S. Hrg. 98-900

PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

FEBRUARY 6, 1984

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

35-438 O WASHINGTON : 1984

5361-57

COMMITTEE ON FINANCE

ROBERT J. DOLE, Kansas, *Chairman*

BOB PACKWOOD, Oregon	RUSSELL B. LONG, Louisiana
WILLIAM V. ROTH, JR., Delaware	LLOYD BENTSEN, Texas
JOHN C. DANFORTH, Missouri	SPARK M. MATSUNAGA, Hawaii
JOHN H. CHAFEE, Rhode Island	DANIEL PATRICK MOYNIHAN, New York
JOHN HEINZ, Pennsylvania	MAX BAUCUS, Montana
MALCOLM WALLOP, Wyoming	DAVID L. BOREN, Oklahoma
DAVID DURENBERGER, Minnesota	BILL BRADLEY, New Jersey
WILLIAM L. ARMSTRONG, Colorado	GEORGE J. MITCHELL, Maine
STEVEN D. SYMMS, Idaho	DAVID PRYOR, Arkansas
CHARLES E. GRASSLEY, Iowa	

RODERICK A. DEARMENT, *Chief Counsel and Staff Director*
MICHAEL STERN, *Minority Staff Director*

SUBCOMMITTEE ON INTERNATIONAL TRADE

JOHN C. DANFORTH, Missouri, *Chairman*

WILLIAM V. ROTH, JR., Delaware	LLOYD BENTSEN, Texas
JOHN H. CHAFEE, Rhode Island	SPARK M. MATSUNAGA, Hawaii
JOHN HEINZ, Pennsylvania	DAVID L. BOREN, Oklahoma
MALCOLM WALLOP, Wyoming	BILL BRADLEY, New Jersey
WILLIAM L. ARMSTRONG, Colorado	GEORGE J. MITCHELL, Maine
CHARLES E. GRASSLEY, Iowa	DANIEL PATRICK MOYNIHAN, New York
STEVEN D. SYMMS, Idaho	MAX BAUCUS, Montana

CONTENTS

Administration Witness

Public Witnesses

Additional Information

PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

MONDAY, FEBRUARY 6, 1984

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 2:32 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Robert Dole (chairman) presiding.

Present: Senators Dole, Chafee, Danforth, Packwood, Heinz, Symms, and Grassley.

[The press release announcing the hearing and the prepared statements of Senators Dole and Baucus follow:]

[Press Release No. 84-105]

FINANCE COMMITTEE ANNOUNCES HEARING ON PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

Senator Robert J. Dole, Chairman of the Committee on Finance, announced today that on Monday, February 6, 1984, the Committee will hold a hearing on an Administration proposal to establish a free-trade area with Israel. President Reagan and Prime Minister Shamir announced their intentions to pursue such an arrangement last December. Under the proposal, each country would provide duty-free treatment to products imported from the other.

The hearing will commence at 2:30 p.m. in Room SD-215 of the Dirksen Senate Office Building.

STATEMENT OF SENATOR DOLE ON THE PROPOSED UNITED STATES-ISRAEL FREE-TRADE AREA

I am pleased to welcome Ambassador Brock and our private sector witnesses here today to testify on the President's proposal to create a free-trade area with Israel. Based as it is on a Presidential commitment to Israel and sound economic advantages to the United States, the proposal deserves our most serious attention.

The 1983 trade figures released a week ago starkly revealed a deteriorating U.S. export position, which contributes substantially to the record-setting trade deficits we are incurring. U.S. exports last year dropped 5.5 percent; this resulted in a $1.6 billion trade deficit with the E.C., the first since 1972, and a $38 billion deficit in manufactured goods—a startling reversal of the surplus enjoyed by the United States as recently as 1981. Combined with sharply increased demand for imports resulting from the economic recovery in this country, the decline in U.S. exports is a cause for serious concern.

