% (2.3% for GDP per capita). This performance should be supported by an average export growth of about 5% per annum, in line with growth prospects for world trade.
- In contrast to previous years, the growth of employment in the business sector was driven by several industries that are intensive in low-skilled labor - low-technology trade and services. These industries made a salient contribution to the decrease in the unemployment rate.
- In 2007, the Government set employment and poverty targets as part of its socioeconomic agenda. An important goal of the "Agenda Forum" was to boost the employment rate among sectors of the population that are prone to especially low rates. The employment target will be harder to attain during the impending recession.
- The business cycle turned around in 2008 and the new trend was reflected in the labor market. According to most indicators, full employment was attained in the first half of the year as employment expanded rapidly, part-time employment fell, the number of full-time posts increased, and those employed worked longer hours.

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- The number of unemployed fell perceptibly and unemployment rate tumbled to 6.1 percent in 2008, the lowest level since the 1980s.
- The increase in employment and the decrease in unemployment were accompanied by the strongest upturn in nominal wage since the current period of growth began. Some of the increase may have originated in expectations of a speedup in domestic inflation.
- Due to the heterogeneity of the population in Israel and the low participation rates in the ultra-Orthodox and Arab sectors and among individuals with a low level of education, the overall employment rate in Israel is significantly lower than in the developed countries. In order to reduce the gap between Israel and the OECD countries, the country's socioeconomic agenda for 2008-2010 includes the objective of increasing the employment rate among the main working-age population (aged 25-64) to 71.7% by 2010<sup>4</sup>.

#### **I.1.B. Trade Policy Regime: Formulation and Implementation**

- In general, policies, including trade policies, are formulated and implemented through the adoption of laws. Bills may be initiated by the government or individual members of the Knesset. They generally go through three readings before their adoption by the Knesset. After the first reading the bill is referred to the appropriate committee for discussion; in the second, it is reviewed in plenary session; and in the third reading, a final vote is taken. Thereafter the President, the Prime Minister, and the minister concerned sign the bill into law.
- The framework for trade policy formulation and implementation has remained broadly unchanged since Israel's last TPR in 2005. The Ministry of Industry, Trade and Labor<sup>5</sup> (MOITAL), through its Foreign Trade Administration, is the main body in charge of the formulation and administration of trade policy. This includes conducting and coordinating international trade negotiations, proposing tariff changes, establishing trade controls and rules of origin, administering quotas on products, and conducting anti-dumping, countervailing, and safeguard investigations. Depending on the subject, other relevant ministries may be involved (such as the Ministry of Agriculture or the Ministry of Finance), as well as specialized agencies. Inter-ministerial committees are established in specific cases requiring deeper multi-agency examination.
- The Government consults regularly on trade-related issues with private-sector

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<sup>4</sup> In the OECD the practice is to relate to the total working-age population (aged 15-65) and not the main working-age population.

<sup>5</sup> In 2003, "Labor" was added to the purview of the former Ministry of Industry and Trade.

organizations such as the Israeli Chamber of Commerce and the Manufacturers' Association of Israel. For consultative purposes, the MOITAL has established the Foreign Trade Forum, which meets on a bi-monthly basis; it is composed of representatives of the Manufacturers' Association, the Chamber of Commerce, the Israeli Export and International Cooperation Institute, the Ministry of Finance, and the Ministry of Foreign Affairs. The Israeli Export and International Cooperation Institute also work closely with the Government on export promotion. Regarding consumer protection, the Ministry has established a bi-monthly Consumer Forum comprising representatives of consumer organizations, the Ministry of Justice, the Manufacturers' Association, the Chamber of Commerce, and the Advertisers' Association. Consultations with representatives of consumer organizations, manufacturers, and importers are carried out by the Standards Commissioner before any change in compulsory standards.

- Israel has a long-standing commitment to the multilateral trading system, but it also participates actively in various free-trade agreements. This dual strategy reflects its high dependence on trade, with comparative advantages in selected areas. Its implementation has resulted in an Israeli market that is open for non-agricultural products (on a preferential and, to a lesser extent, MFN basis) and somewhat protected for agricultural goods.

#### **I.1.C. Structure and Features of the Market**

- The structure of Israel's economy has continued to shift towards services, away from agriculture and manufacturing. The importance of the services sector is growing both in terms of contribution to NDP and to employment. In the mid 1990s, the sector underwent a series of reforms that led to the disengagement of the Government from certain activities. The national airline company (El Al) has been privatized and telecommunications services underwent deregulation and privatization to reduce state involvement in these activities and reduce the dominant position of the Government-owned telephone operator, Bezeq. This has made the telecommunications industry more competitive.
- The manufacturing sector has contracted in recent years. However, the sector is marked more than ever by asymmetric developments between high-tech (including electronics, communications, and medical equipment) and traditional industries. The high-tech industry has largely grown in importance, in particular with regard to export capacity. However, traditional industries have declined sharply due to increased competition from countries with abundant, cheap labour. This has contributed to the shift towards the production of goods intensive in high technology and skilled labour, two main assets of the Israeli economy.
- As a result of numerous free-trade agreements with other countries, most manufactured imports enter Israel at preferential tariff rates (mostly duty free).

- Tariff protection is in general higher for traditional industries than for the high-performing high tech industries. Israel has a number of other measures affecting trade in and production of manufactured products, including strict enforcement of technical regulations on a large number of these products.
- The contribution of agriculture to Israel's NDP and employment remains limited. In spite of severe constraints, such as restricted access to water and the predominance of desert areas, Israel still maintains a certain level of agricultural production. The sector features advanced and performing production systems based on high agricultural technology and it is largely supported through various government interventions, including subsidies and tariff protection, mainly in favour of products such as dairy, fruit, and vegetables.
- Mining and quarrying activities in Israel remain marginal. Steps are being taken to liberalize the energy subsector, which is still under state monopoly and heavily regulated.

#### **I.1.D. Banking System and Credit Policies**

- The financial services industry has three major components:
  - a. The financial institutions including the banking system, institutional investors (pension funds, insurance companies, and provident funds), and other financial entities (e.g. investment funds, credit corporations, mutual funds, fund managers, underwriters);
  - b. The financial markets comprising the money, foreign-currency, and securities markets;
  - c. The payments and settlement systems, which relay cash, and clear cheques, payment orders, debits and credits, notes, and securities between banks and other financial institutions, and between them and the Bank of Israel.
- There are three main financial sector supervisory authorities :
  - a. The Banking Supervisory Department (BSD) at the Bank of Israel is responsible for the soundness of the Israeli banking system and banks' management.
  - b. The Israel Securities Authority (ISA) is responsible for supervising the capital market, in particular the TASE, mutual funds, brokers, securities firms, investment advisers, and portfolio managers.
  - c. The Capital Markets, Investment and Savings Department of the Ministry of Finance, which includes the Commissioner for Insurance (CFI), is responsible for supervising insurance (life and general), pension funds and provident funds.
- Economic forces and regulatory practices led to major changes in the Israeli banking

system during recent years. The system itself is currently subject to a process of mergers between financial institutions, mainly involving acquisitions of small banks by large and medium-sized banks and mergers of mortgage banks within their parent banks. This phenomenon, which is far more widespread abroad, is intended to exploit economies of scale and diversification.

- With respect to regulatory practice, the most prominent reform in recent years was the full implementation of the recommendations of the Bachar Committee, which were embodied in legislation in 2005. These recommendations and the resulting legislation were intended to deal with the issue of concentration in the Israeli financial system and the conflicts of interest within it.
- The Government is divesting itself from the banking sector progressively. However, it still maintains significant shares of some of Israel's largest banks.
- At the end of 2008, Israel has 26 banking institutions compared with 39 at the end of 2003 (commercial banks, mortgage banks, foreign banks, financial institutions and joint service companies). These banks are controlled via five banking groups, which from the aspect of asset volume account for 94 percent of system activity, as well as three independent banks and four branches of foreign banks.
- A new branch of BMP Paribas Bank was opened in Israel at the end of 2006 and a new branch of the State Bank of India was opened in March 2007. These two branches came in addition to two existing branches of foreign banks that were already operating in Israel-Citibank and HSBC.
- Investment restrictions were prescribed for underwriting activities in 2008, as well as restrictions on holding ratios which prevent the banks from controlling underwriting companies.
- There are no restrictions on the establishment (through local incorporation) of banking firms or on their acquisition by foreign residents, provided prudential requirements laid down by the Supervisor of Banks regarding ownership and management of banks are respected. There are no restrictions on the opening of branches of foreign banks and, in accordance with its GATS commitments; Israel does not limit activities of foreign providers of banking services. Nonetheless, the presence of foreign banks in Israel remains limited.
- In recent years as a result of the decrease in the share of activity of the banks in Israel desire to diversify their sources of profit by exploiting their expertise and advanced technologies, the Israeli banking system has expanded its activity abroad.
- The expansion of activity abroad may partly derive from an attempt by the banks' management to compensate for the large drop in their income resulting from the sale of their holdings in companies operating in the local capital market.
- The Law for Increasing Competition and Reducing Concentration and Conflicts of Interest in the Capital Market in Israel ("the Bachar Law"), which was enacted in August 2005, required the banks to sell their entire holdings in provident fund and

mutual fund management companies, and were thereby unable to utilize economies of diversification.

- The Banking (Licensing) Law of 1981 structures the banking system on the European model of "universal banking", whereby banks are allowed to operate as retail, wholesale, and investment banks, as well as being active in all the main areas of capital market activity. Banks can supply banking and financial services, excluding insurance. Banks are also not allowed to manage or to hold control of pension funds. However, each bank is allowed to hold up to 20% of its equity in a pension fund, and to hold, control and manage provident funds. Banks may offer certain banking and financial services (including financial leasing) through subsidiary companies. However, banking corporations may not engage in commercial activities, nor may they control "real bodies corporate" such as commercial and industrial companies.
- The establishment of a bank, a branch or a subsidiary by a national or a foreigner requires a license issued by the Banking Supervisory Department (BSD).
- All banking corporations are required to comply with regulations issued by the Supervisor of the Banks. In particular, all Israeli banking groups and every banking corporation must comply with the minimum capital adequacy requirement of 9%.
- Banking corporations may control subsidiary companies, while an Israeli banking subsidiary abroad may control a foreign corporation only under a permit from the Governor. Foreign-based banks may offer banking services to Israeli residents through their branches in Israel.
- Licensing and supervision of Israeli branches or subsidiaries of foreign banks are based on the "Concordat and Minimum Standards" agreed by the Basle Committee on Banking Supervision.
- The criteria for foreign bank entry are the following:
  - a. The parent bank is supervised by a lead regulator, which maintains high standards of supervision on a consolidated basis.
  - b. The parent bank is highly rated by size, stability (such as capital ratio), management, and reputation.
  - c. A local subsidiary is preferred, but a branch would also be considered if it does not exceed a maximum size.
  - d. The home country of the foreign bank allows Israeli banks to establish a branch in that country.
- The primary prudential requirements for foreign banks are the same as those applying to domestic banks.
- By the end of 1992, the minimum nominal primary reserve had been reduced to 6% on deposits with maturity up to six days, 3% on deposits with maturity up to a year, and 0% on longer-term deposits. In 2002, the secondary reserve requirement on foreign currency deposits was gradually lowered and brought to the level of the

primary reserve requirement, after which the latter became the only reserve requirement on all deposits. Reforms also include the elimination of most restrictions on interest rates and minimum terms of indexed deposits and credit, and the removal of the prohibition on the issuance and trading of certain types of derivatives. This deregulation of bank activity, together with the liberalization of foreign exchange, helped to reduce the segmentation between different types of financial intermediation and augmented the substitutability between different types of credit.

- The Anti-Money Laundering Law was enacted in August 2000 and its provisions on financial entities took effect in February 2002. In January 2001, the Governor of the Bank of Israel issued a Prohibition on Money Laundering Order, which imposes requirements regarding identification, reporting, and recordkeeping by banking corporations. Accordingly, the banking directive on business customer identification and recordkeeping (a regulation that has been in effect since 1995) has been amended in light of the declaration of principles of the Basel Committee on Banking Supervision of October 2001 on Customer Due Diligence for banks. The regulation incorporates directives on customer acceptance policy and ongoing monitoring of high-risk accounts, and contains special directives on private banking, correspondent banking, and on caution in the management of high-risk accounts
- As a result, Israel was removed from the FATF list of non-cooperative countries in June 2002, and from the FATF watch list by the end of 2003. By early 2005, the law on "Prohibition of Financing Terrorism" was enacted and Israel's banking directive was modified to include provisions against terrorism financing. A Sanctions Committee empowered to impose financial penalties in case of infringement, commenced operations in April 2003.
- In recent years, the banking subsector has been subject to a process of disintermediation through which the share of bank credit in total credit declined significantly due to an increase in contestability (with regard to raising credit) between the banking system and alternative sources in Israel and abroad. Consequently, the amount of credit extended by the banking system decreased considerably; according to the authorities, this could help to accelerate the process of issuing corporate bonds and to increase competition in the banking system.

## I.2. TRADE IN GOODS

- Israel's penetration of international markets grew in the past three years, as the increase in demand for goods, in which the Israeli economy specializes, surpassed the average increase in world demand.
- The accelerated growth of Israeli exports in the past three years signaled an improvement in Israel's competitiveness and was a leading factor in real appreciation during this time.
- Manufacturing in Israel is biased towards high-tech. This is expressed in various parameters, such as investment and production in Israel by international high-tech companies, and the economic growth of recent years, which was led by the export of advanced technologies.
- In 2008 the levels of import and export of goods are the highest recorded to date.
- The trade deficit in 2008 totaled \$13.7 B compared to \$10.2 B in 2007.
- Export of goods in 2008 rose by 10.6% compared with 2007. Export of goods, excluding ships, aircraft and diamonds, rose by 16.2% (\$5.7 B) in 2008, compared to 2007.
- Import of goods in 2008 rose by 15%, compared with 2007. Import of goods, excluding ships, aircraft, diamonds and fuels, rose by 15.5% in 2008, compared with the previous year.

### Israel Foreign Trade, 1996 - 2008 (million of dollars)

million \$ and %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Exports	17,610.5	18,763.6	20,298.5	20,633.3	22,778.1	28,340.8	25,718.2	25,639.0	27,913.3	33,812.6	36,610.8	39,700.5	45,916.5	50,806.6
Net Imports	27,981.9	29,583.7	28,683.5	27,010.7	30,629.7	35,221.0	32,696.2	32,556.6	33,707.4	40,356.1	44,456.7	47,317.8	56,105.2	64,529.3
Trade Balance	-10,371.4	-10,820.1	-8,385.0	-6,377.4	-7,851.6	-6,880.2	-6,978.0	-6,917.6	-5,794.1	-6,543.5	-7,845.9	-7,617.3	-10,188.7	-13,722.7
Trade Exchange	45,592.4	48,347.3	48,982.0	47,644.0	53,407.8	63,561.8	58,414.4	58,195.6	61,620.7	74,168.7	81,067.5	87,018.3	102,021.7	115,335.9
Grow rate %														
Net Exports	-	6.5%	8.2%	1.6%	10.4%	24.4%	-9.3%	-0.3%	8.9%	21.1%	8.3%	8.4%	15.7%	10.6%
Net Imports	-	5.7%	-3.0%	-5.8%	13.4%	15.0%	-7.2%	-0.4%	3.5%	19.7%	10.2%	6.4%	18.6%	15.0%
Trade Exchange	-	6.0%	1.3%	-2.7%	12.1%	19.0%	-8.1%	-0.4%	5.9%	20.4%	9.3%	7.3%	17.2%	13.1%

Net equals gross total less goods returned to the suppliers.

Source : Central Bureau of Statistics, Israel

## I.2.A. Composition of Trade in Goods

### Export

- Israel's economy is considered to have a comparative advantage in the export of high-tech goods.
- In 2008, manufacturing exports (excluding diamonds) constituted 78.5% of all export of goods, higher than that of previous years (74.1% in 2007, 73.8% in 2006, and 69.0% in 2005). Export of diamonds constituted 18.9% of all export of goods, and the rest was agricultural export.
- Agricultural exports in 2008 totaled \$1.25 B a drop of 5.5% compared to 2007. Significant drop was recorded in the export fruits (-15.9%) and export of vegetables (-14.5%).

### Israel Exports by Agriculture, 2000-2008

Millions \$ and %

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Agricultural exports - total</b>	706.08	630.29	620.85	714.97	909.62	1,026.62	1,030.96	1,326.34	1,253.80
Field crops and vegetables	240.53	231.05	216.98	288.54	418.31	417.60	470.28	640.35	583.50
Fruits	181.97	159.65	145.13	150.32	174.71	259.61	241.50	320.92	281.50
Flow ers	190.70	168.99	185.85	190.28	220.08	245.58	216.15	229.97	210.30
Other agricultural exports	92.88	70.59	72.89	85.84	96.53	103.83	103.03	135.10	178.50
	Growth %								
<b>Agricultural exports - total</b>	-	-10.7%	-1.5%	15.2%	27.2%	12.9%	0.4%	28.7%	-5.5%
Field crops and vegetables	-	-3.9%	-6.1%	33.0%	45.0%	-0.2%	12.6%	36.2%	-8.9%
Fruits	-	-12.3%	-9.1%	3.6%	16.2%	48.6%	-7.0%	32.9%	-12.3%
Flow ers	-	-11.4%	10.0%	2.4%	15.7%	11.6%	-12.0%	6.4%	-8.6%
Other agricultural exports	-	-24.0%	3.3%	17.8%	12.5%	7.6%	-0.8%	31.1%	32.1%

Source: Central bureau of statistics, Israel

# Manufacturing Exports by Technological Intensity<sup>(1)</sup>

Million dollars

Industry	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>TOTAL, EXCL. DIAMONDS</b>	<b>21,007</b>	<b>19,585</b>	<b>18,309</b>	<b>19,450</b>	<b>23,731</b>	<b>25,566</b>	<b>29,336</b>	<b>34,276</b>	<b>40,634</b>
<b>HIGH TECHNOLOGY INDUSTRIES</b>	<b>11,187</b>	<b>10,067</b>	<b>8,798</b>	<b>9,000</b>	<b>10,982</b>	<b>11,767</b>	<b>14,156</b>	<b>15,781</b>	<b>17,150</b>
Office and computing equipment	901	713	638	676	902	903	845	957	1,019
Electronic components	2,740	2,345	1,707	1,517	1,695	1,512	1,777	1,545	1,525
Aircraft	956	969	1,099	1,134	1,188	1,144	1,145	1,645	1,587
Electronic communications equipment	4,072	3,334	2,462	2,390	2,878	2,865	3,375	3,618	3,830
Equipment for control and supervision	1,949	1,907	1,796	2,184	2,851	3,160	3,727	4,379	4,219
Pharmaceutical products	569	799	1,095	1,099	1,470	2,182	3,288	3,637	4,970
<b>MEDIUM-HIGH TECHNOLOGY INDUSTRIES</b>	<b>4,834</b>	<b>4,709</b>	<b>4,639</b>	<b>5,087</b>	<b>6,215</b>	<b>6,962</b>	<b>7,770</b>	<b>9,875</b>	<b>13,125</b>
Chemicals and petroleum refining (excl. pharmaceutical products)	3,130	2,966	3,014	3,493	4,323	4,752	5,083	6,328	9,141
Machinery and equipment	1,124	1,149	1,013	1,107	1,371	1,558	1,841	2,347	2,825
Electrical equipment and electric motors	529	533	551	431	446	513	694	849	909
Transport equipment	47	57	56	50	66	127	144	342	239
Transport equipment n.e.c.	4	4	5	6	10	13	10	9	11
<b>MEDIUM-LOW TECHNOLOGY INDUSTRIES</b>	<b>3,173</b>	<b>3,102</b>	<b>3,147</b>	<b>3,561</b>	<b>4,511</b>	<b>4,751</b>	<b>5,279</b>	<b>6,375</b>	<b>8,081</b>
Mining and quarrying	359	330	330	487	653	643	505	826	1,977
Rubber and plastic products	1,070	1,075	1,084	1,282	1,512	1,607	1,785	2,035	2,117
Non-metallic mineral products	93	90	116	132	203	220	293	326	370
Non-ferrous and precious metals	193	171	158	139	200	275	365	460	406
Iron and steel foundries	86	79	81	100	181	178	271	297	333
Metal products	781	762	747	777	999	1,169	1,354	1,621	2,082
Ships and boats	5	18	1	33	95	11	2	3	12
Jewellery and silversmithing	473	460	505	457	499	489	537	605	551
Articles n.e.c.	113	117	124	154	170	159	168	203	234
<b>LOW TECHNOLOGY INDUSTRIES</b>	<b>1,813</b>	<b>1,707</b>	<b>1,725</b>	<b>1,803</b>	<b>2,022</b>	<b>2,087</b>	<b>2,130</b>	<b>2,245</b>	<b>2,278</b>
Food products, beverages and tobacco	444	427	429	510	598	659	710	846	872
Textiles, wearing apparel and leather	1,144	1,041	1,003	993	1,093	1,074	1,082	1,016	1,038
Paper, printing and paper products	185	212	265	266	279	304	298	341	296
Wood and furniture	40	27	28	34	53	50	40	41	72

1. According to OECD - 1997 Classification, excl.:  
 "Petroleum and its products" is included in "Chemicals and petroleum refining" in "Medium-high technology industries".  
 "Equipment for control and supervision" is included in "High technology industries".

Source: central bureau of statistics, Israel

## Manufacturing Exports by Technological Intensity

- Distribution of manufacturing export by technological intensity indicates that high technology industries constituted 43% of total manufacturing export in 2008 compared to 46% in 2007. In absolute terms, in 2008 this export grew by \$1.4B (8.8%). Most of the rise was recorded in export of pharmaceutical products, which rose by 37.2%.
- Medium-high technology industries export (constituted 31% of total manufacturing export) totaled \$13.1 B in 2008, compared to \$9.8 B in 2007, a rise of 33.7%. Most of the rise (excluding pharmaceutical products) was recorded in chemicals and refined petroleum. Exports of machinery and equipment rose by \$490 M (20.8%).
- Medium-low technology industries export (constituted 20.0% of all manufacturing export) rose in 2008 by 26.1% and totaled \$8.0 B. Most of the rise was recorded in export of mining and quarrying (\$1.2B) and metal products (\$425 M).
- Export by low technology industries (constituted 6% of all manufacturing export) rose in 2008 by 1.8%, compared with the previous year, and totaled \$2.3B.

### Israel's Principal Exports Products, 2007-2008

Millions \$ and %

	Value		% from total export		Growth %
	2007	2008	2007	2008	2008
Chemicals and chemical products and Refined petroleum	9,964.73	14,110.60	18.4%	23.2%	41.6%
Plastic and rubber products	2,035.40	2,116.90	3.8%	3.5%	4.0%
Metal products	1,619.40	2,081.80	3.0%	3.4%	28.6%
Machinery and equipment	2,347.70	2,824.70	4.3%	4.6%	20.3%
Electronic components	1,544.98	1,525.30	2.9%	2.5%	-1.3%
Electronic communication equipment	3,618.23	3,830.40	6.7%	6.3%	5.9%
Industrial equipment for control and supervision, medical and scientific equipment	4,378.81	4,218.50	8.1%	6.9%	-3.7%
Diamonds	14,569.41	15,521.80	26.9%	25.5%	6.5%
<b>Total principal</b>	<b>40,078.66</b>	<b>46,230.00</b>	<b>74.1%</b>	<b>76.0%</b>	<b>15.3%</b>
<b>Total export</b>	<b>54,092.15</b>	<b>60,825.00</b>			<b>12.4%</b>

Source: Central bureau of statistics, Israel

## Imports

- Import of goods, in current prices in dollars, totaled - 65.1\$B, higher than the import of goods in 2007 which was \$56.6 B.
- The volume of imported goods (excluding ships, aircraft, diamonds, and fuel) increased, on average, by 6.5% in the first three quarters of 2008 relatively to 2007.