The high value of the dollar, the loss of export markets in developing countries because of their debt problems, and foreign unfair trade practices all contribute to the difficulties faced by U.S. exporters. Reducing the budget deficit will help their competitiveness by lowering interest rates, thereby contributing to more realistic exchange rates; aggressively challenging unfair trade practices domestically and in the GATT hopefully will bring better discipline to the international trading system. The U.S. recovery also will bring along the economic recoveries of our trading partners and encourage them to import more, even while we bear the brunt of their exports in the short run. But all of these things take time and can be of little comfort to the firms and workers struggling to be competitive in the international marketplace.

In contrast to long-run stategies, the proposal for a free-trade area with Israel offers some immediate benefits to U.S. exporters. Forty percent of U.S. exports to Israel are dutiable, some at significantly protective rates. By comparison, ninety percent of imports from Israel into the United States enter duty-free. Even with this disparity, the United States enjoys a trade surplus with Israel. A free-trade area would appear, because or its mutual elimination of duties, to be of immediate and greater advantage to U.S. exporters than those in Israel.

Further, because of the free-trade arrangement that Israel has implemented with the E.C., U.S. exporters of manufactured goods will be increasingly disadvantaged in competing with E.C. exporters for the Israeli market. By negotiating a free-trade area of our own, we can eliminate this disadvantage.

The mutual elimination of tariffs on goods traded between the United States and Israel thus offers a simple, concrete way of offering support for U.S. exports and, because most Israeli imports already enter duty-free, it appears to be a proposal involving little cost. But I am also concerned that we use this opportunity to address bilaterally some non-tariff issues that the multilateral trading system has not proven very capable of addressing effectively, if at all. In particular, it is my view that a U.S.-Israel free-trade arrangement should not be implemented without some provision for disciplining Israel's export subsidies. To do otherwise would be unfair to U.S. workers and firms that compete with Israeli imports. Further, the United States should pursue agreement on such matters among like-minded countries where the multilateral system is incapable of moving forward on its own. Similarly, we should explore with Israel the possibilities of including trade in services in the agreement, and covering other trade matters of interest to this country.

The committee will hear today from various witnesses that are concerned about the impact of the proposed arrangement on their industries. It is my understanding that the administration will refrain from making final judgments of the scope of product coverage of the arrangement until the International Trade Commission completes an economic study this spring. It is my intent to ensure that any negotiation and proclamation authority approved by the Congress with regard to this proposal will include provisions safeguarding the interests of all U.S. firms and workers, while providing maximum flexibility the Ambassador Brock so that he can negotiate a meaningful agreement.

I have agreed to sponsor the administration's proposal when it is finalized, and in view of the substantial benefits offered by the successful conclusion of such an agreement with Israel, I intend to seek committee consideration and approval of a specific proposal at an early, appropriate time. I hope the testimony today will convince the members on the committee of the proposal's merit, and persuade them to join me in this effort, while pointing out those issues to which we need to pay particular attention.

Statement by Senator Max Baucus, Committee on Finance

INTRODUCTION

Mr. Chairman. I welcome this opportunity to discuss the possible establishment of a free trade zone between the United States and Israel.

As you know, World-wide economic growth depends, in large part, on the free flow of goods among nations committed to fair trading practices.

What's more, Israel is a solid and strategic ally of the United States.

Especially now, as tensions mount in the Middle East, we must work hard to increase cooperation between the United States and Israel. Certainly, trade is one area where increased cooperation will benefit both of us.

THE FREE TRADE ZONE PROPOSAL

In the first place, a free trade zone agreement would help the U.S.

Israel is a small but important customer for U.S. exports. In 1982, we exported Israel $350 million more than we imported. And, as the Chairman knows too well, we don't have many trade surpluses anymore.

Establishing a free trade zone will help us increase our exports to Israel even more.

There are two main reasons why. First, about half our current exports to Israel are subject to duties. With a free trade zone, these duties would largely be eliminated.

Second, the EC and Israel already have established a free trade zone. We must follow suit or else risk our traditional trade surplus, with Israel.

Of course, a free trade zone would also help Israel. Ninety percent of Israel's exports already enter the U.S. duty-free. But the establishment of a free trade zone woud provide free access for products not covered by the generalized system of preferences. And it would assure a stable, long-term U.S. market.

CONCLUSION

Mr. Chairman, I support the proposal to explore the establishment of a free trade zone.

At the same time, I recognize that some U.S. interests object. Their views are legitimate and important, and I urge the administration to give them appropriate consideration during the negotiating process.

I am confident, Mr. Chairman, that when our negotiators return to this committee with a draft agreement, the overall benefits to both of our nations will be apparent.

I look forward to reviewing such an agreement, and I assure our negotiators of my support as they begin their talks with their Israeli counterparts.

The CHAIRMAN. Let me say at the outset that we are pleased to have Ambassador Brock and our private sector witnesses here today to testify on the President's proposal to create a free-trade area with Israel. Based as it is on a Presidential commitment to Israel and sound economic advantage to the United States, the proposal deserves our most serious attention.

I would ask that my entire statement be made a part of the record. It has some statistics and some matters that I think we will be touching on.

I might add that in contrast to long-run strategies for addressing the trade deficit, the proposal for a free-trade area with Israel offers some immediate benefits to the U.S. exporters. Forty percent of U.S. exports to Israel are dutiable, some at significantly protective rates. By comparison, 90 percent of imports from Israel into the United States center duty free. Even with this disparity, the United States enjoys a trade surplus with Israel. A free-trade area would appear because of its mutual elimination of duties, to be immediate and greater advantage to U.S. exporters than to those in Israel. Further, because of the free-trade arrangement that Israel has implemented with the EC, U.S. exporters and manufactured goods will be increasingly at a disadvantage in competing with EC exporters for the Israeli market. It just seems to me that this matter deserves our serious attention, consideration. We will hear today from a number of witnesses in this regard.

I have agreed, as I am certain other members of this committee will be willing to agree, to sponsor the administration's proposal when it's finalized. I just visited with Ambassador Brock, and I think it's his hope that we can have the hearing, study the record, then put the proposal together and have it introduced.

Before we hear from Ambassador Brock, Senator Pete Wilson of California would like to make a brief statement.

STATEMENT OF HON. PETE WILSON, SENATOR FROM THE STATE OF CALIFORNIA

Senator WILSON. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate the opportunity to appear today before the Committee on Finance and express my views on the Reagan Administration's proposal to explore and, hopefully, to establish a free-trade area with Israel, which would allow for duty-free trade between our two countries.

Mr. Chairman, the State of Israel is one of the great democracies of the world, a true voice of freedom in the Middle East, and one of our most important allies. Unfortunately, to maintain its very existence, Israel has, over the years, been compelled to pay a great price—not only in blood, sweat and tears, but also in terms of its own economy. Israel's economy regularly experiences the devastating impact of large deficits and triple digit inflation. It is to Prime Minister Shamir's credit that in addressing these problems he has chosen to follow a path of free trade in order to strengthen Israel's economy.

Mr. Chairman, like you and the members of this committee, I am a strong proponent of free trade for as competition between our domestic industries generate research and development and, thus, improve products and services at lower prices, competition between industries on an international level creates beneficial effects. It benefits all the consumers and markets that are visited.

The industries in each country produce those products and services which they can produce most efficiently. This benefits the world economy, and, ultimately, all consumers.

But, Mr. Chairman, as with all propositions, with free trade there are important caveats. The first is that it be, in fact, free trade upon an equal footing. Tariffs are only one impediment to free trade. As we all know, unreasonable nontariff barriers must also be removed before a trade can truly be called free trade.

Second, free trade must encompass the notion of fairness. And fairness can exist only in the absence of foreign governmental subsidies to those industries seeking to export to the U.S. markets. By this measure, some of our trade with some of our European allies is not free because some products are receiving illegal subsidies. For example, the Department of Agriculture has found that Italian and French wines, those produced at least by coops, have been heavily subsidized. And this along with protectionist tariffs has made free trade really an empty phrase in terms of the American wine industry.

I was hoping someone would bring Ambassador Brock a glass of good California chardonay so that this can be a little less painful for him.