### Israel's Imports According to Type of Goods, 1996-2008

Millions \$

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Consumer goods	3,941.7	3,876.1	3,875.4	3,951.3	4,497.6	4,656.5	4,334.9	4,256.5	4,977.2	5,329.5	5,900.5	7,510.8	8,868.5
Production inputs	20,688.4	20,308.2	18,947.4	20,997.7	25,079.9	22,041.3	22,981.2	24,583.9	29,935.7	33,340.3	35,155.0	40,490.6	46,424.6
Investment goods	5,315.1	4,838.6	4,634.7	6,124.4	6,149.0	6,586.3	5,767.0	5,341.5	6,020.4	6,325.7	6,746.3	8,572.2	9,813.7
Goods n.e.c	3.8	2.7	12.3	16.6	23.0	19.1	23.2	29.9	35.4	39.0	38.8	49.4	64.3
Grand total	29,949.0	29,025.6	27,469.8	31,090.0	35,749.5	33,303.2	33,106.3	34,211.8	40,968.7	45,034.5	47,840.6	56,623.0	65,171.1

Source: central bureau of statistics, Israel

### Israel's Imports Structure According to Type of Goods, 1996-2008

%

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Consumer goods	13.2%	13.4%	14.1%	12.7%	12.6%	14.0%	13.1%	12.4%	12.1%	11.8%	12.3%	13.3%	13.6%
Production inputs	69.1%	70.0%	69.0%	67.5%	70.2%	66.2%	69.4%	71.9%	73.1%	74.0%	73.5%	71.5%	71.2%
Investment goods	17.7%	16.7%	16.9%	19.7%	17.2%	19.8%	17.4%	15.6%	14.7%	14.0%	14.1%	15.1%	15.1%
Goods n.e.c	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Grand total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: central bureau of statistics, Israel

- Import of investment goods in 2008 totaled \$9.8 B a growth of 14.5% compared to 2007. Most of the growth can be attribute to import of passenger cars for business purposes (which grew by 15.3%) and import of equipment and machinery (which grew by 14.2%).
- Import of consumer goods rose in 2008 by 18.1%. Most of the rise was recorded in import of non-durable goods (a growth of 23.2%), with import of food and beverages rising by 31.4%.
- A breakdown of the data of import by use indicates that in 2008 37% of total imports were import of raw materials (excluding diamonds and fuels); 15% was machinery, equipment and land vehicles for investment; 14% was consumer goods; and the rest diamonds, fuels, ships and aircraft.
- Import of raw materials (excluding diamonds and fuels) in 2008 totaled \$24.1 B, a rise of 12.6% compared to 2007.

## Israel's Principal of Raw Materials Imports According to Commodity Group, 2007-2008

Millions \$ and %

	Value		% from total import		Growth %
	2007	2008	2007	2008	2008
For agriculture	616.60	742.40	1.1%	1.1%	20.4%
For paper manufacturing	800.20	891.90	1.4%	1.4%	11.5%
For machine and electronics manufacturing	7,258.10	7,800.10	12.8%	12.0%	7.5%
Raw food products	1,309.90	1,704.00	2.3%	2.6%	30.1%
Fabrics and yarn	683.00	708.70	1.2%	1.1%	3.8%
Wood and its products	492.80	492.10	0.9%	0.8%	-0.1%
Chemicals	3,617.80	4,395.90	6.4%	6.7%	21.5%
Rubber and plastics	2,148.80	2,284.50	3.8%	3.5%	6.3%
Non-ferrous metals	1,090.60	1,049.20	1.9%	1.6%	-3.8%
Iron and steel	1,952.30	2,176.90	3.4%	3.3%	11.5%
Precious metals	233.00	181.70	0.4%	0.3%	-22.0%
Other	1,316.10	1,785.90	2.3%	2.7%	35.7%
Fuels	8,935.40	12,847.70	15.8%	19.7%	43.8%
Diamonds	10,036.00	9,363.60	17.7%	14.4%	-6.7%
<b>Total principal</b>	<b>40,490.60</b>	<b>46,424.60</b>	<b>71.5%</b>	<b>71.2%</b>	<b>14.7%</b>
<b>Total import</b>	<b>56,623.00</b>	<b>65,171.10</b>			<b>15.1%</b>

Source: Central bureau of statistics, Israel

- Distributing total import by commodity groups shows a growth in most groups. Significant rises were recorded in import of chemicals (21.5%), import of raw food products (30.1%) and import of inputs for agriculture (20.4%).
  - Import of diamonds in 2008 totaled \$9.3B, a drop of 6.7% relatively to 2007.
  - Import of fuels (crude oil, distillates and coal) in 2008 totaled \$12.8B, 43.8% higher
  - Origin and Destination of Trade in Goods than 2007.
  - In 2008 the more significant rise in exports (excluding diamonds) by country were recorded in exports to India, Brazil, Thailand, Kazakhstan, Chile, Denmark, Nigeria, Cyprus and Australia.
  - The more significant rise in imports (excluding diamonds) by country was recorded in imports from Indonesia, South Africa, Slovakia, Chile, Vietnam, Mexico and Australia.
- a. Exports
- The main export destination of Israel is the United States. Exports to the USA constitutes 29% of all Israeli export (excluding diamonds). In 2008 the total amount of export (including diamonds) reached 19.9 Billion dollars, an increase of 5% compared to 2007, and an increase of 151% compared to 1998.
  - China - is the main export destination in Asia. Export totaled 950 million dollars in 2006, an increase of 28% compared to 2005. The export to China continues to grow. In 2008 the total export to China was 1.29 Billion dollars, an increase of 24% compares to 2007.

- **Leading EU countries as Destinations to Israeli Export:** Germany, France, Netherlands and the UK. Total amount of export goods was 7.1 Billion dollars in 2008, an increase of 10% compare to 2007.

#### Israeli Exports According to Market Destination, 1994-2008

Millions \$

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Italy	551.9	621.8	734.8	719.3	803.6	772.2	693.7	772.5	810.0	897.8	1,072.7	1,284.4	1,646.5
Germany	1,033.0	975.5	1,106.2	1,161.5	1,521.4	1,288.6	1,026.5	1,123.3	1,361.0	1,345.9	1,757.9	1,913.0	1,954.6
Netherlands	887.1	980.0	1,108.4	975.3	898.7	829.7	909.1	1,085.1	1,232.8	1,259.7	1,312.2	1,609.3	2,052.1
United Kingdom	1,343.7	1,359.0	1,253.9	1,346.2	1,358.4	1,221.6	1,164.5	1,224.5	1,447.8	1,649.9	1,601.7	1,938.1	1,871.4
Spain	299.6	385.8	373.6	358.5	501.6	343.4	384.6	504.9	782.3	900.3	809.0	1,036.1	1,117.9
France	339.7	344.2	399.6	431.0	436.1	506.7	399.7	525.4	616.2	687.8	903.0	1,106.0	1,316.9
Romania	112.5	148.5	139.3	84.1	94.4	128.1	111.9	120.9	136.1	186.8	219.8	240.0	229.9
Switzerland	660.6	613.3	665.2	682.4	747.4	712.9	649.0	684.6	764.0	882.6	1,092.2	1,313.2	1,209.6
Turkey	197.2	256.8	287.1	338.3	434.4	320.8	383.1	470.3	813.5	903.2	821.2	1,195.8	1,615.5
Russian Federation	259.0	255.8	184.4	106.4	146.4	172.4	210.5	220.5	319.1	417.6	524.6	611.5	776.3
India	318.6	364.3	333.1	536.3	557.0	473.5	613.7	717.8	1,037.9	1,222.8	1,289.4	1,613.7	2,363.8
Hong Kong	1,071.2	1,182.9	796.5	1,052.1	1,383.7	1,254.4	1,373.2	1,495.4	1,907.7	2,373.6	2,776.1	3,118.4	4,140.8
Taiwan	133.9	204.0	235.4	280.7	407.5	330.6	331.8	298.0	587.6	602.3	589.8	563.0	473.9
Japan	1,198.2	1,009.3	750.4	838.5	838.7	800.6	649.8	626.0	782.3	799.1	792.8	769.6	881.9
China <sup>(1)</sup>	82.9	71.3	129.6	190.3	261.6	349.6	426.6	612.6	786.9	747.9	958.8	1,040.6	1,290.0
Singapore	200.0	265.6	174.6	239.5	327.3	261.9	272.9	294.0	361.7	354.2	412.6	416.3	519.6
South Korea	365.8	413.4	290.6	372.5	396.2	322.5	317.2	286.9	417.7	449.8	650.0	746.1	818.6
USA	5,984.3	6,894.9	7,935.7	8,750.0	11,733.6	11,113.4	11,712.2	12,088.5	14,175.1	15,500.1	17,957.2	18,906.8	19,976.8
Mexico	54.6	72.7	92.8	127.8	212.7	155.6	191.6	228.7	342.5	214.1	284.5	289.8	328.1
Canada	123.7	150.5	191.4	239.3	283.3	288.4	297.0	326.5	395.1	482.7	577.9	714.3	905.0
Brazil	191.0	263.8	301.5	241.2	320.0	392.9	322.3	364.1	488.0	467.3	465.7	671.6	1,171.2
Australia	214.4	243.0	236.3	279.5	226.5	235.8	267.7	279.1	384.6	423.1	446.0	520.2	708.2
Sub-total	15,622.9	17,076.4	17,720.4	19,350.7	23,890.5	22,275.6	22,708.6	24,349.6	29,949.9	32,768.6	37,315.1	41,617.8	47,368.6
Others	4,887.9	5,427.4	5,584.3	6,489.7	7,517.9	6,786.6	6,637.3	7,433.8	8,670.5	10,002.6	9,477.5	12,474.5	13,456.4
Total exports	20,510.8	22,503.8	23,304.7	25,840.4	31,408.4	29,062.2	29,345.9	31,783.4	38,620.4	42,771.2	46,792.6	54,092.3	60,825.0
% from total	76.2%	75.9%	76.0%	74.9%	76.1%	76.6%	77.4%	76.6%	77.5%	76.6%	79.7%	76.9%	77.9%

(1) Since July 1997 the data on trade with Hong-Kong should be added to the data on China.

Source: World Trade Organization and Central Bureau of Statistics, Israel

#### Geographic Zone

- North America is the main destination of Israel's export of goods forming 40% of total export. The export reached 18.8 billion dollars in 2006, an increase of 16%, compared to the previous year. In 2008 the export of goods to North America reached a total of 21.2 billion dollars, an increase of 6.5% compared to 2007.
- Export to the EU reached 12.7 billion dollars in 2006, an increase of 4% compared to 2005. During 2008 the export grew by 11.1% compared to 2007.
- It is notable that the export to South America is increasing each year since 2003. The total amount of export goods in 2008 was 1.4 billion dollars, a growth of 48% compared to 2007 and 244% compared to 2002.

b. Agriculture

Israeli Agriculture Output Value, By Propose(millions \$):

	Total	For Domestic Consumption	For Domestic Industry
<b>GRAND TOTAL</b>	<b>6,823.0</b>	<b>2,599.5</b>	<b>2,447.5</b>
<b>CROPS - TOTAL</b>	<b>3,980.2</b>	<b>2,243.3</b>	<b>198.2</b>
Field crops	480.1	68.9	34.5
Vegetables, potatoes and melons	1,613.5	1,077.3	73.5
Citrus	357.0	156.5	20.7
Plantations, excl. citrus	1,072.8	844.2	65.4
Flowers and garden plants	244.1	95.2	-
Miscellaneous crops	212.7	1.3	4.1
<b>LIVESTOCK AND LIVESTOCK PRODUCTS</b>	<b>2,842.8</b>	<b>356.2</b>	<b>2,249.3</b>
Poultry	1,245.2	198.2	841.7
Cattle	1,145.9	7.5	1,138.4
Sheep and goats	243.3	23.7	219.6
Fish	131.0	115.2	-
Miscellaneous	77.4	11.5	49.6

Source: Central Bureau of statistics, Israel

74% of the total Israeli agricultural output has been consumed domestically, above mentioned the distribution of crops and livestock.

c. Imports

- Import of goods (excluding diamonds) in 2008 totaled \$55.8 billion dollars, while Import of goods in 2007 totaled 46.5 billion dollars, an increase of 19.8%. The import in 2007 rose by 20%, compared to 2006.
- Import of goods (including diamonds) in 2008 rose by 15.1%, compared to 2007.

### Israeli Imports According to Market Origin, 1996-2008

Millions \$

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Italy	2,272.8	1,995.8	1,827.5	1,657.1	1,720.7	1,651.3	1,530.5	1,398.2	1,565.7	1,733.7	1,839.4	2,302.1	2,553.7
Belgium and Luxembourg	3,650.0	3,618.7	2,871.1	3,527.5	3,565.2	2,655.0	3,056.9	3,209.6	4,151.8	4,588.2	3,983.4	4,546.8	4,424.4
Germany, F.R.	2,817.0	2,727.9	2,417.7	2,524.0	2,673.2	2,614.8	2,347.8	2,731.1	3,090.2	2,986.0	3,201.4	3,484.3	3,940.4
Netherlands	956.7	1,094.9	1,142.0	1,193.6	1,436.7	1,353.7	1,177.9	1,196.5	1,483.8	1,626.7	1,786.8	2,090.3	2,465.8
United Kingdom	2,649.0	2,424.9	2,062.1	2,334.3	2,714.6	2,208.5	2,226.8	2,283.4	2,482.8	2,552.1	2,458.6	2,681.4	2,519.8
Spain	630.0	600.9	623.1	579.8	685.3	673.6	637.8	624.6	652.3	613.7	749.0	811.9	959.1
France	1,179.6	1,099.5	1,125.6	1,221.2	1,157.6	1,254.0	1,186.9	1,182.6	1,248.9	1,203.9	1,301.5	1,480.9	1,889.2
Sweden	368.8	281.3	296.9	342.5	414.1	422.6	313.6	313.9	328.7	365.1	443.4	556.0	693.6
Switzerland	1,658.8	1,598.6	1,499.9	1,730.2	1,918.3	1,774.7	2,075.2	2,062.0	2,682.1	2,464.7	2,805.9	2,882.3	3,974.1
U.S.A.	5,981.6	5,444.8	5,386.0	6,317.0	6,645.5	6,704.6	6,134.1	5,330.8	6,099.1	6,042.1	5,919.5	7,848.9	8,034.6
South Africa	304.0	306.8	274.1	275.7	287.3	345.9	234.8	288.0	290.6	183.3	119.1	158.7	494.2
India	250.7	292.8	343.8	455.0	534.8	429.5	653.2	888.8	1,107.7	1,276.2	1,433.7	1,689.6	1,648.7
Hong-Kong	419.3	432.2	532.4	635.0	898.3	805.6	1,194.1	892.7	1,178.3	1,277.7	1,527.5	1,747.5	1,813.6
Turkey	252.1	355.4	443.1	557.1	586.5	683.3	813.7	951.5	1,166.9	1,221.1	1,272.7	1,606.9	1,826.1
Taiwan	340.8	362.3	370.7	406.9	570.8	430.4	368.6	385.5	498.6	553.4	617.0	708.7	712.4
Japan	1,105.0	1,033.7	976.2	1,097.0	1,186.7	1,011.8	782.0	843.7	1,197.0	1,238.1	1,292.3	1,882.1	2,224.2
China, People's Republic	166.8	206.0	289.8	400.3	602.3	737.3	793.3	1,008.1	1,418.4	1,888.3	2,427.7	3,476.9	4,243.7
South Korea	358.1	328.6	356.9	473.8	650.0	523.7	512.4	579.8	759.9	852.7	893.6	945.4	1,102.8
Canada	189.0	294.3	316.1	306.8	340.7	285.4	375.5	233.5	247.1	320.4	369.1	433.7	509.4
Russian Federation	182.1	159.2	225.9	302.4	472.6	507.1	519.9	618.2	688.0	1,055.7	1,141.6	1,398.8	1,047.0
Thailand	176.3	215.7	201.3	279.5	321.1	314.2	302.9	337.5	400.8	409.0	370.6	463.8	557.4
Sub-total	25,908.5	24,874.1	23,582.2	26,616.7	29,382.3	27,387.0	27,237.9	27,360.0	32,738.7	34,452.1	35,953.8	43,197.0	47,634.2
Others	4,040.5	4,151.5	3,887.6	4,473.3	6,367.2	5,916.2	5,868.4	6,851.8	8,230.0	10,582.4	11,886.8	13,426.0	17,536.9
Total imports	29,949.0	29,025.6	27,469.8	31,090.0	35,749.5	33,303.2	33,106.3	34,211.8	40,968.7	45,034.5	47,840.6	56,623.0	65,171.1
% from total	86.5%	85.7%	85.8%	85.6%	82.2%	82.2%	82.3%	80.0%	79.9%	76.5%	75.2%	76.3%	73.1%

Source: central bureau of statistics, Israel

- United States is the main supplier of import goods to the Israeli economy.
- Since the year 2000, the import of goods from China grew extremely. In 2008 china was the second supplier of imported goods.

### Israeli Imports According to Key Suppliers, 1996-2008

Millions \$

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
European Union	15,762.3	15,150.2	13,617.2	14,386.4	15,466.2	14,173.7	13,805.8	14,402.3	16,869.7	17,588.2	18,027.9	20,687.0	22,513.8
East Asia	2,817.0	2,871.3	3,071.1	3,747.5	4,764.0	4,252.5	4,606.5	4,936.1	6,570.9	7,495.4	8,562.4	10,914.0	12,302.8
North America	6,179.3	5,746.2	5,711.2	6,638.2	7,003.3	7,003.5	6,529.8	5,581.9	6,420.8	6,384.0	6,321.7	8,340.5	8,659.8
South America	253.8	305.0	351.6	350.6	300.9	338.5	395.9	380.9	541.2	941.2	939.6	1,129.3	1,037.6
Sub-total	25,012.4	24,072.7	22,751.1	25,122.7	27,534.4	25,768.2	25,338.0	25,301.2	30,402.6	32,408.8	33,851.6	41,070.8	44,514.0
Others	4,936.6	4,952.9	4,718.7	5,967.3	8,215.1	7,535.0	7,768.3	8,910.6	10,566.1	12,625.7	13,989.0	15,552.2	20,657.1
Total imports	29,949.0	29,025.6	27,469.8	31,090.0	35,749.5	33,303.2	33,106.3	34,211.8	40,968.7	45,034.5	47,840.6	56,623.0	65,171.1
% from total	83.5%	82.9%	82.8%	80.8%	77.0%	77.4%	76.5%	74.0%	74.2%	72.0%	70.8%	72.5%	68.3%

Source: central bureau of statistics, Israel

- In 2008, imports from European Union countries rose by 9% in comparison to 2007.
- Imports from East Asia countries rose by 13% in 2008 compared to 2007.
- In 2008, imports from North America countries rose by 4% in comparison to 2007.
- Imports from South America countries dropped by 8% in 2008 compared to 2007.

### I.3. TRADE IN SERVICES

- Services have grown in importance in the Israeli economy. The main services include finance and business services; commerce, restaurants and hotels; housing services; transport; and communication.

#### TRADE IN SERVICES

\$ Million

	2002	2003	2004	2005	2006	2007	2008
<b>1. Exports of services</b>							
<b>Travel services</b>							
Expenditures of tourists							
Business							
Business-Government	..	..	172	232	165	171	214
Participation in conventions and congress	..	..	18	14	16	13	16
Total business	..	..	190	247	181	184	230
Thereof: Accommodation expenditures	..	..	53	97	78	71	80
Personal							
Health	..	..	26	24	22	32	40
Education	..	..	72	81	98	88	111
Other	..	..	1,187	1,554	1,567	1,861	2,290
Total personal	..	..	1,285	1,659	1,687	1,981	2,442
Thereof: Accommodation expenditures	..	..	302	433	463	595	640
Total expenditures of tourists	919	1,064	1,476	1,906	1,868	2,165	2,672
Expenditures of foreign workers in Israel	1,125	996	905	891	909	894	967
<b>Total travel services</b>	<b>2,044</b>	<b>2,060</b>	<b>2,380</b>	<b>2,797</b>	<b>2,777</b>	<b>3,059</b>	<b>3,638</b>
<b>Transportation services</b>							
Passenger fares	281	341	433	561	540	653	723
Other transportation services							
Exported cargoes	269	306	407	441	432	508	447
Cargoes between foreign ports	1,252	1,593	1,968	2,239	2,254	2,828	3,418
Charter hires	97	120	135	186	154	192	357
Port services	133	135	142	143	149	152	144
Other services	90	104	117	116	174	158	198
Total other transportation services	1,841	2,258	2,768	3,125	3,162	3,838	4,564
<b>Total transportation services</b>	<b>2,121</b>	<b>2,599</b>	<b>3,201</b>	<b>3,686</b>	<b>3,702</b>	<b>4,491</b>	<b>5,287</b>
<b>Insurance services</b>	15	16	15	16	20	24	23
<b>Total other business services</b>	7,064	7,946	9,413	10,909	12,714	13,520	14,817
<b>Government services, n.e.c.</b>	27	39	31	42	38	31	23
<b>Total exports of services</b>	<b>11,271</b>	<b>12,660</b>	<b>15,040</b>	<b>17,450</b>	<b>19,251</b>	<b>21,125</b>	<b>23,789</b>
Thereof: To the Palestinian Authority	148	198	198	282	260	336	400
<b>2. Imports of services</b>							
<b>Travel services</b>	<b>2,543</b>	<b>2,550</b>	<b>2,796</b>	<b>2,895</b>	<b>2,983</b>	<b>3,260</b>	<b>3,439</b>
<b>Transportation services</b>							
Passenger fares	780	792	867	885	887	991	1,007
Other transportation services							
Imported cargoes	1,043	1,024	1,205	1,294	1,402	1,682	2,154
Charter hires	282	358	530	631	642	943	1,212
Port services	1,026	1,188	1,384	1,504	1,422	1,813	2,052
Other services	328	357	362	399	434	388	406
Total other transportation services	2,679	2,926	3,481	3,827	3,899	4,826	5,823
<b>Total transportation services</b>	<b>3,459</b>	<b>3,718</b>	<b>4,349</b>	<b>4,712</b>	<b>4,786</b>	<b>5,816</b>	<b>6,830</b>
<b>Insurance services</b>	380	436	435	413	413	393	472
<b>Total other business services</b>	4,255	4,263	5,034	5,481	6,456	8,120	8,862
<b>Government services, n.e.c.</b>	201	224	211	218	230	255	281
<b>Total imports of services</b>	<b>10,837</b>	<b>11,190</b>	<b>12,825</b>	<b>13,718</b>	<b>14,868</b>	<b>17,844</b>	<b>19,884</b>
Thereof: From the Palestinian Authority	72	76	97	122	117	150	231
<b>3. Balances</b>							
<b>Travel services</b>	<b>-499</b>	<b>-490</b>	<b>-415</b>	<b>-98</b>	<b>-207</b>	<b>-201</b>	<b>199</b>
<b>Transportation services</b>	<b>-1,338</b>	<b>-1,119</b>	<b>-1,148</b>	<b>-1,026</b>	<b>-1,084</b>	<b>-1,326</b>	<b>-1,543</b>
<b>Insurance services</b>	<b>-365</b>	<b>-420</b>	<b>-420</b>	<b>-397</b>	<b>-393</b>	<b>-369</b>	<b>-449</b>
<b>Other business services</b>	<b>2,809</b>	<b>3,683</b>	<b>4,379</b>	<b>5,429</b>	<b>6,258</b>	<b>5,400</b>	<b>5,956</b>
<b>Government services, n.e.c.</b>	<b>-174</b>	<b>-185</b>	<b>-180</b>	<b>-176</b>	<b>-192</b>	<b>-224</b>	<b>-258</b>
<b>Total trade in services</b>	<b>434</b>	<b>1,469</b>	<b>2,215</b>	<b>3,732</b>	<b>4,383</b>	<b>3,280</b>	<b>3,905</b>
Thereof: With the Palestinian Authority	77	122	101	160	143	185	170

Source: Central bureau of statistics, Israel

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- Exports of services in 2008, increased by 12.6%, powered by tourism and other business services, which expanded by 23.4% and 9.5% respectively. In recent years, total exports of tourism services has been converging toward levels that were common preceding the onset of the intifada in 2000, since even though the number of inbound tourists has increased since then, spending per tourist has declined.
- The increase in exports of other services is attributed to services classified as technology-intensive, which account for more than half of Israel's services exports. These services include: R&D services (26% of total service exports), computer and IT services (27%), and communication services (3%).
- About half of the exports services classified as high-tech are destined for the United States and about a quarter is destined for Europe, two markets badly affected by the crisis.
- Israel's comparative advantage in the high-tech sphere puts it in second place after Ireland among the OECD countries. An examination over time shows that Israel has maintained its leading position since the 1990s, as have most of the developed countries.
- Israel's comparative advantage in the export of high-tech services is greater than the advantage in the export of high-tech goods, apparently due to the greater share of human capital.
- Imports of services in 2008 increased by 11.4%. This increase was mainly due to transportation services which grew by 17.4%.
- The growth in the import transportation services was mainly due to mark-ups costs in the freightage import, which Israeli importers paid to foreign companies.

#### IMPORT OF GOODS AND SERVICES

NIS MILLION - AT CURRENT PRICES

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Services	32,141	36,642	44,369	50,984	52,588	51,686	50,775	57,499	61,620	66,118	73,285	71,094
Goods c.i.f., excl. defence imports	106,404	109,285	134,852	152,388	141,119	140,122	141,857	168,450	187,013	198,623	218,904	220,241
Defence imports f.o.b	7,200	8,441	9,855	9,295	10,703	11,436	9,392	8,486	9,841	11,047	9,947	8,934
<b>Grand total</b>	<b>145,745</b>	<b>154,368</b>	<b>189,076</b>	<b>212,667</b>	<b>204,410</b>	<b>203,244</b>	<b>202,024</b>	<b>234,435</b>	<b>258,474</b>	<b>275,788</b>	<b>302,136</b>	<b>300,269</b>

Source: Central bureau of statistics, Israel

#### EXPORT OF GOODS AND SERVICES

NIS MILLION - AT CURRENT PRICES

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Goods</b>												
Diamonds	17,733	16,459	24,783	27,834	23,832	32,850	35,793	41,632	45,442	41,446	43,103	34,168
Agriculture	2,790	3,073	3,253	2,913	2,708	2,929	3,287	4,061	4,588	4,625	5,449	4,524
Manufacturing excl diamonds	58,500	68,737	79,157	96,470	91,248	93,332	96,904	117,073	128,137	146,605	155,565	161,717
<b>Services</b>												
Tourism	9,425	9,385	14,471	12,772	5,781	4,346	4,807	6,682	8,633	8,564	8,881	9,584
Other services(A)	20,788	26,812	33,952	49,138	44,538	53,431	57,266	65,156	69,840	77,047	77,748	75,755
<b>Grand total</b>	<b>109,236</b>	<b>124,466</b>	<b>155,616</b>	<b>189,127</b>	<b>168,107</b>	<b>186,888</b>	<b>198,057</b>	<b>234,604</b>	<b>256,640</b>	<b>278,287</b>	<b>290,746</b>	<b>285,748</b>

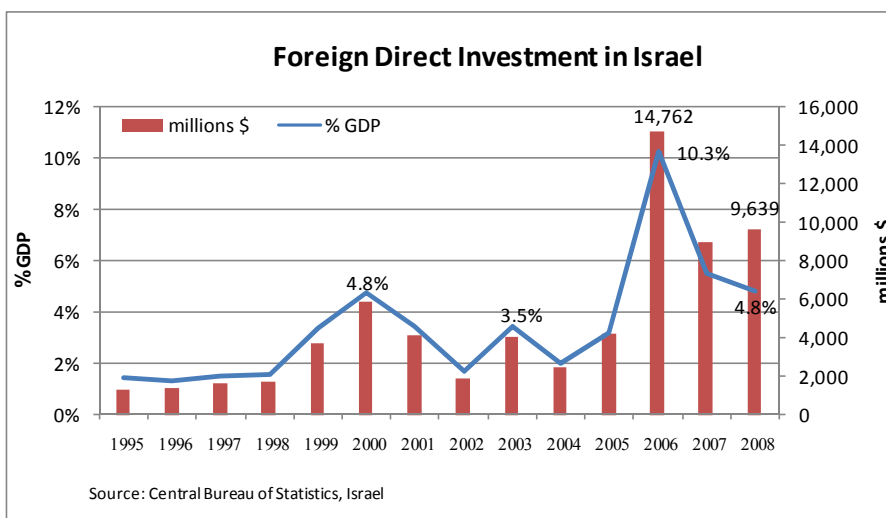
(A) Including start-up companies and consumption by foreign workers.

Source: Central bureau of statistics, Israel

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#### **I.4. INVESTMENT**

- To facilitate and promote foreign investment in Israel, the Government has set up Promotion Investments department in MOITAL, an investment marketing agency designed to be a "first-stop shop" for foreigners interested in investing in Israel. The agency tasks include:
  - Arranging business trips to Israel for foreign companies seeking strategic local partners as well as investment opportunities;
  - Providing foreign company representatives with customized pre-visit briefing material, including a preliminary research of Israeli companies and technologies that might be of interest, and personalized services during their visit;
  - Providing a wide range of services to the foreign entrepreneur including arranging meetings with relevant parties, providing detailed information on various production costs, assessing site location, and resolving potential technical/management problems with local authorities etc.
- There are no restrictions on outward investment. However, Israeli companies are required to report activities abroad that involve money transactions with foreign residents or banks.
- **Foreign investment**
  - The global financial crisis has left its mark on the financial account - the flow of foreign investments into Israel declined.
  - An examination of FDI in Israel and elsewhere in the last ten years shows that FDI is influenced to great extent by the business cycle; therefore its development in Israel in 2008 was a pleasant surprise. The relative stability of direct investment in 2008 may be caused by its coordination with real economic activity, which declined only at the end of the year, rather than with financial activity as well as because of a certain lag in the recording of transactions.
  - Direct investments are recorded on a cash basis therefore; some of the transactions recorded in 2008 had been signed in 2007.



### Nonresident Investment in Israel

(net transactions, \$ million)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total nonresident investment</b>	5,121	11,467	13,804	5,783	3,105	5,029	9,771	7,768	26,601	13,777	7,833
<b>Direct investment</b>	1,967	3,763	5,919	4,181	1,910	4,087	2,529	4,272	14,763	9,020	9,639
Equity	1,478	3,119	5,454	3,740	1,750	3,225	1,558	2,819	13,054	7,412	8,020
<i>of which: reinvested earnings</i>	27	456	1,511	620	343	640	585	-218	911	1,202	1,201
Real estate	181	221	195	167	192	463	796	1,223	1,415	1,564	1,286
Equity holders' loans	308	423	271	274	-32	400	176	230	293	44	333
<b>Portfolio investment</b>	1,723	2,420	4,603	140	1,648	1,312	6,861	3,148	9,103	1,475	-156
Equity abroad	117	1,557	4,720	1,287	1,265	-741	2,560	2,389	2,994	2,084	2,783
<i>issue abroad of Israeli equity</i>	187	2,053	3,461	667	101	970	2,815	1,136	6,188	1,349	3,333
Equity - local	-271	-238	-736	-658	109	633	1,156	653	1,274	1,454	-1,789
Government negotiable bonds abroad	1,404	22	-58	-539	-137	2,024	1,415	219	168	-967	-680
<i>issue abroad of government negotiable bonds</i>	1,034	-413	-269	-819	-385	1,721	1,254	5	284	-1,277	-683
Private sector negotiable bonds abroad	520	1,086	758	114	157	-687	1,682	-617	2,436	-598	982
<i>issue abroad of private sector negotiable bonds</i>	582	1,162	1,438	849	12	-479	1,122	-435	2,048	-808	1,071
Public sector negotiable bonds - local	-60	-12	-58	-65	256	73	38	476	2,181	-516	-1,498
Private sector negotiable bonds - local	13	5	-22	1	-3	11	10	28	50	18	46
<b>Other investment</b>	1,431	5,283	3,281	1,462	-453	-371	380	348	2,735	3,282	-1,650
Nonresident deposits	1,660	2,647	2,016	347	-762	-669	-492	335	1,703	800	-112
Bank deposits	-91	-263	-372	971	879	111	-628	-467	-487	245	-46
Loans	190	1,128	1,197	1,110	-916	104	549	-637	777	507	50
Trade credits	-329	1,771	440	-965	346	84	952	1,117	742	1,730	-1,542

Source: Central bank of Israel

- From the detailed reports submitted by the banks to the Bank of Israel it is possible to learn about the by-industry distribution of FDI in Israel as well as its concentration

(the distribution is calculated without the large transaction of an Israeli drugs company). The by-industry distribution of direct investments in 2008 and in previous years is biased towards the high-tech industries; this bears a greater resemblance to the composition of exports rather than to the composition of production. In 2008 about half the investments were in the high-tech industry, 20% were in the traditional industries, 20% in chemicals and metals, and 10% in the traditional services.

- The vast majority of FDI in 2008, as in the previous two years, was in companies that are not traded on the stock exchange.
- There are several types of FDI:
  - Transactions in which ownership is transferred from residents to non-residents, and whose effect on the accumulation of capital in Israel is small. These transactions accounted for 70% of direct investments in the last two years (which is also their average share in the last ten years).
  - investments which have a direct effect on the accumulation of capital, headed by investments in new projects, and including investments in start-ups, in accrued profits, and in private issues.
- Most direct investments are purchases (in full or in part) of Israeli firms, and are not expressed in a direct increase in the accumulation of capital. Sometimes these purchases involve the transfer of unique know-how developed by the Israeli firm into the hands of the foreign buyers (especially when start-ups are purchased).
- Foreign investments in start-ups expanded markedly in 2008, reaching \$1.6 billion. There was a notable increase between the two halves of the year. The data for this came from IVC research, which reports on venture capital raised by Israeli firms from foreign and domestic investors, reports record levels of such capital raised by high-tech companies.

#### Investment Venture Capital Funds

Original data - millions \$

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Start Up	1,013	3,092	1,986	1,138	1,011	1,465	1,337	1,622	1,759	2,076

Source : IVC Research as supplied by the Venture Capital Association.

- Alongside the rise in venture capital investment, there was a noteworthy decline in the share of investment in seed companies - down from 11% in 2007 to only 4% in the context of the expected crisis.

### **I.5. INTRODUCTION OF FTAS NEGOTIATED BY EACH PARTY**

#### **I.5.A. Modalities of Negotiation**

##### European Union

The European Community was the first trading partner with which Israel signed a preferential agreement. As a result of various amendments to the agreement, originally

signed in 1975, trade in industrial products has been tariff-free since 1989. In 1995 Israel and the European Communities signed an Association Agreement, which replaced the 1975 preferential agreement. In July 2003 two new protocols on agriculture were signed; they entered into force in January 2004. These protocols cover a wider list of agricultural products, extend some of the existing duty reductions, and expand various existing tariff quotas.

Since 1 May 2004, the Agreement has been extended to the new EU members; up until then, Israel had bilateral free-trade agreements with five of the ten new EU members (the Czech Republic, Hungary, Poland, the Slovak Republic, and Slovenia). As a result of the EU enlargement, the two parties signed a Protocol to the Association Agreement with various country-specific agricultural provisions.

#### United States

The free-trade agreement between Israel and the United States entered into force in September 1985. Their trade in industrial products has been duty-free since 1995. Under an amendment to the U.S. - Israel Agreement signed in October 1996, the two parties entered into a five-year program of gradual improvement of agricultural market access; following further negotiations, they agreed on additional improvements, which entered into force on 1 January 2004. These improvements include the expansion of tariff quotas and preferences, and the extension of duty-free treatment to additional agricultural goods. In this context, the United States offers Israeli products, the same overall average tariff as Canadian and Mexican products, the lowest (0.7% in 2002) among all its trading partners.<sup>6</sup>

#### Canada

The FTA between Israel and Canada, signed in July 1996, entered into force in July 1997. It provides for duty-free treatment of industrial products and tariff reductions on agricultural and fish products. Following bilateral negotiations, further market access for agricultural goods was implemented in November 2003. An amendment to the agreement concluded in 2001, allows for the transshipment of goods through the United States, under certain conditions. It also allows for minor processing in the United States without losing the original status. In particular, processing should not increase the transaction value of the goods by more than 10%.

#### EFTA

There have been no changes to Israel's preferential agreement with the European Free Trade Association (EFTA) since 1999. The agreement calls for reciprocal free trade in all but four industrial goods (HS codes 35.01, 35.02, 38.24, ex38.25), and in some fish, marine, and processed agricultural products. It also contains evolutionary clauses providing the basis for the future development of the agreement and its extension to cover new sectors. In July 2005, two decisions entered into force with regard to the Protocols to the Agreement: Protocol B, on rules of origin, was amended to allow for Pan-Euro-Mediterranean accumulation, and a new Protocol E lays down the rules on mutual administrative assistance

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<sup>6</sup> WTO (2003).

in customs matters. Israel also has bilateral trade agreements with individual EFTA member states; these improve the parties' access to the respective markets either by eliminating or reducing tariffs on some agricultural products.

#### Turkey

Israel's free-trade agreement with Turkey entered into force in May 1997. Tariffs on most industrial goods have been duty-free since January 2000; exceptions include casein, albumins, dextrin's, finishing agents, natural cork, flax, and hemp. Various agricultural products are subject to tariff quotas. For the purpose of implementing the Pan-Euro-Mediterranean accumulation of origin, the agreement's protocol on rules of origin was amended in July 2005. The amendment is yet to be implemented.

#### Mexico

Israel's free-trade agreement with Mexico entered into force in July 2000. Under the agreement, tariffs on industrial products (with the exception of HS codes 35.02 and 35.05) were eliminated gradually by January 2005. Various agricultural products are subject to tariff quotas.

#### Jordan

A new Protocol to the Agreement on Trade and Economic Cooperation with Jordan was signed in December 2004, replacing a 1995 version. According to the authorities the protocol provides for duty-free access to more than 80% of Jordan's exports to Israel and more than 50% of Israel's exports to Jordan (in 2003 figures). In addition, the new Protocol introduces comprehensive annexes regarding rules of origin, including provisions on bilateral and Pan-European accumulation.

#### Egypt

Israel signed a trade protocol with Egypt on 14 December 2004, which entered into force in February 2005. Designed in the style of the trade protocol with Jordan concerning the QIZ , it establishes qualified industrial zones in Egypt under the umbrella of Israel's Agreement with the United States. The authorities expect this protocol to strongly increase trade between Israel and Egypt. Preliminary data on the first nine months of the implementation of the agreement indicate that trade between Israel and Egypt has increased more than two-fold over the same period in 2004.

#### MERCOSUR

The Framework Agreement signed by the State of Israel and by Mercosur on December 8, 2005 to strengthen the economic relations and to promote economic cooperation, in

Particular for the development of trade and investments as well as technological cooperation Considering the mutual interest of the Government of the State of Israel and the Governments of the Members States of MERCOSUR in the reinforcement of the multilateral Trading system as reflected in the WTO Agreements.

## II. ECONOMIC RELATIONS BETWEEN CHILE AND ISRAEL

### II.1. BILATERAL TRADE IN GOODS

- In 2008, bilateral trade between Israel and Chile reached a record high of 152.5 million dollars.
- This places Chile as Israel's 0.12% global trading partner.
- This figure is well above what was recorded in 2002, when the bilateral trade flow reached 0.06% (lowest trading in the decade with Chile).
- The growth in trade between Israel and Chile is the result of higher than average evolution in exports and imports, thus generating an increase in bilateral exchange around 2,784% between 2002 and 2008.

#### Trade Between Israel and Chile, 1996 - 2008

Millions \$ and %

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Chile</b>													
Exports	50.5	63.6	61.4	70.1	56.8	44.9	31.7	43.1	46.7	74.6	81.7	78.1	120.0
Imports	13.7	10.0	15.1	15.5	9.6	5.6	8.6	12.8	12.8	19.0	14.8	14.8	32.5
Trade Balance	36.8	53.6	46.3	54.6	47.2	39.3	23.1	30.3	33.9	55.6	67.0	63.3	87.6
Trade Exchange	64.2	73.6	76.5	85.6	66.4	50.5	40.3	55.9	59.5	93.6	96.5	92.9	152.5
<b>Global</b>													
Exports	20,510.8	22,503.8	23,304.7	25,840.4	31,408.4	29,062.2	29,345.9	31,783.4	38,620.4	42,771.2	46,792.6	54,092.3	60,825.0
Imports	29,949.0	29,025.6	27,469.8	31,090.0	35,749.5	33,303.2	33,106.3	34,211.8	40,968.7	45,034.5	47,840.6	56,623.0	65,171.1
Trade Balance	-9,438.2	-6,521.8	-4,165.1	-5,249.6	-4,341.1	-4,241.0	-3,760.4	-2,428.4	-2,348.3	-2,263.3	-1,048.0	-2,530.7	-4,346.1
Trade Exchange	50,459.8	51,529.4	50,774.5	56,930.4	67,157.9	62,365.4	62,452.2	65,995.2	79,589.1	87,805.7	94,633.2	110,715.3	125,996.1
<b>Participation</b>													
Exports	0.25%	0.28%	0.26%	0.27%	0.18%	0.15%	0.11%	0.14%	0.12%	0.17%	0.17%	0.14%	0.20%
Imports	0.05%	0.03%	0.05%	0.05%	0.03%	0.02%	0.03%	0.04%	0.03%	0.04%	0.03%	0.03%	0.05%
Trade Exchange	0.13%	0.14%	0.15%	0.15%	0.10%	0.08%	0.06%	0.08%	0.07%	0.11%	0.10%	0.08%	0.12%

Source : Central Bureau of Statistics, Israel

- The trade balance, export minus imports, in 2008, also marked a surplus of 87.6 million dollars that is far from the 23.1 million dollars of 2002.
- As in total trade exchange, in 2008, the Chilean economy has increased its share in Israeli exports, accounting for 120 million dollars.
- Imports coming from Chile in 2008 reached 32.5 million dollars, placing Chilean supplies with 0.05% of imported goods to Israel. This fact shows annual growth of 119.5% compare to 2007.

#### II.1.A. Exports

##### Israel's Exports to Chile, 1996-2008

Millions \$ and %

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Exports	50.5	63.6	61.4	70.1	56.8	44.9	31.7	43.1	46.7	74.6	81.7	78.1	120.0
Global Exports	20,510.8	22,503.8	23,304.7	25,840.4	31,408.4	29,062.2	29,345.9	31,783.4	38,620.4	42,771.2	46,792.6	54,092.3	60,825.0
% from Global	0.25%	0.28%	0.26%	0.27%	0.18%	0.15%	0.11%	0.14%	0.12%	0.17%	0.17%	0.14%	0.20%

Source : Central Bureau of Statistics, Israel

- Six years ago, Chile accounted for 0.11% of Israel's exports. In 2008, Israel has increased her market export to 0.20% share of total exports.
- It is interesting to point out that this increase in exports is the highest growth of share in the last decade – 42.8%.
- Although the high value of exports in 2008, there were decrease in Israeli companies which work in Chile (a decrease of 0.5%, compare to the year before).



- The terms behavior of the exports was fluctuations. There was series fall between 1999-2002 and then growth tendency until 2008 with exception of 2007.
- An excellent record of Israeli exports towards Chile has shown, mostly in the 2005-2008 period.
- The value of export to Chile has reached the peak in 2008 – 120 millions \$ and represents an annual growth of 53.6% compare to the year 2007.

## Israel's main exports to Chile, 2007-2008

Millions \$ and %

Description	Value		% from total Export		Growth %
	2007	2008	2007	2008	
Electrical machinery and equipment, sound and TV recorders and reproducers; parts.	24.7	30.4	31.7%	25.3%	22.8%
Machinery and mechanical appliances and computer equipment	18.3	29.3	23.5%	24.4%	59.9%
Plastics and articles thereof	8.7	10.6	11.1%	8.8%	21.9%
Other made-up textile articles; worn textile articles; rags	2.1	8.7	2.6%	7.2%	321.1%
Non military arms	0.0	7.8	0.0%	6.5%	-
Headgear and parts thereof	0.07	6.4	0.1%	5.3%	8940.8%
Optical, photographic, measuring and medical instruments	3.0	6.0	3.8%	5.0%	100.7%
Miscellaneous chemical products	3.4	3.8	4.3%	3.1%	12.6%
Soap, washing, lubricating, polishing, scouring preparations, candles and dental preparations	2.2	3.7	2.9%	3.1%	63.6%
Inorganic chemicals	1.7	1.9	2.1%	1.6%	16.4%
Rubber and articles thereof	0.8	1.5	1.0%	1.2%	88.3%
Articles of iron or steel	1.1	1.2	1.4%	1.0%	6.0%
Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables	0.9	1.2	1.2%	1.0%	26.8%
Tanning & dyeing extracts; dyes inks and mastics; putty	0.2	1.2	0.3%	1.0%	461.4%
Organic chemicals	1.3	1.2	1.7%	1.0%	-14.5%
Fertilizers	0.7	0.8	0.8%	0.6%	15.3%
Man-made filaments	0.1	0.6	0.2%	0.5%	327.6%
Clocks, watches and parts thereof	0.7	0.6	0.8%	0.5%	-13.8%
Pharmaceutical products	0.3	0.5	0.4%	0.4%	45.6%
Pearls, precious stones, precious metals imitation jewellery and coins	0.4	0.4	0.5%	0.3%	-9.1%
Oil seeds, grains, fruits, industrial and medical plants, straw and fodder	0.6	0.4	0.7%	0.3%	-32.5%
Articles of apparel, and clothing accessories knitted or crocheted	0.0	0.3	0.1%	0.3%	585.4%
<b>Total principal</b>	<b>71.3</b>	<b>118.2</b>	<b>91.3%</b>	<b>98.5%</b>	<b>65.8%</b>
Others	6.8	1.8	8.7%	1.5%	-73.8%
<b>Total Exports</b>	<b>78.1</b>	<b>120.0</b>	<b>100.0%</b>	<b>100.0%</b>	<b>53.6%</b>

Source : Central Bureau of Statistics, Israel

- Israeli corporate presence in Chile is strongly related to:
  1. Agriculture
  2. Medical Technologies
  3. Telecom IT
  4. Software
  5. Hardware
  6. Chemicals
  7. Industrial Technologies

- The mainly export concentrated in three sectors :
  1. Electrical machinery and equipment, sound and TV recorders and reproducers parts.
  2. Machinery and mechanical appliances and computer equipment.
  3. Plastics and articles thereof.
- These three sectors accounted as 66.3% from the total value of export in 2007 and 58.5% in 2008.

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- The dominant sector is electrical machinery and equipment, which has fluctuation throughout the decade.
- In 2008, this sector reached 30.4 million dollars and showed great recovery compare to 2002.
- By the period 2002-2008 the electrical machinery and equipment recorded averaging annually rate of growth of 43.7%.

### II.1.B. Imports

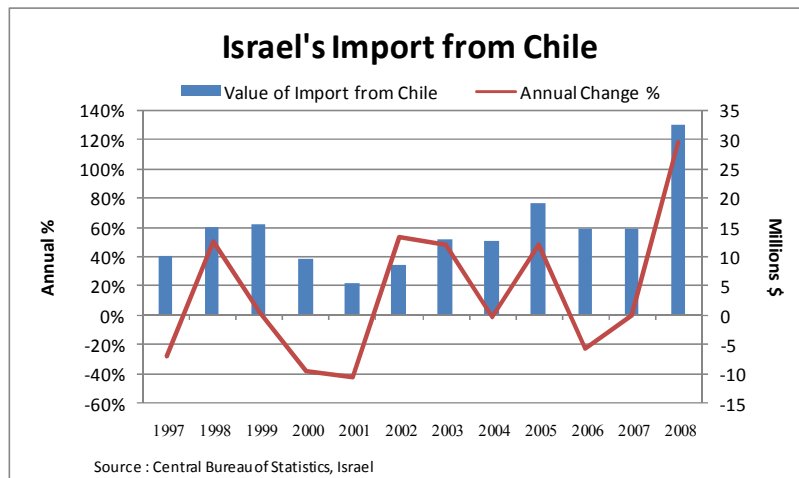
#### Israel's Imports to Chile, 1996-2008

Millions \$ and %

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Imports	13.7	10.0	15.1	15.5	9.6	5.6	8.6	12.8	12.8	19.0	14.8	14.8	32.5
Global Imports	29,949.0	29,025.6	27,469.8	31,090.0	35,749.5	33,303.2	33,106.3	34,211.8	40,968.7	45,034.5	47,840.6	56,623.0	65,171.1
% from Global	0.05%	0.03%	0.05%	0.05%	0.03%	0.02%	0.03%	0.04%	0.03%	0.04%	0.03%	0.03%	0.05%

Source : Central Bureau of Statistics, Israel

- As it has been said before, Chile is the supplier of 0.05% of imported goods to Israel, registering in 2008 imports of 32.5 million dollars.
- This represents an important raise of 119.5% in comparison with the previous year, and at same time, represents a record level and an increase over the earlier imports in 2001 of 480%.



- In terms of the behaviour of imports between 1996 and 2008, these have experienced fluctuation along the whole period, with large growth in 2008.
- This major growth in 2008 can be explained by the increase demand for specific raw materials from Chile.

#### Israel's main imports from Chile, 2007-2008

Millions \$ and %

Description	Value		% from total Import		Growth %
	2007	2008	2007	2008	
Pulp of wood or other fibrous cellulosic material; waste and scrap of paper or paperboard	2.0	16.0	13.5%	49.3%	699.5%
Fish, crustaceans and mollusca	5.2	6.7	35.3%	20.5%	27.4%
Alcoholic beverages and vinegar	1.4	2.0	9.7%	6.1%	37.4%
Meat and edible meat offal	1.1	1.7	7.4%	5.3%	57.2%
Paper and paperboard; articles of paper pulp, paper or paperboard	0.6	1.0	3.9%	3.0%	68.5%
Oil seeds, grains, fruits, industrial and medical plants, straw and fodder	0.6	0.7	4.0%	2.0%	10.9%
Articles of iron or steel	0.8	0.6	5.2%	1.7%	-27.8%
Tree gum; resins, other vegetable saps and extracts	0.2	0.5	1.6%	1.5%	98.8%
Copper and articles thereof	0.2	0.4	1.2%	1.3%	141.7%
Residues and waste from the food industries; prepared animal fodder	0.0	0.4	0.0%	1.1%	-
Animal or vegetable fats and oils; animal or vegetable waxes	0.1	0.3	0.8%	1.0%	157.1%
Aircraft and parts thereof	0.3	0.3	1.8%	0.8%	-6.6%
Edible vegetables, roots and tubers	0.2	0.2	1.6%	0.6%	-14.9%
Preparations of vegetables, fruits, nuts and other plants	0.2	0.2	1.4%	0.5%	-25.1%
Organic chemicals	0.3	0.1	1.7%	0.5%	-40.9%
Edible fruits and nuts; peel of melons and other citrus fruit	0.6	0.1	4.3%	0.3%	-84.5%
Electrical machinery and equipment, sound and TV recorders and reproducers; parts.	0.3	0.1	2.2%	0.3%	-73.6%
Cereals	0.3	0.1	2.0%	0.2%	-77.5%
<b>Total principal</b>	<b>14.5</b>	<b>31.2</b>	<b>97.8%</b>	<b>96.1%</b>	<b>115.1%</b>
Others	0.3	1.3	2.2%	3.9%	280.7%
<b>Total Imports</b>	<b>14.8</b>	<b>32.5</b>	<b>100.0%</b>	<b>100.0%</b>	<b>118.8%</b>

Source : Central Bureau of Statistics Israel

2. Waste and scrape of paper or paperboard.

3. Fish, crustaceans and mollusc.

- These materials accounted respectively for 69.8% of total imports originating from Chile.
- Contrarily to exports, imports show a higher degree of concentration, given that in 2008, Israel imported Pulp of wood or other fibrous cellulosic material and Waste and scrape of paper or paperboard accounted of 16 million dollars which is 49.3% from total imports.
- The mainly annual growth in 2008 came from this sector and was 699.5% compare to the previous year.

## II.2. BILATERAL TRADE IN SERVICES

There are no official statistics for the bilateral trade flow in services between the two countries.

## II.3. BILATERAL INVESTMENTS

### II.3.A. Israel Investment in Chile

In the period between 1974-2008 Israeli companies have invested in Chile 4.5 Million US\$, according to the Chilean authorities. Few of the Israeli companies that have representatives in Chile: "Netafim" (agriculture), "IDE" and "Plastro Gvat"(mines), "Alvarion" (telecommunication).

### II.3.B. Chilean Investment in Israel

There is no reliable data due to the fact that there isn't any official methodology for accounting this type of investment.

## III. TRADE AND INVESTMENT POLICIES

### III.1. INTRODUCTION

- The third chapter of this paper provides further details on Israel's trade measures and policies.

### III.2. MEASURES AFFECTING TRADE IN GOODS

#### III.2.A. Tariffs

- Israel's tariff is based on the Harmonized Commodity Description and Coding System (HS). The 2005 tariff contains 8,967 lines at the eight-digit level, of which 99.4% carry ad valorem duties (Table III.2). Non-ad valorem tariffs comprise specific (0.3% of total tariff lines), mixed (1.4% of total), compound (2.0% of total) and other types of duty (4 tariff lines); they mostly apply to agricultural products.
- At the time of its last TPR in 2005, Israel continued to implement trade liberalization reforms, albeit at a somewhat slower pace than in the previous six-year period. The average applied MFN tariff went down from 10.8% in 2000 to 8.9% in 2005, with a maximum rate of 560%. However, tariffs on agricultural goods (WTO definition) remained generally high, with an average rate of 32.9%, while the average MFN tariff on non-agricultural products is significantly lower, with an average of 5.1%.
- The tariff comprises 102 bands, including the ad valorem equivalents (AVEs) of the non-ad valorem tariffs. About 48.5% of all tariff lines are duty-free, making this value a modal rate (Chart III.1).

Table III.2 Overview of MFN tariffs in Israel, 2000-05 (Per cent)

	2000	2001	2002	2003	2004	2005
1. Bound tariff lines (% of all tariff lines)	..	..	..	..	..	..
2. Duty-free tariff lines (% of all tariff lines)	45.1	47.1	47.1	47.2	47.5	48.5
3. Non-ad valorem tariffs (% of all tariff lines) <sup>a</sup>	13.0	7.0	7.1	7.0	7.2	6.6

4. Tariff quotas (% of all tariff lines)	1.2	1.2	1.2	1.2	1.2	1.2
5. Non-ad valorem tariffs with no AVEs (% of all tariff lines)	13.0	7.0	7.1	7.0	7.2	6.6
6. Simple average tariff rate	10.8	9.9	9.9	9.4	9.3	8.9
Agricultural products (WTO def.) <sup>a</sup>	42.8	41.2	41.0	38.2	35.8	32.9
Non-agricultural products (WTO def.) <sup>b</sup>	5.9	5.2	5.2	5.2	5.1	5.1
Agriculture, hunting, forestry and fishing (ISIC 1)	52.2	49.9	48.5	46.1	41.3	41.0
Mining and quarrying (ISIC 2)	0.3	0.2	0.2	0.2	0.2	0.2
Manufacturing (ISIC 3)	8.4	7.8	7.8	7.6	7.8	7.3
7. Domestic tariff "peaks" (% of all tariff lines) <sup>c</sup>	5.4	4.9	4.9	4.8	4.9	4.2
8. International tariff "spikes" (% of all tariff lines) <sup>d</sup>	11.6	6.5	5.5	5.1	5.2	4.7
9. Overall standard deviation of applied rates	30.1	29.7	29.4	28.1	25.7	25.3
10. Nuisance applied rates (% of all tariff lines) <sup>e</sup>	1.1	1.0	1.0	1.1	1.3	0.9

.. Not available.

A WTO Agreement on Agriculture.

B Exclude petroleum.

C Domestic tariff spikes are defined as those exceeding three times the overall simple average applied rate (indicator 6).

D International tariff peaks are defined as those exceeding 15%.

E Nuisance rates are those greater than zero, but less than or equal to 2%.

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

- Using ISIC definition, agriculture remains the most tariff protected sector, with an average tariff of 41.0%, followed by manufacturing (7.3%), while imports of mining and quarrying products face the lowest tariffs (0.2%). Most fresh fruit and vegetables are subject to seasonal tariffs, generally specific, with relatively high AVEs in most cases (Table III.4). The duration of the out-of season period varies from product to product.

**Table III.3**

Summary analysis of Israel's MFN tariff, 2005

Analysis	No. of lines <sup>a</sup>	Applied 2005 rates				CV	Imports 2003 <sup>b</sup> (US\$ million)
		No. of lines used	Simple avg. tariff (%)	Range tariff (%)	Std-dev (%)		
<b>Total</b>	8,967	8,917	8.9	560-0	25.3	2.8	34,091.9
<b>By WTO definition<sup>c</sup></b>							
Agriculture	1,246	1,232	32.9	560-0	61.6	1.9	2,050.7
Live animals and products thereof	159	158	50.5	190-0	54.0	1.1	141.0
Dairy products	55	55	124.4	247-0	68.9	0.6	23.6
Coffee and tea, cocoa, sugar, etc.	221	220	22.1	255-0	43.3	2.0	581.0
Cut flowers and plants	59	59	8.2	170-0	22.5	2.7	33.1
Fruit and vegetables	308	306	54.0	560-0	89.5	1.7	189.5
Grains	23	23	10.0	114-0	26.8	2.7	419.2

Analysis	No. of lines <sup>a</sup>	Applied 2005 rates				CV	Imports 2003 <sup>b</sup> (US\$ million)
		No. of lines used	Simple avg. tariff (%)	Range tariff (%)	Std-dev (%)		
Oil seeds, fats, oils and their products	130	128	6.6	114-0	14.8	2.2	295.0
Beverages and spirits	112	112	14.2	45-0	10.9	0.8	120.5
Tobacco	15	7	3.4	12-0	4.7	1.4	115.3
Other agricultural products	164	164	6.8	105-0	16.3	2.4	132.5
Non-agriculture (excl. petroleum)	7,693	7,657	5.1	34.4-0	5.5	1.1	28,768.4
Fish and fishery products	241	224	10.5	34.4-0	6.4	0.6	141.7
Mineral products, precious stones and precious metals	439	439	4.1	16.9-0	5.0	1.2	9,128.7
Metals	1,137	1,137	3.6	12-0	4.7	1.3	1,689.3
Chemicals and photographic supplies	1,067	1,066	2.2	12-0	4.2	1.9	3,783.9
Leather, rubber, footwear and travel goods	264	264	5.9	12-0	5.4	0.9	426.9
Wood, pulp, paper and furniture	335	330	5.5	12-0	5.7	1.0	1,058.3
Textiles and clothing	1,415	1,409	8.1	22-0	5.7	0.7	1,341.3
Transport equipment	358	357	3.6	12-0	3.8	1.1	2,235.6
Non-electric machinery	1,047	1,047	5.3	12-0	5.1	1.0	3,335.0
Electric machinery	644	644	4.4	12-0	5.5	1.2	3,990.5
Non agricultural articles n.e.s.	746	740	4.9	12-0	5.3	1.1	1,637.3
<b>By ISIC sector<sup>d</sup></b>							
Agriculture, hunting, forestry and fishing	454	443	41.0	0-560	80.3	2.0	782.6
Mining	103	103	0.2	0-12	1.3	7.5	10,520.3
Manufacturing	8,410	8,371	7.3	0-340	16.9	2.3	22,671.4
Raw materials (by stage processing)	889	867	24.6	560-0	62.6	2.5	11,793.3
Semi-processed products (by stage processing)	2,540	2,535	3.1	40-0	5.0	1.6	4,755.3
Fully-processed products (by stage processing)	5,538	5,515	9.1	247-0	18.9	2.1	17,425.8

a The total number of tariff lines is higher than the sum of lines by sub-item as lines with no *ad valorem* equivalent are excluded from the latter.

B The total of imports is higher than the sum of sub-items as US\$117.5 million are not classified in the HS.

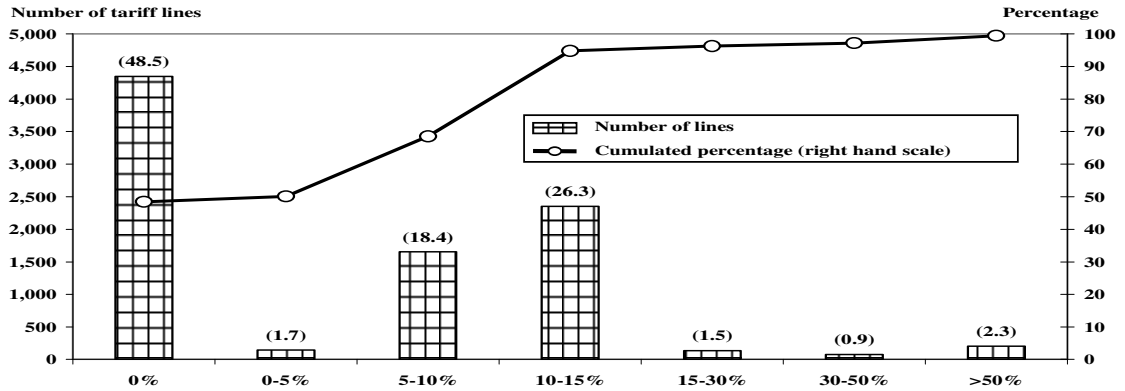
C 28 tariff lines are excluded from both WTO agriculture and non-agriculture definitions (essentially petroleum products).

D International Standard Industrial Classification (Rev.2).

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

**Table III.3**

**Chart III.1**  
**Breakdown of applied MFN tariffs, 2005**



**Note:** The figures in brackets correspond to the percentage of total lines. They do not add to 100% since AVEs are not estimated for 50 lines.

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

**Table III.4 Seasonal tariffs in Israel, 2005**

Product	Seasonal tariff			
	Period	Tariff	Period	Tariff
1. Potatoes, fresh or chilled (07.01.90.00)	January-April	NIS 1.77/kg. but not more than 230%	May-December	230%
2. Tomatoes, fresh or chilled (07.02)	June-October	NIS 0.89/kg. but not more than 2.72%	November-May	NIS 1.19/kg. BNM 272%
3. Fresh or chilled onions and shallots (07.03.10)	January-April	NIS 1.08/kg. but not more than 298%	May-December	NIS 0.78/kg. but not more than 298%
4. Fresh or chilled cauliflowers (07.04.10)	September-February	NIS 1.05/kg. but not more than 128%	March-August	NIS 0.79/kg but not more than 128%
5. Carrots and turnips (07.06.10.00)	December-May	NIS 1.05/kg. BNM 213.0%	June-November	NIS 1.37/kg. but not more than 213%
6. Aubergines (07.09.30.00)	May-October	NIS 0.54 /kg. but not more than 89%	November-April	NIS 0.54/kg. but not more than 89%
7. Marrow (07.09.90.30)	May-October	NIS 0.52/kg. but not more than 128%	November-April	NIS 0.79/kg. but not more than 128%
8. Fresh figs (08.04.20.10)	May-November	NIS 2.42/kg. but not more than 102%	December-April	NIS 1.52/kg. but not more than 102%
9. Fresh mangoes, guavas, and mangosteens (08.04.50.00)	June-December	NIS 1.98/kg. but not more than 85%	January-May	NIS 1.52/kg. but not more than 102%
10. Watermelons (08.07.11.00)	October-May	NIS 0.46/kg. but not more than 102%	June-September	NIS 0.44/kg. but not more than 102%
11. Melons (08.07.19.00)	October-May	NIS 1.21/kg. but not more than 102%	June-September	NIS 0.66/kg. but not more than 102%
12. Apricots (08.09.10.00)	April-August	NIS 1.53/kg but not more than 89%	September-March	NIS 0.97/kg. but not more than 89%
13. Cherries (08.09.20.00)	April-July	NIS 3.67/kg but not more than 81%	August-March	NIS 1.73/kg. but not more than 81%
14. Peaches, including nectarine (08.08.30.00)	April-November	NIS 1.32/kg. but not more than 89%	December-March	NIS 0.84/kg. but not more than 89%
15. Plums and sloes (08.09.40.00)	May-November	NIS 1.13/kg but not more than 102%	December-April	NIS 0.7/kg. but not more than 102%
16. Strawberries (08.10.10.00)	October-May	NIS 4.2/kg. but not more than 94%	June-September	NIS 1.36/kg. but not more than 94%
17. Kiwifruit (08.10.50.00)	September-June	NIS 3.41/kg. but not more than 94%	July-August	NIS 1.62/kg. but not more than 94%
18. Persimon (08.10.90.10)	August-February	NIS 1.32/kg. but not more than 94%	March-July	NIS 0.92/kg. but not more than 94%
19. Lychee (08.10.90.20)	June-September	NIS 5.49/kg. but not more than 94%	October-May	NIS 3.46/kg. but not more than 94%
20. Loquat (08.10.90.30)	March-July	NIS 4.83/kg. but not more than 94%	August-February	NIS 3.39/kg. but not more than 94%
21. Ginger, other than spices in form of powder or granules (09.10.10.90)	October-February	NIS 6/kg.	March-September	15%

Note: Corresponding HS code is provided in parenthesis.

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

- Israel has bound some 76% of its tariff lines, all agricultural lines (WTO definition) and some 73% of non-agricultural lines. Bound rates range from 0% to 560% on agricultural goods, and from zero to 170% on non-agricultural goods.
- Israel's foreign trade largely takes place under preferential agreements, mainly with the EU and United States. In addition, Israel grants (reciprocal) tariff preferences to Bulgaria, Canada, the European Free Trade Association, Jordan, Mexico, Romania, and Turkey. The tariff preferences are generally subject preferential tariff quotas (for further information, see special investment agreements).
- Israel grants tariff concessions and exemptions within the framework of several schemes. Concessional duties are granted through a duty-drawback scheme, which provides for refund of customs duty and internal taxes paid on imported inputs. In addition, Israel offers duty-free imports to foreign country representations, international organizations, international aid organizations, petroleum companies, and performing troupes of artists and entertainers.

### **III.2.B. Non-tariff Measures**

- Israel bound other duties and charges at zero on all products covered by its tariff binding commitments.
- The wharf fee is a border charge, applicable on trade through maritime ports. Israel's port authorities charge importers 1.02% of the c.i.f. cost of imports into Israel for the use of ports, whereas exporters using the same services face a charge of 0.2% on the f.o.b. value.
- Imports, like domestic products, are subject to a purchase tax and a value-added tax, while certain items (such as fuels and tobacco) are subject to excise taxes and stamp duties (Table III.5). The standard rate of the VAT is 16%. Products purchased in Eilat, whether imported or produced domestically, are exempt from VAT.

**Table III.5**

**Taxes on imported and domestic goods and services, September 2005**

Tax	Product	Rate (%)	Taxation base	
			Imports	Domestic
Value-added tax	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, hotel accommodation for foreign tourists	0%	Value of goods for customs purpose plus customs duties, port and stevedoring fee, levy (if applicable)	Value of transaction
	All other products and services	16%		
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 litres		
	Kerosene	NIS 70/ 1,000 litres		
	Diesel	NIS 106/ 1,000 litres		
	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.

- In general, internal taxes are levied on the duty-inclusive c.i.f. value of imports, and on the wholesale price of locally produced goods. However, Israel uses a system called "TAMA" (the Hebrew acronym for additional rate of increase) to approximate local wholesale prices of imported goods by adding estimated profits, insurance, and inland freight to the declared value of imports for purposes of calculating purchase taxes; coefficients for calculation of the TAMA vary between different industries.
- Importers have the option of declaring the actual wholesale value of their orders.

**III.2.C. Import Customs Procedures**

- Customs clearance procedures are the same for MFN and preferential imports. Israel has a fully computerized customs system to which all customs brokers are linked. All imports are processed by computer. The time required for clearance procedures is 30-40 minutes in more than 90% of the cases. Inspection of imported goods is based mainly on risk assessment (a profiling system) and to a much lesser extent on random selection. Selection criteria include the origin of the goods (country, supplier), complaints regarding the violation of intellectual property rights, and past deficits or defects with a particular importer.

- No provisions are available for clearance prior to the landing of the imports, although the documentation can be prepared in advance. Israel has no regulations relating to preshipment inspection and does not require it on imports. For items requiring an import licence, the importer must apply for the licence according to the procedures and regulations of the issuing authority.
- Israel has implemented the WTO Agreement on Customs Valuation since January 1998. Under the Customs Ordinance Amendment Law of 1997, the basis for customs valuation is the transaction value, which is defined as the price paid or payable for the goods when they are sold for export to Israel.
- Ad valorem duties are applied on the transaction value, 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.

### **III.2.D. Measures Affecting Exports**

- There is no registration requirement for exporters. Similar documentation requirements apply to importers and exporters. An export declaration is required for all exports except for goods under US\$100 that are exported without financial compensation and that have not undergone a sales transaction.
- Israel has not imposed any export duties, taxes or other charges during the period under review. It does not maintain any minimum export prices.
- In accordance with the Ordinance on Trade with Enemy States, Israel prohibits exports to Iran, Lebanon, and Syria. Products subject to export controls are included in Annexes 1 and 3 of the Free Export Order of 2008. Currently some 35 items, by broad category, require a licence 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 conservation of local resources.
- Israel maintains an export authorization system on some food and fresh agricultural products, for sanitary and quality reasons; diamonds; certain tools; and certain religious articles. These products require a special certificate upon exportation.
- Israel does not apply any exports quotas.
- Israel grants export subsidies on various agricultural products (cut flowers, vegetables, fruits, and goose liver). Exporters can benefit from duty and tax drawbacks on imported inputs, raw materials, and capital goods. Exporters can choose between a tax percentage method (used by about 70% of exporters), and a credit method with an annual projection of imports.
- Exporters pay less than importers for the use of ports and stevedores: importers pay 1.02% of the c.i.f. cost of imports into Israel; exporters pay 0.2% of the f.o.b. value of exports. Exports are exempt from the VAT.
- Israel abolished its public export credit program in 1994; no government-supported export financing has been available since then.
- The state-owned company ASHRA (formerly IFTRIC), instituted in 1957, offers a wide range of insurance instruments to Israeli exporters. Its income consists entirely of premiums, with no transfers from the Government since 1994. ASHRA insures investments and medium - and long-term export credit transactions (one to ten years) against political and commercial risk, mostly in

developing countries. ASHRA also guarantees loans granted by domestic commercial banks to Israeli exporters with relation to medium and long term export. It does not face any competition from the private sector in this area.

- Export promotion activities are administered by the Israel Export and International Cooperation Institute (IEICI). The IEICI 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 in international trade fairs. It employs about 90 staff and has representations in 49 countries.
- The Marketing Tutoring Program, administered by the Ministry of Industry, Trade & Labour, aims to encourage exporters to adopt advanced marketing strategies, to use advanced marketing tools, to assist them in building a marketing infrastructure and provide them the necessary marketing training<sup>7</sup>, and support is provided to companies in all sectors.

### III.2.E. Technical Barriers to Trade

Deeper overview on the Israeli standards will be added separately

- Israel operates import prohibitions for reasons of human health, public morals, environment, and security. It is a signatory to the Basel Convention on Hazardous Wastes, the Montreal Protocol, and CITES. The importation of 17 products or groups of products is prohibited (Table III.6), and they apply equally to all trading partners. The legal basis for Israel's import prohibitions is the Appendix of the 2005 Customs Order and Annex 5 of the Free Import Order -2008.
- Since December 1994, Israel has maintained a ban on imports of non-kosher meat and meat products. However, the Government permits limited domestic production, sale, and consumption of non-kosher meat.

**Table III.6**

**Import prohibitions, November 2005**

Items subject to import prohibition	Reason for prohibition
Wine, spirits products and grape juice with incorrect or misleading geographical indications (22)	Protection of human health
Matches made from white or yellow phosphorus (36.05)	Environment protection
Licentious or indecent films (37.06)	Public morals
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
Tickets or publicity items for lottery or gambling (49.11)	Public morals
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)	Public morals
Used bags for packaging vegetable material (63.05)	Protection of human health
Knives, cutlasses, spears, and swords having a serrated point or sharp blade, except for knives which are of a kind for professional work or domestic use (82.11, 93.07)	Protection of human life
Disruptive instruments of laser speed measuring meters	Public safety
Firearms resembling a pen, starting pistols, items activated by gas, etc. (93.03)	Security
Nerve gas container resembling a gun (93.04)	Security

<sup>7</sup> WTO document G/SCM/N/123/ISR, 4 July 2005.

Items subject to import prohibition	Reason for prohibition
Games of chance or part of them as defined in the Penal Code (95.04)	Public morals
Goods of all types which carry a false commercial description as defined in the Consumer Protection Law of 1981	Public morals
Postal packages containing live creatures such as vipers, explosives, inflammable materials and other dangerous packages	Protection of human health
Used equipment for bee farming	Protection of human health
Goods that can be used as tools for preparing or consuming dangerous drugs as defined in the Dangerous Drug Order (1973).	Protection of human health
Goods that can be used to incite violence, terror, or racism as defined in Chapter H of the Penal Code	Security

Note: The corresponding HS code is provided in parenthesis.

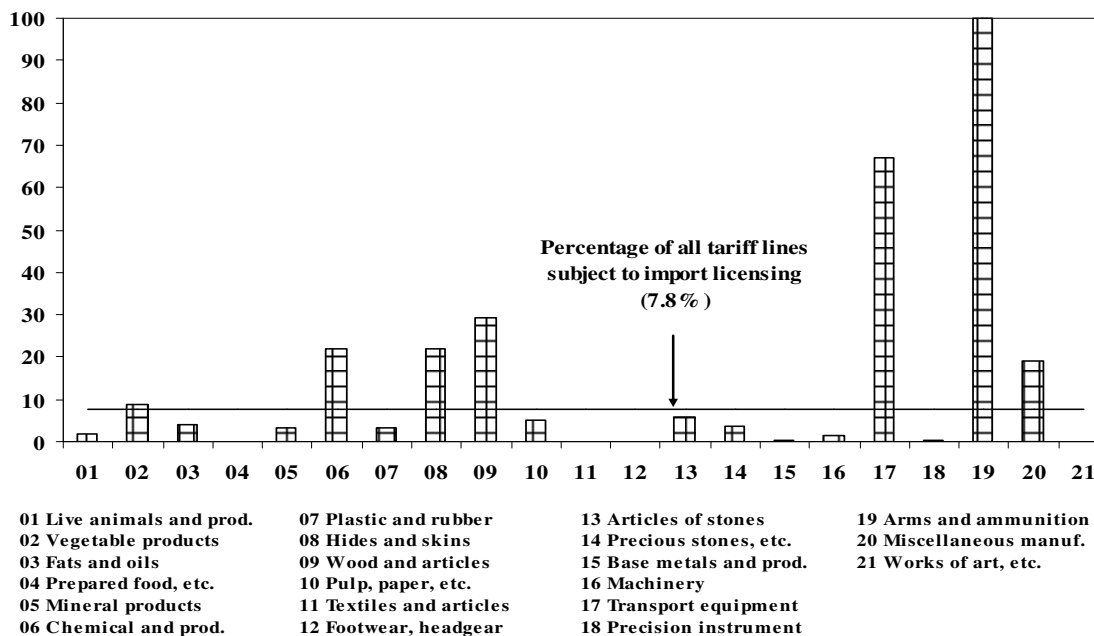
Source: Information provided by the Israeli authorities.

- The Free Import Order of 2008 regulates licensing and authorization procedures for the import of certain products. By broad category, about 7.8% of all tariff lines are subject to licensing, which is required for safety and security reasons, and for tariff quota management purposes. The licenses are issued by the Ministries of Industry, Trade and Labour; Agriculture and Rural Development; Health; Transportation; and Environment, depending on the type of merchandise.
- Israel maintains a licensing mechanism on imports from eight non-WTO Members that have no diplomatic relations with Israel or prohibit imports from Israel into their markets, i.e. Afghanistan, Algeria, Iraq, Libya, the Democratic People's Republic of Korea, Saudi Arabia, Sudan, and Yemen. Licences are granted for imports from these countries on an ad hoc basis, under exceptional circumstances (e.g., economic necessity), and with authorization by the Director General of the MOITAL.
- Since July 2003, Israel has lifted its general prohibition on imports from WTO Members that have no diplomatic relations with it or prohibit imports from Israel, i.e. Bahrain, Bangladesh, Brunei, Chad, Cuba, Indonesia, Kuwait, Malaysia, Morocco, Pakistan, Tunisia, and the United Arab Emirates. The authorities hope that this unilateral step will be appreciated and reciprocated by those countries. Nonetheless, import prohibitions remain in place for Iran, Lebanon, and Syria.

**Chart III.2**

**Import licensing by HS section, 2005**

Per cent



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

**Table III.7 Goods requiring license upon export, 2005**

Items subject to export licensing
<b>Annex 1 of the Free Export Order</b>
Live poultry (01.05)
Poultry cuts and offal (including livers) (02.07)
Poultry fat (not rendered), fresh, chilled, frozen, salted, in brine, dried or smoked (02.09)
Birds' eggs, in shell, fresh, preserved or cooked (04.07)
Birds' eggs not in shell and yolks, fresh, frozen, preserved or cooked (04.08)
Bulbs, tubers, tuberous roots, corms, crowns and rhizomes, dormant, in growth or in flower (06.01)
Other live plants (including their roots), cutting and slips; mushroom spawn (06.02)
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)
Palm branch, ruscs, myrtle (06.04)
Edible vegetables, fresh or chilled (07)
Coconuts, brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled (08.01)
Other nuts, fresh or dried, whether or not shelled or peeled (08.02)
Bananas, including plantains, fresh (08.03)

Items subject to export licensing
Dates, figs, pineapples, avocados, guavas, mangoes and mangoes teens (08.04)
Citrus fruit, fresh or dried (08.05)
Grapes, fresh (08.06)
Melons (including watermelons) and papaws (papayas), fresh (08.07)
Apples, pears and quinces, fresh (08.08)
Apricots, cherries, peaches (including nectarines), plums and sloes, fresh (08.09)
Other fruits, fresh (08.10)
Oil seeds and oleaginous fruits, whole or broken (12)
Seeds, fruit and spores, of a kind used for sowing (12.09)
Cotton linters (14.04.2000)
Dairy food; protein concentrates from soy beans (21.06)
Ores, slag and ash (26)

**Table III.7 (cont'd)**

Plutonium, except which contains isotopic concentration over 80% in plutonium 238; Uranium 233; Enriched Uranium with isotope 235 or 233; Uranium which contains natural isotopic concentration that is not of lode form or residue; any other substance containing one or more of the substances mentioned above (28.44)
Bromide wire (29.03.300)
Ostrich skins (41.03.002)
Cotton, not carded or combed (52.01)
Cotton waste (52.02)
Rough diamonds exported to countries that do not implement the Kimberley Process (71.02.10, 71.02.21, 71.20.31)
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)
Dumpers (87.04)
Crane, not the kind used for towing vehicles (87.05.1090)
<b>Annex 3 of the Free Export Order</b>
Elementary phosphorus, Hydrogen Fluoride, Arsenic Trichloride, Phosphorus Pentachloride, Thionyl Chloride, Phosphorus Trichloride, Phosphorus Oxychloride (Phosphoryl Oxychloride), Phosphorus Pentasulfide, Sodium Fluoride, Ammonium Bifluoride, Potassium Fluoride, Sodium Bifluoride, Potassium Bifluoride, Potassium Cyanide, Sodium Cyanide, Pinacolyl Alcohol, Chloroethanol (Ethanol-2-Chloro), (Ethylene Chlorohydrin), (B-Chloroethyl Alcohol), (2-Chloroethanol), Orthochlorobenzaldehyde, Pinacolone, Trimethyl Phosphite, Methyl Phosphonic Acid Diesters, Dimethyl Methylphosphonate, (Methyl Phosphorus Acid-Dimethyl-Ester), (DMMP), Diethyl Methylphosphonate, Dimethyl Phosphite, (Dimethyl Hydrogen Phosphite), Bensilic Acid, Diethyl Methylphosphonate, Diethyl Phosphite, Diethyl Etylphosphonate, Dimethylamine, (N-Methylmethanamine), Dimethylamine Hydrochloride (Dimethyl Ammonium Chloride), Di-Isopropylamine, Di-Isopropylamionethyl Chloride, Dialkyl Amino Aldyl Chlorides, Diethanolamine, Triethanolamine, N-Alkyl Diethanol Amine, Dialkyl Amino Alcohols, 2-Di-Isopropylaminoethanol, 2-Dicyclohexacarbodiimide, Di-Isopropylcarbodiimide, Di-O-Tolylcarbodiimide, 2-Cyanoacetamide, Malononitrile, Dialkyl Amino Thiols, Phosphinyl Dichloride, 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), Methylphosphonothioic Dichloride, Methylphosphonousdichloride (Methyldichlorophosphine), Ethyl Phosphonyl Dichloride, Ethyl Phosphonyl Difluoride, 3-Hydroxy 1 Methylpiperidine, 3-Quinuclidinol, 3-Quinuclidinone. (28 and 29)

Note: The HS code is provided in parenthesis.

Source: Information provided by the Israeli authorities.

## Standards

The Ministry of Industry, Trade and Labor (Commissioner of Standardization) is responsible for the overall management and coordination of standardization and conformity assessment activities in Israel. The Standards Institution of Israel (SII), is responsible for preparation of Israeli standards. The SII has published about 3,000 standards, 620 standards are mandatory. Mandatory standards are particularly important in electrical and mechanical engineering and food. About 60% of Israel's mandatory standards are equivalent to international standards

The SII has adopted the ISO 9000 series of standards for quality system certification. Currently, 2,544 Israeli companies involved in ISO 9000 certification with the SII are from the service industry. The SII also offers certification according to ISO 14000 for environmental management systems. Currently, 214 Israeli companies are certified to ISO 14000.

- Israel has accepted the Code of Good Practice for the Preparation, Adoption, and Application of Standards.<sup>[1]</sup> The Ministry of Industry, Trade, and Labour is Israel's enquiry point under the TBT Agreement.<sup>[2]</sup> Between January 2006 and December 2009, Israel submitted 261 notifications to the Committee on Technical Barriers to Trade, of this 135 between January 2009 and December 2009, mostly concerning the adoption or revision of mandatory standards.
- Israel has signed mutual recognition agreements on test data with several certification and testing organizations worldwide (45 organizations in 20 countries). It has also signed memoranda of understanding for mutual recognition of ISO 9000 registration with nine foreign organizations.
- For certain foods - meat in particular - Kosher certificates may be required<sup>8</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, and companies seeking certification must pay the costs of rabbinical inspection to determine that the ingredients and manufacture of the products satisfy religious standards.
- All imported products must be labelled. The Consumer Protection Law establishes the information that must be on or attached to consumer products: the name of the commodity; the country of production; the name, ID number, and address of the producer or importer; the quantity of the commodity; a trade mark if exists; and a detailed list of the basic materials of which it is composed. Unless provided otherwise, labelling must be in Hebrew.
- As established by the Consumer Protection Order of 1998, 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. Israel does not maintain a labelling requirement for GMOs.

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<sup>[1]</sup> WTO document G/TBT/CS/N/66, 26 May 1997.

<sup>[2]</sup> WTO document G/TBT/N/ISR/29, 23 December 2003.

<sup>[1]</sup> WTO document G/TBT/CS/N/66, 26 May 1997.

<sup>[2]</sup> WTO document G/TBT/N/ISR/29, 23 December 2003.

<sup>8</sup> "Kosher" refers to those foods that are subject to Jewish dietary laws, such as the separation of meat and milk. The Kosher certification must be approved by the Chief Rabbinate (GATT, 1995(b)).

- The SII runs several product certification and labelling programs open to both foreign and domestic companies. These programs include the Standards Mark (used for more than 1,400 consumer products), the Safety Mark (indicating compliance with certain safety standards), and the Green Label for environment-friendly goods (based on EU Directive 880/92).

**Table III.8**

**Equivalence of Israeli standards with international standards, April 2005**

Area	Total no. of Israeli standards	No. of mandatory Israeli standards	No. of mandatory Israeli standards equivalent to international norms	Equivalence (%)
Building	286	39	6	15
Electrical engineering	353	143	108	76
Chemicals	207	25	5	2
Mechanical engineering	277	76	28	37
Food	182	160	0	0
Textiles, leather and paper	176	9	1	1
Polymers	157	27	3	1
Electronics	90	24	10	41
Water appliances	172	32	3	9
Information system	186	0	0	n.a.
Environmental protection	104	0	0	n.a.
Motor vehicles	77	12	3	25
Medical equipment	116	30	14	46
Packaging	43	5	0	0
Safety	128	22	12	54
Management quality	20	0	0	0
<b>Total</b>	<b>2,604</b>	<b>604</b>	<b>193</b>	<b>32</b>

### III.2.F. Sanitary and Phytosanitary Measures

- The Plant Protection and Inspection Service and the Veterinary Service in the Ministry of Agriculture and Rural Development are Israel's national enquiry points and the notification authorities with respect to the SPS Agreement; The Ministry of Agriculture and Rural Development is in charge of all issues relating to animal and plant health, while the Ministry of Health is the regulatory agency responsible for the safety of cosmetic and pharmaceutical products. All food and health products must be registered with the Ministry of Health before they can be sold in Israel.
- 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). According to the authorities, these requirements are formulated in conformity with the guidelines of the World Organisation for Animal Health (OIE).

- Sanitary certificates for shipments of frozen and chilled meats, as well as for hides and animal parts, must state that the meats are fit for human consumption and had been properly frozen or chilled up to the time they were placed on board. In addition, sanitary certificates and/or import permits (issued before shipment of goods) are required for all plant propagation material, and most other plants and materials, fresh fruits, vegetables, certain dried fruit, nuts, and cut flowers.

### III.2.G. Rules of Origin

- Israel does not maintain any non-preferential rules of origin.<sup>9</sup> Within the framework of its trade agreements, Israel applies preferential rules of origin, based on value-added criteria, or change in tariff heading (Table III.9). Following the third Euro-Mediterranean Trade Ministerial Conference in Palermo in July 2003, which extended the Pan European system of cumulation to the Mediterranean countries, Israel has taken steps to amend the protocols on rules of origin in its relevant FTAs (with Bulgaria, EFTA, EU, Jordan, Romania, Turkey).
- The new protocols apply the Model Protocol of the system of Pan-European Cumulation. Therefore, these FTAs will contain identical rules of origin, based on changes in tariff classification under the Harmonized System. The Pan-European Cumulation System allows traders to use originating material from any country within the zone to produce an originating product while retaining preferential origin, provided that a preferential trade agreement is applicable between the countries involved.

Table III.9 Preferential rules of origin, 2005

Agreement	Origin criteria
Bulgaria, European Free Trade Association (EFTA), European Union, Jordan, Romania, Turkey	Wholly obtained or sufficiently worked or processed based on conditions set out in a "processing list" (tariff shift and/or added value)
United States	Wholly obtained or substantial transformation with minimum 35% of the value of the materials produced including the direct costs of processing
Romania	Wholly obtained or sufficiently worked, based on conditions set out in a "processing list" (tariff shift and/or added value)
Canada	Wholly obtained or sufficiently worked or processed based on conditions set out in a "processing list"
Mexico	Wholly obtained or sufficiently worked based on conditions set out in a "processing list" (tariff shift and/or added value)

Source: Information provided by the Israeli authorities.

### III.3. SERVICES

#### III.3.A. Measures Affecting Trade in Services

- Services have grown in importance in the Israeli economy. In 2007, the sector accounted for almost 77% of NDP and 75.2% of employment. The main services include finance and business services; commerce, restaurants and hotels; housing services; transport; and communication.
- Israel used to be a net-importer of services but significant growth in exports turned the deficit into surplus in 1999. Since then, Israel's performance improvement in services trade that followed the economic downturn of the early 2000's (in which exports increased by more than 20%), led services to account for more than a third of Israel's total exports.

Services and main subsectors, 2005-07

<sup>9</sup> WTO document G/RO/N/13, 19 November 1996.

(Per cent, unless otherwise specified)

	2005	2006	2007
<b>Output (NIS million)</b>	<b>450,386</b>	<b>486,332</b>	<b>510,470</b>
Commerce, restaurants, and hotels	11.3	11.4	11.9
Transport, storage, and communications	7.0	7.1	7.4
Communications			
Finance and business services	2.3	2.2	2.4
Housing services <sup>a</sup>	23.8	24.0	25.4
Public administration	9.9	9.1	8.6
Education	8.1	7.9	7.6
Health, welfare and social work	8.2	8.1	8.3
Personal and other services	7.0	6.9	6.9
Imputed value of bank services	3.8	3.7	3.9

a Including imputed rent of owner-occupied dwellings.

Source: Central Bureau of Statistics (2005), *Statistical Abstract of Israel 2004*.

- Israel's specific commitments under the GATS cover 49 activities (the average is 23 for developing and 93 for developed countries) out of a total of 161.<sup>10</sup> Israel is a signatory of the Fourth Protocol (on telecommunications services) and the Fifth Protocol (on financial services) to the GATS, and of the 1997 Information Technology Agreement (ITA).
- Under Article II of the GATS, Israel has listed MFN exemptions on film, video and television program co-production and distribution; and banking.<sup>11</sup> For the first group, Israel grants differential treatment to persons from countries with which it has co-production arrangements or is engaged in film and video distribution.

## Transportation

- The Civil Aviation Authority (CAA) is an integral part of the Ministry of Transport, advises the Minister of Transport on aviation issues, represents Israel in the International Civil Aviation Organization.
- In addition to El Al, which is the Israeli designated carrier, there are three other internationally active carriers (CAL, Arkia and Israir) and more than 20 other private carriers, operating light aircrafts fleets.
- The criteria for approving domestic carriers include national ownership (a minimum of 66% of equity, except for El Al, for which the minimum is 51%), a minimum of two aircraft fleet, insurance coverage, access to sufficient financial resources, and compliance with ICAO safety standards.
- International scheduled flights are regulated under the framework of bilateral agreements. In general, except for the United States and the United Kingdom, whose agreements provide fifth freedom rights, most of the other agreements are relatively restrictive in the form of predeterminations of capacity methods and single designation provisions.

<sup>10</sup> GATT (1995a).

<sup>11</sup> WTO document GATS/EL/44, April 1994.

- International Carriers enjoy a special exemption granted by the Israeli anti trust law, facilitating the establishment of code shares and joint ventures between the carriers.
- All merchant shipping and maritime transportation lines are owned and operated by local and foreign private shipping entities.
- The new Shipping and Ports Authority of the Israeli Ministry of Transport is responsible for implementing national policy on merchant shipping and is also in charge of ratifying and incorporating international maritime conventions into domestic laws.
- The main legislation pertinent to maritime transport, is the 1971 Ports Ordinance, the Shipping Law of 1960, the Shipping Law of 1973, and the Shipping Law of 1965.
- The national policy draws on the principles of reciprocity, freedom of navigation, liberalization and free competition, under strict compliance with the highest international standards for vessels, transport, and port services.
- There are no restrictions on the supply of auxiliary services such as cargo handling and freight forwarding, which are open to Israeli and foreign companies.
- Israel has been implementing the Port State Control (PSC) inspection system since 1997, in accordance with International Maritime Organization and International Labour Organization resolutions.<sup>12</sup> The Shipping and Ports Administration is responsible for all PSC activities.
- Israel imposes no limitations on foreign direct investment in maritime transport. To fly the Israeli flag, a vessel is required to be at least 50% owned by an Israeli entity. However, exemptions are legally allowed. Israel has no restrictions on maritime cabotage; however, the authorities are considering cabotage measures based on the principle of reciprocity with third countries.

### **Communication and postal services**

- The communications sector in Israel grew at an average rate of 8% per annum between 2005 and 2007. In 2004, the entire telecom service market was worth approximately US\$5.7 billion. Competition was either introduced or increased in almost all telecommunications service segments between 1999 and 2004: there are currently two domestic fixed-service operators, four mobile telephony operators, six international service providers, two multi-channel television broadcasters, and five major Internet service providers.
- Israel's telecom industry integrates a broad spectrum of companies in the fields of semiconductor development, hardware design, software content and system integration, and includes firms ranging from the newest start-ups to the giant Israel Aircraft Industries, which developed and launched the country's communications satellites.
- Israel's high tech industry is prominent for its innovative R&D, enjoying the highest rate of start-ups per capita, and backed by a high concentration of engineers and scholars in the fields of technologies, accounting to about 1.4% of the population<sup>13</sup>
- As part of its constant endeavour to create a solid platform for further expansion of local R&D activities and entrepreneurships, both national and multinational, the government extensively

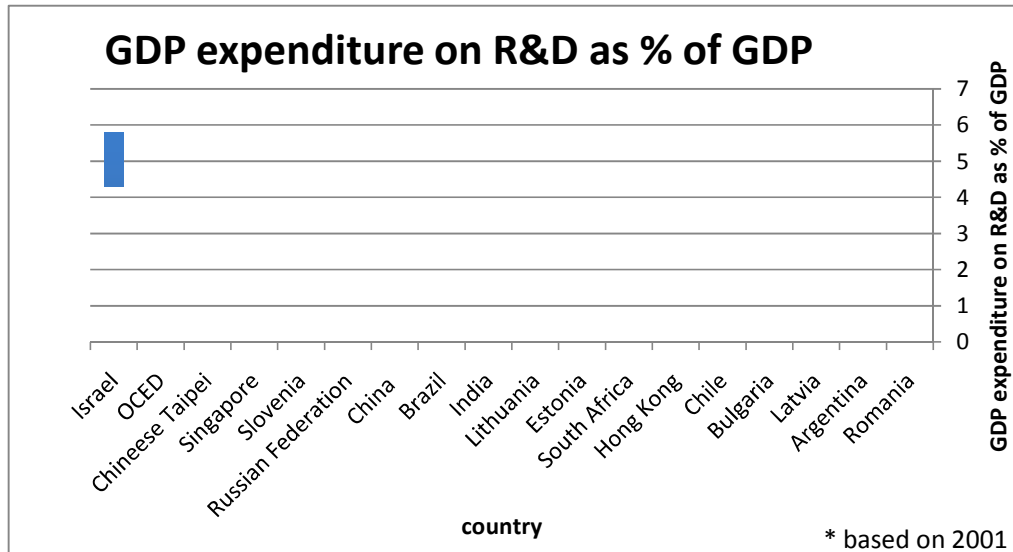
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<sup>12</sup> PSC inspections are conducted to ensure that foreign vessels calling at Israeli ports comply with international regulations and conventions.

<sup>13</sup> [http://www.export.gov.il/\\_Articles/Article.asp?CategoryID=1331&ArticleID=17652](http://www.export.gov.il/_Articles/Article.asp?CategoryID=1331&ArticleID=17652)

supports (Chart III.3) the telecom and the high tech industries through grants, loans and tax relieves.

Chart III.3



Source: "Israel: Ready for the OCED" (2006) International Department, Ministry of Finance

- Many leading multinational companies are present in the Israeli market, either through establishment of R&D facilities or thorough acquisitions of local companies. Among those companies, are Intel, Motorola, Cisco, Freescale Semiconductor and NDS.
- Israel is committed to alignment with international and regional integration, in order to participate in future cooperative endeavors relating to telecommunications entrepreneurs and services. Israel participated fully in the last round of WTO telecommunications services negotiations.
- Israel is a member of the International Telecommunication Union (ITU). It has signed bilateral telecommunication agreements with several countries, and negotiations are currently being conducted with others.
- Israel is constantly pursuing liberalization and privatization in its communications and information technology subsector. Notable acts that have been undertaken in recent years, are the sale by the Government of its controlling interest in Bezeq, Israel's incumbent fixed-wire line service provider (in September 2005 the State's share was reduced to 16.7%, down from fully ownership in the mid 1990's); adoption of a regulatory regime suitable for a multi-operator environment; and competitive local exchange carrier (CLEC) licenses for infrastructure, transmission, data and telephony services.
- Regulatory functions are exercised by the Ministry of Communications. The Communications Law, 5742-1982 and the Wireless Telegraphy Ordinance, 5732-1972 empower the Minister of Communications to enact legislation concerning all relevant telecommunications issues and services.
- With regard to fixed services, Israel has more than 3 million direct exchange phone lines. Fixed lines penetration rate is 99%, while broadband market penetration rate is 110%.

- With regard to the international market, In March 2004, the Ministry of Communications decided to grant licenses to any operator fulfilling threshold conditions<sup>14</sup>, which led to joining of three new players to this market, up from a single state-owned player in the late 1990s.
- In the mobile lines local market, there are 4 cellular operators, all of which provides digital technology countrywide coverage of 99%, and the market penetration rate of this segment is 110%.
- The pricing system in force for telecommunications services is divided into two categories, one for the competitive markets and the other for the supervised markets. In the first category, operators set their own tariffs: this is the case for, *inter alia*, outgoing cellular calls, international calls. In markets featuring high concentration (for instance, domestic telephony, as well as high speed internet where Bezeq is the dominant player, and multichannel broadcasting, where HOT and Bezeq share the whole segment), the tariff structure is supervised by the Minister of Communications, following consultation with the Minister of Finance.
- The Postal Authority Law of 1986 grants the transfer of postal items weighing less than 500g to the Postal Authority, thus establishing its monopoly in this area; the postal market for items over 500g is open to competition, and several national and foreign delivering and couriering companies are active in this market
- In addition, the Law authorizes the Minister of Communications to issue permits for postal activities in accordance with conditions set out either generally or in each permit.

#### **III.4. FOREIGN INVESTMENT REGIMES**

- Israel has a generally open investment regime, with most activities open to private foreign investment. The main exceptions are telegraph services and delivery of postal items below 500 g, over which the Israeli Postal Authority has monopoly rights.
- Other restrictions, apply to international fixed and wireless telecommunications services (up to 74% and 80% foreign equity participation is allowed, respectively) and to tourism, as tourist guide services are restricted to Israeli residents or citizens. In addition, travel agencies are required to employ at least one Israeli-licensed travel expert.
- Treatment of Foreign Investment
- The main legislation related to international trade is the Import and Export Ordinance of 1979, which provides the legal framework practice for foreign trade. The Licensing of Imports Order of 1939 has substantially been superseded by the Free Import Order of 2008, which permits the free importation of all commodities, except those listed in its Annexes 1, 2 and 5.
- The Customs Ordinance of 1957 regulates customs administration, control, documentation, warehousing, valuation, payments of duties, drawback, and legal procedures. The Customs Order (Regulation of Imports) of 1986 regulates imports of a number of products; Annex 1 establishes conditions for the import of a list of products, mainly agricultural products and dangerous chemicals, arms and munitions, while its Annex 2 lists goods that are prohibited from entry into Israel.

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<sup>14</sup> The conditions include a licence fee of NIS 1 million, a NIS 10 million bank guarantee, a circuit-switched interface, non-discrimination among domestic telephony providers, and various technical requirements.

- To facilitate and promote foreign investment in Israel, the Government has set up Invest in Israel (formerly the Investment Promotion Center) in the MOITAL, an investment marketing agency designed to be a "first-stop shop" for foreigners interested in investing in Israel. Invest in Israel's tasks include:
  - arranging business trips to Israel for foreign companies seeking strategic local partners as well as investment opportunities;
  - providing foreign company representatives with customized pre-visit briefing material, including a preliminary research of Israeli companies and technologies that might be of interest, and personalized services during their visit; and
  - providing a wide range of services to the foreign entrepreneur including arranging meetings with relevant parties, providing detailed information on various production costs, assessing site location, and resolving potential technical/management problems with local authorities and the like.
- Israel is a party to a number of double taxation treaties, most of which are drafted in accordance with the OECD model, covering most international aspects of income and capital gains tax. Treaties in force cover 46 countries<sup>15</sup>.

#### **III.4.A. Special Investment Regimes and/or zones**

- There is no approval or registration requirement for investment in Israel, except for those in place for certain enhanced benefits to foreign investors. There are no restrictions on the repatriation of profits or capital. Both residents and non-residents may purchase any security traded on the Israeli stock exchange and purchase certificates of participation in mutual funds.
- Foreign-owned companies are entitled to own or lease land. However, before acquiring land rights, they must receive prior approval from the Israeli Land Administration, following a recommendation from the Committee for Urban or Agricultural Land.<sup>16</sup> Approval is normally granted for business purposes. As at November 2005, the legal regime governing land rights was under review.
- Israel encourages both local and foreign investment by offering a wide range of incentives and benefits. However, the Government provides enhanced incentives to foreign-owned companies, thereby discriminating against Israeli-owned companies.<sup>17</sup>
- Investment incentives, such as grants, tax incentives, R&D support, wage financing, and training support, are outlined in the Law for the Encouragement of Capital Investment. The incentives offered depend on the location of the company, as well as on the type of activities; preference is given to industrial, tourism, and agricultural projects. Special emphasis is put on high-tech companies and R&D activities.
- In addition to the benefits available to all investors, the Government provides additional incentives to "approved" investors, i.e. additional tax benefits within the framework of Israel's

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<sup>15</sup> Austria, Belarus, Belgium, Bulgaria, Brazil, Canada, China, Croatia, Czech Republic, Denmark, Estonia, Ethiopia, Finland, France, Germany, Greece, Hungary, India, Ireland, Italy, Jamaica, Japan, Latvia, Luxemburg, Mexico, Moldova, the Netherlands, Norway, the Philippines, Poland, Portugal, Romania, Russia, Singapore, Slovak Republic, Slovenia, South Africa, Korea, Spain, Sweden, Thailand, Turkey, Ukraine, the United Kingdom, the United States.

<sup>16</sup> OECD (2002).

<sup>17</sup> The status of "foreigner" or "Israeli" depends on the country of residence rather than on citizenship.

main state-aid program, the regional aid program. Such investors must apply for "approved" enterprise status. Before incentives are accorded, the project is examined by the Investment Centre, which determines the admissibility of applications in accordance to several thresholds and requirements.

- The amount of tax reduction for "approved" companies depends on the share of foreign ownership (Table III.10). While the company tax rate is 25% for an approved company owned by a local investor, the rate for approved foreign investors varies between 10% and 20%, depending on the percentage of foreign ownership. The standard rate is 34% for ordinary companies is 29%.

**Table III.10 Rates of taxation applicable to various types of investor (Per cent)**

	Percentage of foreign ownership				Company that is not an approved enterprise
	0-49 (local investor)	49-74	74-90	90-100	
<b>Company tax rate</b>	25.00	20	15.00	10.0	29
<b>Dividend tax</b>	11.25	12	12.75	13.5	16.5
<b>Total tax on distributed income</b>	36.25	32	27.75	23.5	45.5

*Source:* Ministry of Industry, Trade and Labour (2004), *the Israeli Economy at a Glance*

### III.4.B. Investment Agreements

- Israel has concluded investment protection agreements with 37 countries (as of August 2007).<sup>18</sup> Israel is a member of the Multilateral Investment Guarantee Agency (MIGA).
- As a part of Israel's enhancement of R&D activity with its trading partners, it had signed 27 agreements (as of August 2007) that encompass funding, parallel funding and unique programs such as the sixth framework program of the European commission. Among the contracting sides of these R&D agreements, are several countries, country provinces, and other entities such as the BIRD foundation, the U.S science and technology commission, and Eureka.
- Israel has subscribed to the OECD Declaration on International Investment and Multinational Enterprises in September 2002 and in addition, is an observer in the OECD's Investment Committee.

### III.5. TRADE DEFENCE MEASURES

- Israel's legislation applying to trade remedies and countervailing measures is the Trade Levies Law of 1991, which provides for the imposition of three types of levies: anti-dumping, countervailing measures, and safeguard levy. The provisions of the Law are based on the relevant WTO Agreements including the Agreements on Anti Dumping, Subsidies and Countervailing Measures and the Agreement on Safeguards.

#### III.5.A. Safeguards

A domestic industry of similar goods to imported goods or of competing goods with imported goods or anyone representing it (in this Title – the Complainant), is entitled to submit to the Commissioner,

<sup>18</sup> Albania, Argentina, Armenia, Azerbaijan, Belarus, Bulgaria, China, Croatia, Cyprus, Czech Republic, El Salvador, Estonia, Ethiopia, Georgia, Germany, Guatemala, Hungary, India, Kazakhstan, Latvia, Lithuania, Moldova, Mongolia, Poland, Peru, Romania, Serbia - Montenegro, Singapore, Slovakia, Slovenia, South Korea, South Africa, Thailand, Turkey, Turkmenistan, Ukraine, Uruguay, and Uzbekistan.

a written application to carry out an inquiry, due to the fact that increased imports of goods and the conditions of import thereof caused or are likely to cause serious injury to the domestic industry. The Commissioner's decision, pursuant to subsection (a) shall be made within 30 days from the date of submission of the application to carry out an inquiry. Should the Commissioner decide, pursuant to the provisions of Section 3d, to initiate an inquiry, he shall notify, in writing, within five days from the date of his decision, to the complainant and to the competent authorities in the exporting countries of the imported goods which are a party to the inquiry and also to any other interested party whose name has been indicated in the application to carry out an inquiry. An interested party shall be entitled to submit to the Commissioner its response to the complaint, in writing, within 30 days from the date on which it was presented. The Commissioner shall enable an involved party in the inquiry, upon its request, and also to a competent authority in the exporting country of the imported goods even if it has not submitted a response document thereby, at its request, to see any information in his possession pertaining to the inquiry, provided that it is not confidential information. If Commissioner decide in his preliminary decision that it is necessary to provide a temporary guarantee, he shall determine in his decision the rate of the guarantee required, in his opinion, to prevent the injury and the period of time for which it shall be deposited, provided that it does not exceed 200 days; the Commissioner shall notify the director as to his decision as close as possible to the date of making this decision. The Commissioner shall submit the inquiry findings to an involved party and also to a competent authority in the exporting country of the imported goods.

The Commissioner shall base his determination regarding the existence of a threat to serious injury on facts, and not merely on conjecture or a remote possibility; when coming to determine the existence of threat to serious injury, the Commissioner will consider, in addition of the considerations stated above, the following: The rate of increase in the volume of import of the imported goods and the possibility for an increase in the volume of increased imports due to a possible increase in the production capacity of the imported goods. The Commissioner, when coming to determine the existence of a causal link between the increased imports and the serious injury to the domestic industry, will examine all the evidence pertaining to the issue that are available to him; in addition, the Commissioner will examine any other known factor, other than the increased imports, which caused injury to the domestic industry at that time.

*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.*

### **III.5.B. Anti-dumping Measures and Countervailing Duties**

Dumped imports are imports of goods at a price that is lower than their normal price.

The normal price of imported goods is the comparable price of goods similar to the imported goods intended for domestic consumption in the exporting country, which are sold in the domestic market of the exporting country in the ordinary course of trade. If there were no sales of goods, the normal price shall be determined pursuant to one of the following: The price of the like goods when they are exported to a third country with market conditions that are comparable to the exporting country, provided that said price is a representative price or the total cost of production of the like goods, in the exporting country, with the addition of reasonable profit.

If goods are not imported directly from the exporting country, the Commissioner can determine the normal price. The Commissioner may determine, that the sale of goods similar to the imported goods is not in the ordinary course of may, *inter alia*, for the following reasons:

1. the sale is between parties that have a compensatory arrangement between them; and in this matter, "compensatory arrangement" is an arrangement regarding consideration for the sale of

goods which includes a benefit above the sale price;

2. The sale is between parties that have a special relationship.

If the exporting country of the imported goods is a country in which the price of goods for its domestic consumption or for export is affected by state intervention in trade, whether trade by the state itself or through corporations in which the state has influence, the Commissioner may determine the normal price of the imported goods according to one of the following:

1. The price of goods similar to the imported goods, intended for its domestic needs, which are sold in the ordinary course of business in a third country in which the price of the goods is not affected as stated and in which there are economic conditions enabling a proper comparison between the prices (in this section — a country that has a market economy);

2. The price of goods similar to the imported goods in a country that has a market economy;

3. The total cost of production of goods similar to the imported goods in a country that has a market economy, with the addition of reasonable profit.

- Measures against the import of Cutting and Whetting Disks, as well as Carbon Steeled Arcs (both of the regarded items imported from China), were still in force as of 2009 and are due to expire in 2010.
- Two additional anti – dumping procedures, concerning processed ply woods, and pipeline joint accessories (both of the regarded items imported from China), have been initiated but not completed during 2008.
- Israel has no countervailing measures in force.

### **III.5.C. Institutional Arrangements**

Included in III.5.A and in III.5.B.

### **III.6. GOVERNMENT PROCUREMENT**

- Israel is a party of the plurilateral Agreement on Government Procurement (GPA).<sup>19</sup> In the context of the GPA, Israel has invoked developing-country status, allowing it to implement offset arrangements. The decision adopted by the Committee on Government Procurement in December 2004 allows Israel to require offsets for up to 20% of a contract.<sup>20</sup> "

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<sup>19</sup> Israel's legislation implementing the GPA was reviewed by the Committee on Government Procurement in May 2001. Israel replied to questions asked by Canada, Korea, and the United States (WTO document GPA/59, 18 October 2001).

<sup>20</sup> The decision modified Israel's Note to Appendix 1 (WTO document GPA/83, 17 December 2004).

- Israel's main legislation on government procurement is the Mandatory Tenders Law (1992) and related regulations. The Law prescribes the procurement method to be used depending on a scale of threshold values.
- Above a certain threshold, which varies with the procuring entity, public entities and state-owned corporations are normally required to procure by tender.
- Certain exemptions to the required methods of procurement cover, inter alia, the continuation of an initial contract, emergency situations, and the prevention of substantial harm to national security, safety or the economy.
- Public tenders are published in two daily Israeli newspapers, on the website of the Government Publications Office<sup>21</sup>, and in one daily or weekly Arabic publication. In the case of a tender under the GPA, the information must also be published in an English newspaper.
- The purchasing agency is required to notify all participants in the tender of its final decision.
- Government agencies and state-owned companies are required to follow an offset policy, designed to promote national manufactures (Mandatory Tenders Regulation). All international public tenders with a value of US\$0.5 million or above must include a clause on "industrial cooperation" (IC) with Israeli entities in the amount of at least 35% in tenders covered by the GPA) of the value of the contract.
- To satisfy the IC offset requirement, a foreign supplier can subcontract to local companies, invest in local industries, undertake a know-how transfer, or acquire goods made in Israel or from work or services performed in Israel.<sup>22</sup>
- Israel's tendering regulations award price preferences of up to 15% to local suppliers, certain regions, and local subcontracting. However, these preferences do not apply to contracts subject to the GPA provisions.<sup>23</sup>
- 5% to 15% price advantage is given to domestic suppliers located in priority development areas, which is also available to foreign companies located in the same areas provided they are registered under Israeli law. Foreign companies willing to provide Israeli companies with subcontracting work are granted a price advantage over other foreign companies in competing for government tenders.

### **III.7. TRANSPARENCY**

#### **III.7.A. Transparency in the Administrative Law**

- Israel has no formal constitution; several constitution-like laws, formulated in "basic laws", and a series of decisions by the Supreme Court lay down the foundations for government and the rights of individuals.

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<sup>21</sup> Available at: <http://michrazim.lapam.gov.il>.

<sup>22</sup> For direct investment in advanced technology or industrial R&D, the credit towards the IC target is equal to one and half times the actual investment.

<sup>23</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.

### **III.7.B. Transparency in Free Trade Agreements**

- Israel recognizes the major importance of transparency in FTAs, and as a founding and active member of the WTO, Israel fully complies with the transparency norms dictated by the WTO.
- In the early 2000's, Israel has reviewed and liberalized the Free Import Order of 2008 dealing with free import of goods into Israel subject to import licensing requirements and standards, so as to ensure the safety and security of consumers and the public. As a result, the Government of Israel has introduced more transparency into the import licensing procedures, which facilitates bureaucratic barriers to trade.

### **III.8. MOVEMENT OF BUSINESS PERSONS**

- Israel's regime concerning entrance of foreign nationals is generally convenient and relies on the Entrance to Israel Law (1952) and the Foreign Employees Law (1991).
- Chilean residents, both official (diplomats) and national, who wish to enter Israel as tourists and stay for up to 90 days, are exempt from applying for visa entries. Extension of visits to more than 90 days is done through an application that bears a 160 NIS fee, to the Ministry of Interior (Visas department offices are located in several cities of Israel).
- Foreign nationals entering to Israel for working purposes must obtain a work permit and an appropriate entry visa. In most cases, B-1 category Visas are issued for both professional and non-professional workers alike.
- The steps for issuing B-1 visas are the following:
  - An Israeli employer who is due to be the employee's supervisor submits an application that includes detailed description on the prospective employee to MOITAL. If MOITAL approves the application, it then files a recommendation to the Ministry of Interior, which is usually valid for one year (annual extensions may be requested by the employer).
  - Upon issuance of the recommendation letter, an application needs to be assigned to the Ministry of Interior, instructing it to address an order to the relevant consulate abroad to issue the B-1 Visa. At the time the application is approved by the Ministry of Interior, the employee must be abroad, and the issuance of the visa permit is done in the relevant Israeli consulate.
  - The initial validity of the B-1 visa is thirty days; hence upon entering Israel, the applicant must apply for the extension of the validity (which will also allow the applicant multiple entries to the state).
  - Derivative visas for accompanying family members are normally issued for a similar duration. Please note that family members are not authorized to work in Israel, unless they are the beneficiaries of separate work permit applications.
- MOITAL has introduced the Short Term Expedited Process (STEP), which is aimed at shortening the application process for work permits of up to 90 days, mainly regarding technical jobs where the foreign national applicant must possess a specific expertise pertinent to the prospective job.
- Note that both foreign and Israeli employers may apply through the STEP Process.

### III.9. INTELLECTUAL PROPERTY RIGHTS (IPR)

#### III.9.A. Israel/Chile policy regarding the main IPR Treaties under the auspices of the WTO

- Israel is a party to the WTO's intellectual property (TRIPS) agreement, and on August 2007, it formally accepted the amendment regarding patents and public health that was originally adopted in 2003.
- It is worth to mention, that Israel is a contracting party to most of the major international treaties on intellectual property rights and a member of the World Intellectual Property Organization (WIPO) (Table III.11).
- Patents, copyrights and related rights, trade marks, industrial designs, geographical indications, trade secrets, layout designs of integrated circuits and new plant varieties are all legally recognized in Israel.

Table III.11 Israel's status in international IPR-related agreements, conventions, and treaties

Agreement	Year of Israel's first membership
<b>Plurilateral agreements</b>	
Berne Convention for the Protection of Literary and Artistic Works (Brussels Act, 1948), Brussels revision (1951), Stockholm revision (1967), Paris Act (1971)	1950
Universal Copyright Convention (1952)	1955
Convention establishing the World Intellectual Property Organization (1967)	1970
Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1957), Stockholm revision (1967)	1961
Paris Convention for the Protection of Industrial Property (1883), Stockholm revision (1967)	1970
Strasbourg Agreement Concerning the International Patent Classification (1971)	1975
Lisbon Agreement for the Protection of Appellations of Origin and their International Registration , 1958, Stockholm revision (1967)	1966
Madrid Agreement for the Repression of False or Deceptive Indications of Source of Goods (1891), Lisbon revision (1958), Stockholm revision (1967)	1950
Geneva Convention for the Protection of Producers of Phonograms against Unauthorised Duplication of their Phonograms (1971)	1978
Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1977, amended 1980)	1996
Patent Cooperation Treaty (1970, amended 1984)	1996
Convention for the Protection of New Varieties of Plants (1979), Geneva Act (1991)	1988
Rome Convention (1961), International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations	2002
<b>Bilateral agreements</b>	
United States - protection of copyright (a work first published in the United States is protected in Israel as if it was first published in Israel; for unpublished work, if its author was an American citizen when the work was created, it is protected in Israel as if its author was an Israeli)	1948

Source: Information provided by the Israeli authorities.

### **III.9.B. Geographical Indications**

- As one of the 26 contracting parties of the Lisbon Treaty, and as a party of the TRIPS agreement, Israel recognizes the special status given the Geographical Indications (GI) and therefore, Israel's laws concerning intellectual property aligns with the GI principles dictated by the WIPO (indicated as "appellations of origin" in the Lisbon Treaty).
- The only Geographical Indication ever to be registered in Israel is the "Jaffa" citrus fruits trademark

### **III.10. ENVIRONMENT AND INTERNATIONAL TRADE**

Generally, Israel's environmental provisions are included in a wide range of legislative instruments, rather than in a single environmental law, based on the conception that environmental considerations and environmental authority should be incorporated into legislation in all fields. Today, as environment becomes more and more a core issue in policy setting, emphasis is placed on updating environmental legislation and standards.

International cooperation with both organizations and states is an important component of Israel's environmental agenda. Over the years, Israel has reinforced its efforts and strengthened its commitment to active participation in global and regional programs and agreements on behalf of the environment.

Israel has participated in negotiations leading to numerous international and regional environmental agreements, has signed and/or ratified nearly all of the major environmental conventions, and ensures that its national legislation conforms to international obligations.

For more than 30 years, most of Israel's regional activities have been carried out within the framework of the Mediterranean Action Plan (MAP) of UNEP. As an active participant in all of the plan's components, and as a current member of the MAP Bureau, Israel has both contributed to and gained from this first action plan of UNEP's Regional Seas Program.

Israel's involvement in environmental protection has led to nearly 20 bilateral agreements for environmental cooperation (see attached listing of the agreements). The country's bilateral agreements provide a framework for the exchange of information and expertise in the fields of environmental protection and nature conservation and, in the case of some of the agreements, in desertification, climate change and agro-ecology. Implementation of the agreements takes different forms including exchange visits of professionals, workshops, research studies and joint projects on environmental problems of common interest.

### **III.11. LABOUR AND INTERNATIONAL TRADE**

- One of Israel's most important resources is its experienced and highly educated work force. With a highly educated population, Israel has developed an export-oriented, technology-based industrialized economy. About a third of the Israeli work force consisted of scientific, academic and other professional, technical and related workers, while about a quarter consisted of administrative or managerial workers. These percentages compare favourably with the percentages of such workers found internationally.
- From 1990 through 2004, approximately 1.1 million immigrants arrived, increasing Israel's population by 25% and a similar increase in the labour force. The employment qualifications of recent immigrants have been consistent with the high quality of the Israeli work force, with two-

thirds of immigrants from the former Soviet Union having been employed there as professionals, scientists, engineers and technical staff.

- The global recession that began in the second half of 2008, led to an increase in the unemployment rate to 7.2% (up from 5.9% in the first quarter of 2008), with projections for a further increase by the end of 2009. However, these measures are still historically low.
- In the agriculture, construction and tourism industries, the participation of foreign workers is significantly high – an estimated 184,000 foreign workers (of which about 82,000 have not had work permits), have stayed in Israel during 2006. Israel's relatively low rate of participation in the work force (56% as at 2007) is partly attributed to the extensive presence of foreign workers.

#### IV. TRADE AGREEMENTS SIGNED BY CHILE/ISRAEL

- Table IV.1 describes the trade agreements concluded by Israel as at August 2007

<p><b>Table IV.1</b> <u>Israel's International Trade and Economic Agreements</u></p> <p><u>Aug-2007</u></p>				
<b>MFN Trade Agreements with non WTO Members</b>	<b>Agreements on R&amp;D</b>	<b>Avoidance of Double Taxation</b>	<b>Protection of Investments</b>	<b>Free Trade Area Agreement</b>
Kazakhstan	<u>Funds</u>	Austria	Albania	Canada
Russian Fed.	Canada(3)	Belarus	Argentina	Mexico
Ukraine	India	Belgium	Armenia	U.S.A
Uzbekistan	Singapore	Brazil	Belarus	E.U.
<u>Standardization &amp; Product Certification</u>	South Korea	Bulgaria	Bulgaria	E.F.T.A.
Moldova	United Kingdom	Canada	China(3)	MERCOSUR (1)

Ukraine (5)	U.S.A.	China	Croatia	<b><u>Qualified Industrial Zones (QIZ) Agreements</u></b>
Kazakhstan(2)	Victoria/Au	Czech Rep	Cyprus	Egypt
Russian Fed. (5)	Maryland, USA(3)	Denmark	Czech Republic	Jordan
Belarus(2)		Ethiopia	El Salvador	
Statement of Intent – MOITAL and US Consumer Product Safety Commission (CPSC)	<b><u>Parallel Funding</u></b>	Finland	Estonia	
	Belgium	France	Ethiopia	
	China	Germany	Georgia	
	<u>Finland</u>	Greece	Germany	
	France	Hungary	Guatemala (3)	
	Germany	India	Hungary	
	Greece(3)	Ireland	India	
	Hong Kong	Italy	Kazakhstan	
	India	Jamaica	Latvia	
	Ireland	Japan	Lithuania	
	Italy	Latvia	Moldova	
	Netherlands	Luxemburg	Mongolia	
	Ontario/CA	Mexico	Poland	
	Portugal	Netherlands	Peru(2)	

	Spain(4)	Norway	Romania	
	Sweden	Philippines	Serbia-Montenegro	
	Turkey	Poland	Slovakia	
		Romania	Slovenia	
		Russian Fed.	South Korea	
	<b><u>Sixth Framework Program</u></b>	Singapore	South Africa(3)	
	Eureka	Slovak Republic	Thailand	
	<b><u>U.S.</u></b>			
	U.S. Science and Technology Commission	S.Korea	Turkmenistan	
	BIRD Foundation	Spain	Ukraine	
		Sweden	Uruguay	
		Thailand	Uzbekistan	
		Turkey	Azerbaijan (3)	
		U.K.		
		U.S.A		
		Ukraine		
		Uzbekistan		
		Switzerland		
		Lithuania		
		Croatia		
		Slovenia (3)		
		Portugal (3)		
		Moldova		
		Estonia (2)		

(1) Under Negotiations

(2) Initiated

(3) To be ratified

(4) Awaiting re-establishment

(5) Re-initiated

Source: Ministry of Industry & Trade, Foreign Trade Department, International Division.

#### IV.1. BILATERAL/REGIONAL OR GROUPS OF COUNTRIES

- As detailed on table IV.1.

## IV.2. MAJOR ISSUES COVERED IN THE TRADE AGREEMENTS SIGNED

- As detailed on table IV.1.

## V. ANALYSIS OF THE EFFECTS OF TARIFF REDUCTION ON CHILE/ISRAEL IMPORTS, EXPORTS AND INVESTMENT

### V.1. INTRODUCTION

In this section, the effects of the tariff reduction between Chile and Israel will be analyzed by using partial equilibrium analysis.

All of the tariff reduction scenarios are set up using the WITS model. WITS (World Integrated Trade Solution) is a software developed by the World Bank, with the collaboration of the United Nations Conference on Trade and Development (UNCTAD). It combines together various databases of bilateral trade, commodity trade flows and various levels and types of protection. WITS also integrate analytical tools that support simulation analysis.

The SMART simulation model is one of the analytical modules that support trade policy changes.

The theory behind this analytical tool is the standard partial equilibrium framework that considers dynamic effects as a constant.

The data base uses inter-regional data; hence it covers the values of 2008.

### V.2. BILATERAL LIBERALIZATION OF TRADE IN GOODS

#### V.2.A. Analysis

We analyzed the effects for both countries (Chile and Israel) using the tools that were mentioned at section 1, by 2 HS codes merchandises, considering the present tariff and then assuming all custom items face a **zero tariff** simultaneously.

We set the software to its default elasticity value, 1.5.

The methodology takes into account only the tariff reduction that the countries are supposed to experience. It does not take into consideration the "behavioural effects" of the agents in these economies which may change after the FTA. The model probably underestimated the values of the future trade because of this specific reason.

#### **Change of Chilean Import from Israel:**

Using the SMART model, we estimated the change of Chile's import from Israel, as a consequence of the future FTA. The assumption is that all of the items will face a zero tariff. The changes will be represented by HS codes, and the software is able to separate the effect into two **different effects**:

1. Trade diversion effect
2. Trade creation effect.

In Table V.1.A, we can see the sectors that would be most affected by the tariff reduction:

**Table V.1.A. Change of the Chilean Import from Israel (2008)****After Tariff Rates Reduced to 0% (\$ '000)**

HS Code	Trade Total Effect (\$ '000)	Trade Diversion Effect (\$ '000)	Trade Creation Effect (\$ '000)	Description
85	2,950.11	1,721.05	1,229.06	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles
84	2,574.89	1,454.85	1,120.05	Machinery and Mechanical Appliances, including parts
39	1,037.90	606.13	431.77	Plastics and articles thereof
38	639.12	391.11	248.01	Miscellaneous chemical products
31	254.89	25.40	229.48	Fertilizers
90	564.46	358.76	205.72	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories
28	317.62	164.32	153.31	Inorganic Chemicals; Organic or Inorganic Compounds of Precious Metals
63	192.28	80.78	111.50	Other made textile articles, sets, worn clothing etc
34	237.00	135.64	101.37	Soaps, lubricants, waxes, candles, modeling pastes
40	151.25	89.16	62.09	Rubber and Articles Thereof
73	132.17	72.96	59.21	Articles of iron or steel
33	109.45	61.98	47.47	Essential Oils and Resinous; Perfumery Cosmetics or Toilet
51	55.88	13.47	42.42	Wool, fine or coarse animal hair, horse hair yarn and woven fabric
12	92.82	54.73	38.09	Oil seeds & oleaginous fruits miscellaneous grains-seeds & fruit, industrial or medicinal plants straw
32	103.92	69.12	34.79	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics
61	37.75	8.41	29.34	Articles of apparel and clothing accessories, knitted or crocheted
91	43.87	19.07	24.80	Clocks and watches and parts thereof

29	62.54	37.97	24.57	Organic chemicals
87	59.50	34.96	24.53	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof
56	47.72	23.57	24.15	Wadding, felt and non woven special yarns in twine, cordage, ropes and cables and articles thereof.
76	60.57	37.91	22.66	Aluminum and articles thereof
94	60.49	38.33	22.15	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings
71	22.15	4.57	17.58	Textiles and Textile Articles
95	35.79	21.75	14.04	Toys, Games and Sports Requisites; Parts and Accessories thereof

Source: WITS/SMART

According to the analysis, 545 of HS 2 Digit commodities will be affected by the tariff reduction.

The Chilean imports from Israel will increase by 10.8 million US\$.

Chilean imports from Israel 120 million US\$ (2008). Hence, the import will increase by 8%.

The sectors that would be most affected are:

Electrical machinery: Will be increased by 9% (2008 values). Looking at the HS-8-digit code, Israel mainly exported agricultural machinery.

Machinery and Mechanical Appliances: Will increase by 10% (2008). Israel exported to Chile 30 million USD in this sector, mainly telecommunication products.

As for the Chilean economy, its future growth and the government's goals: we assume that a growth in Israeli export in the specific sectors (mentioned above) will contribute to the achievement of Chilean goals, especially in these sectors:

IT sector ("Digital Strategy 2007-2012"):

Market size, million US\$:

	2007	2008	2009 (estimated)
Total market size	1038	2243	<b>2258</b>
Total market production	250	240	<b>245</b>
Total Exports	Negligible	Negligible	<b>Negligible</b>
Total Imports	788	2003	<b>2013</b>

Communication, sector that grew by 14% (2007-2008):

Market size, million US\$:

	2007	2008	2009 (estimated)
Total market size	967	1309	<b>1210</b>
Total market production	Negligible	Negligible	<b>Negligible</b>
Total Exports	Negligible	Negligible	<b>Negligible</b>
Total Imports	967	1309	<b>1210</b>

Agriculture: 10% of the Chilean economy, Chile will become one of the 10 food exporters next year. With the growing of the sector, increase in the demand for agriculture technology equipment is expected.

Market size, million US\$:

	2007	2008	2009 (estimated)
Total market size	259	258	<b>247</b>
Total market production	7	7	<b>5</b>
Total Exports	Negligible	12	<b>8</b>
Total Imports	252	263	<b>250</b>

**Table V.1.B Change of Israel's Imports:**

<b>HS 2 Code</b>	<b>Trade Total Effect (\$'000)</b>	<b>Trade Diversion Effect (\$ '000)</b>	<b>Trade Creation Effect (\$ '000)</b>	<b>Description</b>
2	702.62	270.34	432.28	Meat and edible meat offal
7	21.40	13.67	7.74	Edible vegetables and certain roots and tubers
8	53.40	39.62	13.77	Edible fruit, nuts, peel of citrus fruit, melons
12	175.35	102.61	72.74	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes
13	33.71	20.05	13.66	Lac, gums, resins, vegetable saps and extracts nes
15	0.61	0.23	0.38	Animal, vegetable fats and oils, cleavage products, etc
20	11.31	8.83	2.48	Vegetable, fruit, nut, etc food preparations
40	0.54	0.35	0.19	Rubber and articles thereof
42	1.73	0.66	1.07	Articles of leather, animal gut, harness, travel goods
56	0.12	0.09	0.03	Wadding, felt, nonwovens, yarns, twine, cordage, etc
59	0.17	0.10	0.07	Impregnated, coated or laminated textile fabric
63	0.26	0.17	0.09	Other made textile articles, sets, worn clothing etc
68	0.52	0.33	0.19	Stone, plaster, cement, asbestos, mica, etc articles
70	1.96	1.18	0.79	Glass and glassware
73	77.76	42.14	35.61	Articles of iron or steel
76	9.66	7.59	2.07	Aluminium and articles thereof
82	3.85	1.47	2.38	Tools, implements, cutlery, etc of base metal
84	2.98	1.76	1.22	Nuclear reactors, boilers, machinery, etc
85	11.91	7.03	4.89	Electrical, electronic equipment
90	0.43	0.27	0.17	Optical, photo, technical, medical, etc apparatus
94	5.68	3.49	2.19	Furniture, lighting, signs, prefabricated buildings

Regarding the sectors above, Israel has the ability to contribute to the Chilean economy by exporting the knowledge, technology and machinery that exist in the country.

As for the Israeli imports from Chile: We set the same conditions, **zero tariff** simultaneously for all products, with the same elasticity (1.5, the default elasticity of the WITS/SMART), in

The total trade effect according to the model will be around 1.2 millions of USD.

47 HS 2 digit product will be affected from the tax reduction.

The sector that will be most affected will be the food sector: meat and meat products, oil, edible fruits and vegetables. Today, the tariff in these sectors is very high, and this is the reason for the big difference.

The Chilean export to Israel in 2008 was 51.17 Million USD (according to the Chilean list) and was affected from 24.77 Million USD in the "chemical wood pulp" sector (470329 HS 2 digit code), increase of almost 900% comparing to 2007, and almost half of the export to Israel.

Looking at the exports of 2007:

The total Chilean export to Israel in 2007 was 21 million USD.

The FTA will increase the trade by 5% compared to this year.

Those results are integrated with the development of Chile as a food supplier, especially in the fishery and meat sectors.

### **V.1.C Conclusions**

The bilateral trade between the two countries is an example of comparative advantages: Chile has natural resources and an advantage in the food sector, especially in the fishery, meat etc. as one of the 10 biggest food exporters in the world. Israel has the advantage in the IT, communication, electrical machinery, mechanical appliances and plastic industry. Together they may contribute to each other's economies and as a result bring positive change to it.

## **V.3. POTENTIAL TRADE**

### **V.3.A Introduction**

When the basket of goods that a country exports to another is small relative to the potential trade that can be set, like is the case of Israel and Chile, and one plans to negotiate an agreement which can provide new possibilities of trade, questions arise with respect to the group of goods which before the entry into force of the agreement are not traded. These questions can be, for example, what new products can be exported to the trading counterpart? And which method will be the most appropriate to evaluate those new products?

To answer those questions there isn't any formal model; therefore different techniques can be designed for such a target. However, whichever it is, they will only be useful as an indicator of expansion of the exports, since many of the criteria that should necessarily be used are in fact arbitrary.

For the case that concerns us, one scenario is established, resulting in an estimated subset of the potential Israeli exports to Chile. The methodology defines the group of goods that simultaneously Chile buys while Israel sells from and to the rest of the world, but not to each other.

Once defined the potential basket of the products exportable by Israel and, being known, the demand by Chile imports, it should be defined what fraction of that demand would be able to be satisfied by Israel. A measure is to suppose that the relative participation of the Chile imports from Israel respect of the Chile total demand for those goods during the year 2008 will grow because of the externalities

that a FTA gives to both countries. We suppose that this rate will be five times higher than the figure for 2008, which is 0.2% for 2008.

### **V.3.B Model**

Say for instance there are two countries, *A* and *B*. Country *A* needs to know the basket of potentially exportable products (trade non-traded goods) to country *B*. For that purpose, it requires identifying those products that country *B* imports but not from country *A*, and that country *A* sells to the rest of the world but not to country *B*.

The country *A* exports to the world the goods *a*, *b*, *c* and *d* and to the country *B* the goods *a* and *b*. While country *B* imports from the world the goods *a*, *b*, *d* and *f*. Therefore, the potentially exportable basket from *A* to *B* is composed by good *d*, since products *a* and *b* are already traded among the partners.

The following interesting step is to face these potentially traded products with the tariffs charged by country *B* to imports from country *A*. If they are located in a "high tariff" level, then one could infer that country *A* doesn't export the identified products as potentially exportable because it faces in the country *B* an inhibiting tariff.

Then, for country *A* is important to know the size of the total demand by country *B* for the products that compose the potential basket. That is, the imported total value of good *d* by *B*. The above-mentioned is important because the economic value of the potential basket from *A* to *B* will be minor or equal to the imported total value by *B* of the good *d*.

Clearly, it raises the question about what fraction of the potentially exportable basket will country *A* be able to capture. The answer is completely discretionary. Perhaps the experience with other countries can be an useful indicator.

In spite of this restriction, this methodology provides an interesting support when the number of traded products between two countries is small, a situation that means that any evaluation of the trade impact restricted only to that group of traded goods is not sufficient to capture the potential expansion of trade.

### **V.3.C Conclusions**

Using the model and keeping the same percentage of the Israeli export of the total Chilean import, we conclude that Israeli export potential to Chile would be around US\$ 63,737 thousands (Table V.3.C) of the Chile demand for imports of these products, which is our base scenario. This is the "conservative analysis", keeping the 2008 figure of 0.2% of Israeli participation in Chile imports and the result would be an increase of 53% according to the 2008 values.

A higher diversification is achieved, arriving as a maximum to 2,521 approximate sub-headings at a 6-digits level of the Harmonized System classification.

Using the assumption above, that the participation of the Chile imports from Israel in respect of the Chile total demand for those goods during the year 2008 will grow times five, the Israeli export to Chile may increase dramatically, to around 318 millions of USD.

**Table V.3.C: The Israeli Potential Export:**

HS 2 Digit Code	description	Number of Subheading at 6-level	Value Potential Israeli Export To Chile thousands of US\$ (0.2%)	Chilean Import in million US\$	Relative weight (%)
1	Live animals	6	1.5	0.7	0%
2	Meat and edible meat offal	9	991.0	467.6	2%
3	Fish, crustaceans, molluscs, aquatic invertebrates nes	8	11.5	5.4	0%
4	Dairy products, eggs, honey, edible animal product nes	16	161.1	76.0	0%
5	Products of animal origin, nes	4	43.4	20.5	0%
6	Live trees, plants, bulbs, roots, cut flowers etc	7	13.8	6.5	0%
7	Edible vegetables and certain roots and tubers	26	93.5	44.1	0%
8	Edible fruit, nuts, peel of citrus fruit, melons	24	137.1	64.7	0%
9	Coffee, tea, mate and spices	16	159.6	75.3	0%
10	Cereals	9	1,812.5	855.2	3%
11	Milling products, malt, starches, inulin, wheat gluten	11	37.3	17.6	0%
12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	15	57.7	27.2	0%
13	Lac, gums, resins, vegetable saps and extracts nes	6	32.1	15.2	0%
14	Vegetable plaiting materials, vegetable products nes	1	0.2	0.1	0%
15	Animal,vegetable fats and oils, cleavage products, etc	18	850.6	401.4	1%
16	Meat, fish and seafood food preparations nes	13	137.3	64.8	0%
17	Sugars and sugar confectionery	10	512.5	241.8	1%
18	Cocoa and cocoa preparations	7	79.5	37.5	0%
19	Cereal, flour, starch, milk preparations and products	11	122.6	57.8	0%
20	Vegetable, fruit, nut, etc food preparations	32	167.4	79.0	0%
21	Miscellaneous edible preparations	10	85.2	40.2	0%
22	Beverages, spirits and vinegar	20	268.1	126.5	0%
23	Residues, wastes of food industry, animal fodder	8	1,295.4	611.2	2%
24	Tobacco and manufactured tobacco substitutes	6	9.7	4.6	0%
25	Salt, sulphur, earth, stone, plaster, lime and cement	32	197.5	93.2	0%
26	Ores, slag and ash	4	4.5	2.1	0%
27	Mineral fuels, oils, distillation products, etc	10	16,255.1	7,669.8	26%
28	Inorganic chemicals, precious metal compound, isotopes	69	1,602.8	756.3	3%
29	Organic chemicals	154	985.7	465.1	2%
30	Pharmaceutical products	19	410.5	193.7	1%
31	Fertilizers	12	1,192.0	562.4	2%
32	Tanning, dyeing extracts, tannins, derivs,pigments etc	28	404.9	191.0	1%
33	Essential oils, perfumes, cosmetics, toileteries	17	413.2	195.0	1%
34	Soaps, lubricants, waxes, candles, modelling pastes	11	114.4	54.0	0%
35	Albuminoids, modified starches, glues, enzymes	7	108.9	51.4	0%
36	Explosives, pyrotechnics, matches, pyrophorics, etc	2	1.9	0.9	0%
37	Photographic or cinematographic goods	12	37.6	17.7	0%
38	Miscellaneous chemical products	21	138.4	65.3	0%
39	Plastics and articles thereof	66	1,618.7	763.8	3%
40	Rubber and articles thereof	42	867.7	409.4	1%
41	Raw hides and skins (other than furskins) and leather	10	8.4	4.0	0%
42	Articles of leather, animal gut, harness, travel goods	12	116.9	55.1	0%
43	Furskins and artificial fur, manufactures thereof	4	2.1	1.0	0%
44	Wood and articles of wood, wood charcoal	37	313.3	147.8	0%
46	Manufactures of plaiting material, basketwork, etc.	2	2.3	1.1	0%
47	Pulp of wood, fibrous cellulosic material, waste etc	3	44.8	21.1	0%
48	Paper & paperboard, articles of pulp, paper and board	60	630.1	297.3	1%
49	Printed books, newspapers, pictures etc	3	1.5	0.7	0%
50	Silk	3	2.5	1.2	0%
51	Wool, animal hair, horsehair yarn and fabric thereof	7	3.2	1.5	0%
52	Cotton	46	101.2	47.7	0%
53	Vegetable textile fibres nes, paper yarn, woven fabric	6	5.5	2.6	0%
54	Manmade filaments	34	110.9	52.4	0%
55	Manmade staple fibres	37	88.2	41.6	0%
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	17	114.6	54.1	0%
57	Carpets and other textile floor coverings	13	81.8	38.6	0%
58	Special woven or tufted fabric, lace, tapestry etc	21	18.9	8.9	0%
59	Impregnated, coated or laminated textile fabric	17	128.8	60.8	0%
60	Knitted or crocheted fabric	15	30.4	14.3	0%

61	Articles of apparel, accessories, knit or crochet	70	684.1	322.8	1%
62	Articles of apparel, accessories, not knit or crochet	77	898.2	423.8	1%
63	Other made textile articles, sets, worn clothing etc	36	202.3	95.5	0%
64	Footwear, gaiters and the like, parts thereof	19	949.1	447.8	1%
65	Headgear and parts thereof	3	2.8	1.3	0%
66	Umbrellas, walking-sticks, seat-sticks, whips, etc	2	3.7	1.8	0%
67	Bird skin, feathers, artificial flowers, human hair	7	4.1	1.9	0%
68	Stone, plaster, cement, asbestos, mica, etc articles	35	193.2	91.2	0%
69	Ceramic products	25	510.4	240.8	1%
70	Glass and glassware	36	210.6	99.3	0%
71	Pearls, precious stones, metals, coins, etc	26	46.5	21.9	0%
72	Iron and steel	74	1,937.6	914.2	3%
73	Articles of iron or steel	71	1,048.0	494.5	2%
74	Copper and articles thereof	29	43.9	20.7	0%
75	Nickel and articles thereof	7	1.1	0.5	0%
76	Aluminium and articles thereof	26	506.8	239.1	1%
78	Lead and articles thereof	4	3.5	1.7	0%
79	Zinc and articles thereof	8	65.2	30.7	0%
80	Tin and articles thereof	2	2.4	1.1	0%
81	Other base metals, cermets, articles thereof	24	11.7	5.5	0%
82	Tools, implements, cutlery, etc of base metal	39	255.5	120.6	0%
83	Miscellaneous articles of base metal	23	225.9	106.6	0%
84	Nuclear reactors, boilers, machinery, etc	303	6,351.0	2,996.7	10%
85	Electrical, electronic equipment	141	3,478.5	1,641.3	5%
86	Railway, tramway locomotives, rolling stock, equipment	6	55.4	26.2	0%
87	Vehicles other than railway, tramway	62	10,981.6	5,181.6	17%
88	Aircraft, spacecraft, and parts thereof	7	44.5	21.0	0%
89	Ships, boats and other floating structures	5	167.8	79.2	0%
90	Optical, photo, technical, medical, etc apparatus	72	295.2	139.3	0%
91	Clocks and watches and parts thereof	27	58.1	27.4	0%
92	Musical instruments, parts and accessories	15	47.2	22.3	0%
93	Arms and ammunition, parts and accessories thereof	10	8.2	3.9	0%
94	Furniture, lighting, signs, prefabricated buildings	33	721.2	340.3	1%
95	Toys, games, sports requisites	15	389.0	183.6	1%
96	Miscellaneous manufactured articles	30	88.9	42.0	0%
97	Works of art, collectors pieces and antiques	6	4.5	2.1	0%
Total		2,521	63,737.7	30,074.1	100%

## V.4. BILATERAL LIBERALIZATION OF TRADE IN SERVICES

### V.4.A. Analysis

#### Commerce and services

The output of the commerce and service industries, which account for about 57 percent (303,311 million dollars) of business sector output (532,126 million dollars), grew by 1.9 percent in 2008. This represents a significant slowdown relative to the growth rate in the previous year (9.1 percent). The slowdown in activity encompassed all the commerce and service industries and only became apparent in most of them during the second half of the year. The increase in employment and labor input in the industry did not reflect the effects of the slowdown, although signs of a slowdown did appear in the informal indexes published late in the year.

Israel's specific commitments under the GATS cover 49 activities (the average is 23 for developing and 93 for developed countries) out of a total of 161. Israel is a signatory of the Fourth Protocol (on telecommunications services) and the Fifth Protocol (on financial services) to the GATS, and of the 1997 Information Technology Agreement (ITA). Under Article II of the GATS, Israel has listed MFN exemptions on film, video and television programmer co-production and distribution; and

banking.<sup>24</sup> For the first group, Israel grants differential treatment to persons from countries with which it has co-production arrangements or is engaged in film and video distribution. In banking, Israel retains the right to grant licences only to suppliers from countries that grant Israeli suppliers similar access.

### **Commerce**

The output of the commerce industry, which accounts for about 17 percent (90,461 million dollars) of business sector output, grew by 2.4 percent in 2008. This is primarily a reflection of the sharp increase at the beginning of 2008; already during the second quarter a slowdown in the industry's output became apparent. The source of the slowdown was the decline in demand due to the economic crisis, particularly the trend in private consumption and the decline in the public's purchases and in consumer confidence. The problems in obtaining financing were reflected in the Bank of Israel's Survey of Companies, which revealed the severity of financing constraints in all industries in the economy.

### **Selected services**

**Business services:** The output of the business services industry, which constitutes about one-quarter of business sector output, grew at a rate of 0.7 percent in 2008. The growth in the industry's output, which in 2007 led the growth in activity in commerce and services, came to an end primarily due to the stagnation in activity in the computer and R&D services industry during the second half of the year and the stagnation in the export of services which occurred already during the second quarter of the year and signaled the onset of the global crisis. Nonetheless, labor input grew as it did last year though the growth in real wages came to an end.

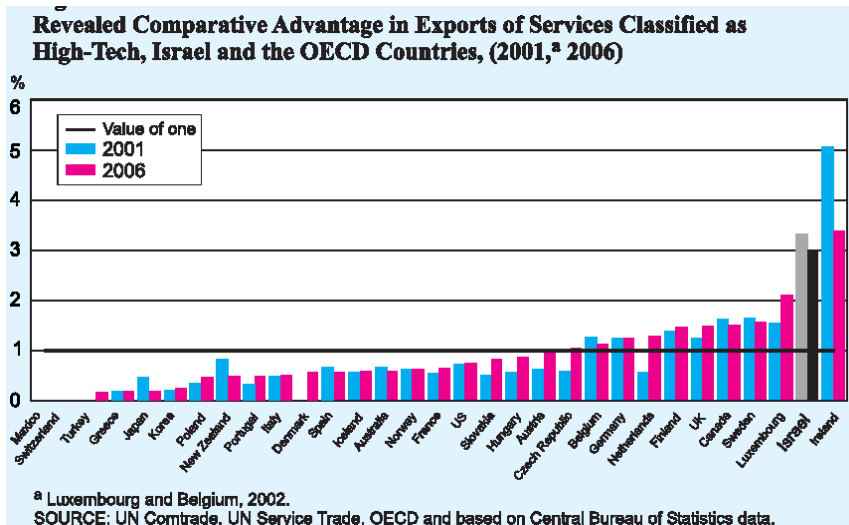
Computer and R&D services constitute about one-third of business services. There were no growths in activity in the industry in 2008.

Israel has a marked comparative advantage in technology and human capital, as is particularly evident in the large share of electronics exports in its total exports. A comparison of the share of electronics in the total exports of Israel and the OECD countries shows that Israel is second only to Ireland in this respect, and has managed to hold onto this leading position since the 1990s. Additional evidence for Israel's comparative advantage in technology and human capital is the fact that this is particularly in evidence in exports of high-tech services, since these require greater intensity of human capital and R&D than high-tech products.

Israel is second only to Ireland with regard to its comparative advantage in high-tech and human-capital intensive exports, and has managed to hold onto this leading position since the 1990's.

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<sup>24</sup> WTO document GATS/EL/44, April 1994.



**Banking, insurance and other financial institutions:** The output of financial institutions, which accounts for about 10 percent of business sector output (53,212 million dollars), rose by a moderate rate of 2.3 percent in 2008, following a sharp increase in the previous year. The slowdown in activity in the industry was the first sign of the global crisis.

**Tourism and accommodation services:** The output of the tourism and accommodation services industry, which constitutes 2.5 percent of business sector output (13,305 million dollars), grew by 0.7 percent in 2007, which represents a major slowdown in growth relative to 2006 rate (5.4 percent). The slowdown primarily reflects the drop in Israelis' hotel bed nights, while tourist bed nights rose sharply, by 28.4 percent. However, the contribution of this increase to the industry's revenues and output was more moderate, with revenue from tourists growing by only 13.6 percent. Despite an increase of 25 percent during the first half of 2007, the rate of growth dropped almost to zero in the second half. Nonetheless, the situation of the industry was relatively good prior to the crisis and since the recovery from the Second Lebanon War the hotel occupancy rate has been about 60 percent, which represents a cumulative increase of almost 50 percent relative to occupancy in early 2003.

#### **Transport and communications**

**Economic activity:** the product of the transport industry grew by 3.8 percent in 2007, due to the expansion of economic activity in general. However, the growth rate decelerated in the course of 2007, as this industry provides services to—and is influenced by—the activity of other industries, which slowed. The expansion was led by the rise in the product of land transport, mainly buses, trucks, and trains. The 9.7 percent increase in bus product reflects the growth of public transport activity. This was due primarily to the entry of unskilled workers—the population which uses buses—into the labor market as well as to the improvement in tourism. This expansion also stemmed from the increased cost of travel by car because of rising fuel prices. The rise in train product persisted in 2008, reflecting the improvement in trains as a means of transportation in recent years. The expansion of activity in this industry did not lead to an increase in its labor input.

The real wage in transport fell slightly as a result of the steep rise in prices. The real wage in land transport rose slightly due to the reduction in the unemployment rate of unskilled

workers as demand for their services grew.

The product of the communications industry, which accounts for 4 percent of business-sector product, declined by 2.5 percent in 2008. The proportion of expenditure on communications declines as individuals' income increases (lower than unitary elasticity), hence the effect of the rise in income on the industry is relatively moderate. The rise in the industry's product in earlier years was the result of the expanded use of new communications services such as the internet, mobile phones, and multi-channel television. In 2008 the use of 'third generation' mobile phones increased, encompassing more than a third of users and leading to expansion of product. In other spheres the increase was more moderate: the use of land lines grew slowly; the increase in broad-band internet use slowed to only 6.7 percent; the extent of mobile phone penetration reached saturation point, and the number of broad-band TV subscribers remained unchanged. In accordance with the long-term trend in both Israel and the rest of the world, the price of communications rose by less than the CPI in 2008, partly as a result of technological advances and the regulatory policy, which stimulates competition.

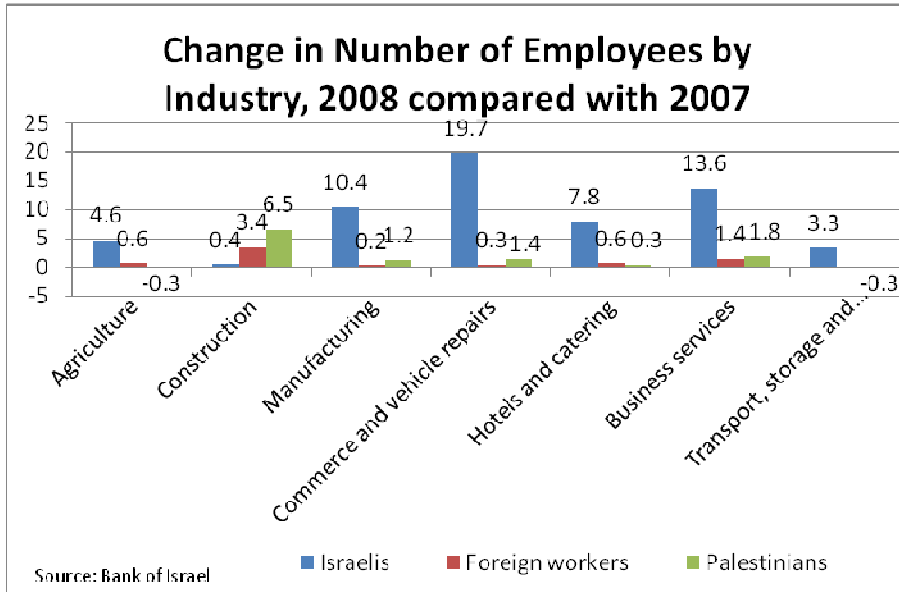
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Competition was introduced into land-line telephony in 2006, since when the market share of companies competing with Bezeq has been increasing. In order to help them, Bezeq has not been allowed to reduce its rates, but this policy will become more flexible as Bezeq's market share declines. In December 2007 the market share of Bezeq's competitors in land-line telephony was 11.8 percent, and rose to 16.2

**Employment:** Trade and services employment expanded due to a surge in inbound tourism, an upward trend in households' private consumption in the domestic market, and greater expenditure for consumption of no housing services. The changes in manufacturing and services employment were influenced by trends in global trade. Thus, in the first half of 2008, demand for energy and raw materials increased and, accordingly, so did output and employment in mining and quarrying, oil refining and petrochemicals, metals and metal products, and nonferrous mineral products.

In the public services, employment in municipal administration increased markedly and steeply during the review year, foremost in Q3 2008. The increase evidently originated in the implementation of the Manpower Companies Law and had nothing to do with the municipal elections, since in the previous election season (Q3 2003) municipal administration employment actually declined. The increase in employment in welfare and social services also traced to the hiring by authorities of workers who had been on the payroll of manpower companies.

The change in number of employees by industries is as follows:



## Trade

Exports of services increased by 15 percent in 2008, powered by tourism (2.7 billion dollars), which expanded by 24 percent. Exports of services in 2008 reached 23.8 billion dollar.

In recent years, total exports of tourism services have been converging toward levels that were common preceding the onset of the intifada in 2000, because even though the number of inbound tourists has increased since then, spending per tourist has declined. The increase in exports of other services traces to services classified as technology-intensive, which account for more than half of Israel's services exports: R&D services (26 percent of total service exports), computer and IT services (27 percent of total service exports), and communication services (3 percent of total service exports). About half of exports of services classified as high-tech are destined for the United States and about one-fourth are destined to Europe.

Imports of services in 2008 reached 19.9 billion dollar (excluding insurance and transportation services),

	1996-2000	2001-2002	2003-2006	2007	2008
Services Exports	11.1	12.5	16.6	21.1	23.8
Services Imports	9.9	11.4	13.2	17.8	19.9
Source: Central Bureau of Statistics					
*Billions of dollars					

## **V.5. INVESTMENT**

### **V.5.A Analysis**

Israel has a generally open investment regime, with most activities open to private investment (both foreign and national). The main exceptions are telegraph services and delivery of postal items below 500 g, over which the Israeli Postal Authority has monopoly rights. Restrictions also apply to international fixed telecommunications services (up to 74% foreign equity participation is allowed) and wireless telecommunications services (up to 80% foreign equity participation). In tourism, ownership of hotels, travel agencies, and tour operators is restricted to Israeli-registered companies, while tourist guide services are restricted to Israeli residents or citizens. In addition, travel agencies are required to employ at least one Israeli-licensed travel expert.

By the end of 2004, Israeli holdings abroad were of about US\$99.9 billion, of which US\$16.0 billion in direct investment, US\$42.6 billion in portfolio investment, and US\$41.6 billion in other forms of investment, with the private non-banking sector holding around 48% of Israel's foreign assets, and the banking and public sectors respectively holding around 23% and 28%.<sup>25</sup>

### **V.5.B Conclusion**

Israel has continued to expand the coverage of bilateral free-trade agreements Israel has preferential agreements with Mexico, Canada, the European Union, the European Free Trade Association, Jordan, Turkey, and the United States (Table II.4).<sup>26</sup> Bilateral tariff quotas on agricultural products are described in Table AIII.4. Israel has signed a free trade agreement with Mercosur in December, 2007.

Israel has not been involved in any trade dispute under its free-trade agreements during the period under review.

As a result of the FTA with Chile a variety of improvements is expected concerning investment activities, such as better information and an improvement of the legal certainty between both countries.

### **Effects and Influence on Specific Sectors and Products (as appropriate) (Qualitative Analysis)**

For the matrix of analysis of the main impact of a prospective FTA Chile – Israel, in Israel by industries, it is possible to have a broad picture of which sectors would be influenced by the trade increase (potential exports) starting from the quantitative data calculated in Chapter V.2 In this section the highlights in key sectors are presented :

#### **Agriculture**

- The sector represents a 2% of the GDP in 2007 and a 3% of total good's export in 2007. In 2008 the export of agricultural products reached 1.2B\$. In the last ten years the agricultural export was almost doubled from 780M\$ in 1999.

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<sup>25</sup> Central Bureau of Statistics (2005).

<sup>26</sup> Information about Israel's free-trade agreements is available online at: <http://www.moit.gov.il/NR/exeres/C3AFB803-731C-4668-BEB2-59838FB3C9C6.htm> (14 November 2005).

- The Israel's agricultural sector is known thanks to its high technological developments.

### **Chemicals industry**

- The export of chemicals products in 2008 reached 13.6B\$ with 42% growth compared with previous year. It represents 24% of manufacturing exports of Israel in 2008.
- The export of sub sector of pharmaceutical products in 2008 reached 5B\$, 9% of total manufacturing exports.

### **Communication, medical & scientific equipment**

- This sector represents 14% of total manufacturing exports in 2008 with more than 8B\$.

### **Machinery and equipment**

- The exports of the sector in 2008 reached 2.8B\$, 5% of total manufacturing exports on Israel in that year.

### **Products of basic metals**

- The export of the sector reached 2.8B\$ in 2008, 5% of total manufacturing exports.

### **Electronic components and computers**

- In 2008 the export of the sector represented 5% of total manufacturing exports with 2.5B\$.
- In 2009 the new plant of Intel was opened. It increased the export of the sector by hundreds of percents compared with previous years.

### **Manufacturing industry**

- The manufacturing sector's exports reached 56.2 B\$ in 2008, with 15% growth compared with previous year.
- The manufacturing export represents almost 80% of total good's export of Israel.

### **Services**

- The exports of services represents about a third of total exports of Israel in the last years.
- In 2008 total services export reached 24.1B\$, 14% growth compared with previous year.
- In the last ten years the export of services was doubled from 12.3B\$ in 1999 to more than 24B\$ in 2008, in spite of decreasing in 2001 and 2002.

## **VI. COOPERATION AND INFORMATION EXCHANGE ON OTHER ISSUES**

### **VI.1 SCIENCE AND TECHNOLOGY**

Israel stands out regarding a number of innovation indicators. At 4.65% of GDP it has the world's highest R&D intensity, over twice the OECD average of 2.26%. The intensity of business R&D expenditure is also higher than in all OECD countries, at 3.64% of GDP in 2006. Israel has the fifth highest number of scientific articles per million populations, after Switzerland, Sweden, Denmark and Finland. It is also among the leaders in the number of triadic patent families, on par with Australia and Belgium. In addition, Israel has strong information and communication technology sector which accounts for about 20% of total industrial output, 9% of business sector employment, and a large share of the output growth of Israeli industry.

Israel's innovation system is a key driver of economic growth and competitiveness. While the Israeli system primarily attributable to vibrant business sector innovation and a strong entrepreneurial culture, the government has also played an instrumental role in financing innovation, especially in SMEs, and in providing well-functioning framework conditions for innovation, including venture capital (VC), incubators, strong science industry links, and quality university education. For example, Israel reportedly has around 70 active VC funds, which raised € 963 million in 2005 and € 437 million in 2006. It has 24 technology incubators, 16 of which are privately owned.

### **VI.2 SMALL AND MEDIUM ENTERPRISES, EDUCATION, TOURISM**

The available indicators on human resources for S&T show no shortages. The tertiary education attainment ratio is the third highest worldwide, behind only Russia and Canada, and the share of graduates in science and engineering, at 24.3%, is at level commonly observed in advanced OECD countries.

The strong reliance on the high-technology sector provides a narrow base for economic growth. Promoting innovation by SMEs and in non-high-technology industrial and service sectors is particularly important.

Maintaining efficiency in R&D expenditure is another challenge. With high R&D intensity, it is important to ensure that project selection remains rigorous, with a focus on net economic benefits. The office of the chief scientist, the main government agency to support R&D (with a budget of € 223 millions in 2007 and € 19 million in 2008), has funded one out of the five project proposals in recent years. A further challenge is how to identify and invest in future technologies, including biotechnology and nanotechnology that have strong potential.

Recent government initiatives include the amendment in 2005 of the law on R&D to allow overseas transfers of know-how resulting from publicly funded research, the establishment of several new programs for SMEs and traditional industries, as well as the creation of a € 21 million fund for nanotechnology and a € 25 million fund for biotechnology. A new program for the development and commercialization of water technologies was introduced and additional instruments for the water and renewable energy fields are being developed.

Israel has also signed R&D co-operation agreement with innovative regions in foreign countries and major multinational companies; these will help it to build stronger links with innovation partners.

### **VI.3 WATER AND RENEWABLE ENERGY**

Israel NEWTech is a national government program promoting the water technology renewable energy sectors in Israel. After decades of experience coping with water scarcity and many years working in

the field of renewable energy, today Israel is in a unique position to be a world leader in a cleaner age of water management and energy efficient.

In 2006, NEWTech launched its first initiative focused on the Israeli water technologies industry. The program promotes Israel's water technologies in the local and global markets by supporting R&D, participating in water related events and creating marketing tools for the benefit of the entire sector. The government has invested heavily in the program and allocated substantial resources towards strengthening the foundation of Israel's water tech cluster.

In 2008, recognizing the success of the water program and the strategic importance of alternative energy technologies, NEWTech launched a second initiative focused on the renewable energy sector. This program encourages Israeli companies and individuals to enter the field of renewable energy, invest in R&D, and establish connections with potential partners overseas. The objective of the program is to promote Israel's renewable energy technologies in the local and global markets.

Israel NEWTech is led by the Ministry of Industry, Trade, and Labor in cooperation with more than ten government ministries and agencies. This wide partnership shares the goal of supporting and promoting the Israeli water and renewable energy sectors.

### **The National Program for Alternative Energy Technologies**

Based on decades of Israeli experience in the field of renewable energy and recognizing the strategic importance of alternative energy technologies, the government of Israel launched in 2008 the National Program for Alternative Energy Technologies - the NEWTech renewable energy sector. The objective of the program is to keep Israel's renewable energy industry at the forefront of the global arena. Israeli alternative energy companies are considered industry pioneers in solar and geothermal technologies.

NETech - the National Energy Program works in cooperation with government, private sector, and academia in Israel. The program acts to promote the implementation of Israeli renewable energy technologies in the local and global markets by investing in human capital, R&D, encouraging Israeli companies and individuals to enter the field of renewable energy, and establishing connections with potential partners overseas.

This program is led by the Ministry of Industry, Trade, and Labor (the Foreign Trade Administration, Investment Promotion Center, the Israeli Export & Cooperation Institute) alongside the Ministry of National Infrastructure, the Ministry of Environmental Protection, Ministry of Science and Technology, Ministry of Finance, The Standards Institute of Israel, Public Utility Authority – Electricity and the Council for Higher Education.

### **The National Program for Promoting Water Technologies**

The Israeli water market is globally known as a well-developed market. With 60 years of experience, Israel is considered a world expert in the fields of desalination, water treatment and reclamation, water safety, and agricultural water consumption via drip irrigation – an Israeli innovation.

The Government of Israel, recognizing the international need for innovative water solutions and Israel's proven expertise, launched in 2006 the National Program for Promoting Water Technologies - the NEWTech water sector. The National Program promotes the industry in the global market; investing in human capital, R&D funding, local market implementation, connecting companies with potential partners overseas, supporting coverage in the global media, participating in water related events and creating marketing tools for the benefit of the entire sector.

The Israeli Ministry of Industry, Trade and Labor leads the National Water Program in cooperation with the Foreign Trade Administration, Investment Promotion Center, the Israeli Export & Cooperation Institute, The Standards Institute of Israel, Ministry of Finance, Ministry of Foreign Affairs, Environmental Protection Ministry, Ministry of Education, Israel Water Authority and the Council for Higher Education.

## **VI.4 RECOMMENDATIONS**

In order to utilize the above mentioned strengths of the Israeli economy, it is recommended to establish a Chilean - Israeli cooperation Joint Committee which will work under the following guidelines:

1. The Parties shall establish a technological cooperation mechanism in order to develop their industrial sectors and infrastructure, particularly in the fields of agricultural and agro industrial activities, banking, engineering and construction, chemistry, fine chemistry, fertilizers, pharmacy (especially active principles), automation and robotics, irrigation, alloys and super alloys, avionics, microelectronics, telecommunication, health, medical equipment, education, security equipment systems and other fields. The technological cooperation may be comprised of technology transfer and joint projects for the development of new technologies as well as other initiatives.
2. In order to facilitate such a change the Parties shall establish a technological and technical cooperation mechanism to develop their capabilities in specific sectors, with particular attention and SMEs (Small and Medium Enterprises), including:
  - Organization and holding of fairs, exhibitions, conferences, advertising, consultancy and other business services;
  - Development of contacts between business entities, manufacturers associations, chambers of commerce and other business associations of both Contracting Parties;
  - Training of technicians and other professionals.
3. With this aim, the Joint Committee shall, no later than six months after the entry into force of this Agreement, define priority sectors for technological and technical cooperation and request the Parties' respective relevant authorities to identify specific projects and to establish mechanisms for their implementation.

## **VII. CONCLUSIONS**

### **Effects of a Free-Trade Agreement Israel/Chile**

The bilateral trade between the two countries has grown from 66.4 Million US\$ in 2000, to 152.5 Million US\$ in 2008:

- As in total trade exchange, in 2008, the Chilean economy has increased its share in Israeli exports, accounting for 120 million dollars about 0.2% from Israeli export, an increase of about 53%, compare to 2007.
- Imports coming from Chile in 2008 reached 32.5 million dollars, placing Chilean supplies with 0.05% of imported goods to Israel. This fact shows annual growth of 119.5% compare to 2007.

It has been analyzed that the trade agreement will have a positive effect on the bilateral trade and will increase the Israeli export to Chile in two ways:

1. The export of the products that were exported in 2008 will be increased by 8% comparing to 2008.

2. Israel will gain the potential exporting new products, and by doing so, the Israeli export to Chile will be more diverse (2,521 new products), hence: less exposed to fluctuations.  
To measure the potential trade, we defined the products that Israel exports to the world, but not to Chile and which Chile imports from other sources, as being potentially traded by Israel and Chile. Second, we maintained the same percentage of the Israeli export from the total Chilean import. It has been concluded that the Israeli exports potential to Chile would be around 63.7 million US\$.  
The growth will occur as a result of better market access and a reduction in the “transactions costs” associated with the operation of foreign trade, because of facing better administrative and organizational structures and procedures resulting from the FTA.

### **Effects on Trade and Investment by Main Economic Sectors**

The main Israeli export sectors that will grow will be the following: electrical machinery and equipment, machinery and mechanical appliances, and plastics and plastic articles.

Israel has a generally open investment regime, with most activities open to private investment foreign. This fact, in addition to the FTA, will contribute to increase the foreign direct investment of Chilean and Israel investments in both economies. The FTA will stabilize the economic environment between the countries.

Cooperation between Israel and Chile will increase in a variety of areas of mutual interest such as innovation, technologies, tourism, agricultural machinery, small and medium enterprises and more.

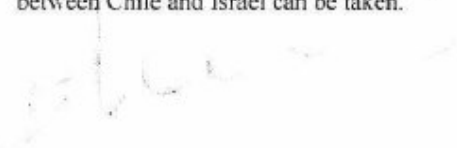
## VIII. RECOMMENDATIONS (JOINT CHAPTER)

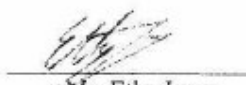
Chile-Israel Joint Study Group on the Feasibility of a FTA

### **Common Conclusions and Recommendations of the Joint Study Group on the Feasibility of a Free Trade Agreement between Chile and Israel**

Santiago (Chile), 16 February 2010

1. In the framework of the bilateral relations on July, 2009, authorities of the Republic of Chile headed by Ambassador Carlos Furche, Director General for International Economic Affairs, Ministry of Foreign Affairs; and of the State of Israel headed by Mr. Boaz Hirsch, Senior Deputy Director General, Foreign Trade Administration, Ministry of Industry, Trade and Labor (MOITAL), agreed on the need to intensify the Chile-Israel economic partnership by executing a joint feasibility study on a potential Chile-Israel Free Trade Agreement (FTA)
2. Since November 2009 both countries have conducted three meetings of the Joint Study Group, alternatively in Chile and Israel, reaching a successful conclusion of the work.
3. The Joint Study's main conclusions indicate that an FTA between Chile and Israel would have a positive impact on the economic relationship of the two countries:
  - An FTA between Chile and Israel would, as a result of tariff elimination, increase the bilateral trade. Special consideration should be given to its effect on bilateral trade of agricultural products due to their sensitivity in both countries.
  - The tariff elimination should make possible to trade goods that at present are "non traded" goods in bilateral terms, but which are part of their global trade. Increase in trade is also to be expected from the reduction in the transaction costs of trade and the trade facilitation associated to an FTA.
  - An FTA, whose disciplines provide legal certainty should improve the investment environment and should have a positive impact in the exports of services including those associated to the increase of trade in goods.
  - An FTA between Chile and Israel should facilitate the reciprocal investment and the creation of new enterprises.
  - An FTA between Chile and Israel should create the general framework for a substantial increase in their cooperation activities.
4. Both delegations agree to advise their respective Governments on the positive results obtained by the "Joint Study Group on the Feasibility of a Free Trade Agreement between Chile and Israel", so that appropriate decisions concerning future negotiations between Chile and Israel can be taken.

  
\_\_\_\_\_  
Mr. Sergio Ramos  
Head Chilean Delegation

  
\_\_\_\_\_  
Ms. Ethy Levy  
Head of Israel Delegation