It's my understanding that Ambassador Brock has asked that the International Trade Commission conduct an expedited study on the effects on U.S. markets of a free trade area agreement with Israel. That he has asked that the study include the taking of testimony at public hearings. And that among the questions to be addressed is whether or not Israel provides any subsidies to its industries which would violate our trade laws. No one has suggested to me that such subsidies exist. But their nonexistence, obviously, must be confirmed before any agreement is reached.

Mr. Chairman, having stated these caveats, I wish to express my full and strong endorsement for the actions of the administration and for that of the actions of this committee in seeking the enactment of legislation that will grant the President authority to negotiate and conclude a free trade area agreement with Israel. I believe that such an agreement can be in the best interest of both our countries.

Thank you.

The CHAIRMAN. Thank you very much, Senator Wilson. We will make your entire statement a part of the record, and we will work with you to lean a little on the Ambassador on your other problem. Maybe it's not a problem.

[The prepared statement of Senator Pete Wilson follows:]

TESTIMONY BY HON. PETE WILSON, U.S. SENATOR FROM CALIFORNIA

Mr. Chairman, I appreciate the opportunity to appear today before the committee on Finance and express my views on the Reagan Administration's proposal to establish a Free Trade Area with Israel which would allow for duty-free trade between our two countries.

Mr. Chairman, the State of Israel is one of the great democracies of the world, a true voice of freedom in the Middle East, and one of our most important allies. Unfortunately, to maintain its very existance, Israel must pay a great price—not only with sweat and tears, but also with its economy. Israel's economy regularly experiences the devasting impact of large deficits and triple-digit inflation. In addressing these problems, it is to Prime Minister Shamir's credit that he is following a path of free trade in order to strengthen Israel's economy.

Mr. Chairman, I, too, am a strong proponent of free trade. For, as competition between our domestic industries generates research and development and thus improved products and services at lower prices, competition between industries on an international level creates the same beneficial effects. The industries in each country produce those products and services which they can produce most efficiently. This benefits the world economy and, ultimately, all consumers.

Mr. Chairman, as with all propositions, with free trade there are important caveats.

First, tariffs are only one impediment to free trade, unreasonable non-tariff barriers must also be removed before trade can be truly free trade.

Second, free trade must encompass the notion of fairness, and fairness can only exist in the absence of foreign government subsides to those industries seeking to export to the U.S. market. By this measure, some of our trade with some of our European allies is not free, for some products are receiving illegal subsidies. For example, the Department of Agriculture has found that the Italian and French wine industries are heavily subsidized and this—along with protectionist tariffs—makes free trade with these countries impossible.

It is my understanding that Ambassador Brock has asked the International Trade Commission to conduct an expedited study of the effects on U.S. markets of a Free Trade Area agreement with Israel, that the study will include the taking of testimony at public hearings, and among the questions to be addressed is whether or not Israel provides any subsidies to its industries which would violate our trade laws. No one has suggested to me that such subsidies exist, but their non-existence should be confirmed before any agreement is reached.

Mr. Chairman, with these caveats aside, I want to express my full and strong endorsement for enactment of legislation granting the President authority to negotiate and conclude a Free Trade Area agreement with Israel. I believe that such an agreement can be in the best interests of both of our countries.

Thank you.

The CHAIRMAN. Senator Danforth, do you have a statement?

Senator DANFORTH. No, thank you.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. No.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. No.

The CHAIRMAN. Mr. Ambassador, we are happy to have you before our committee again. We will be pleased to hear from you and also Mr. Tracy, Deputy Under Secretary of Agriculture for International Affairs.

Mr. Ambassador, your statement will be made a part of the record. You may wish to highlight or to summarize the statement, or proceed in any way you wish.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Ambassador BROCK. Thank you, Mr. Chairman. I will try to do that without commenting on the wine problem. We can do that at some later date.

I do thank you for the chance to testify on what I think is a very important new trade initiative of the President. President Reagan and Israeli Prime Minister Shamir agreed on November 29 of this past year to begin discussions between our two countries on the establishment of a two-way free trade area between the United States and Israel. We have never negotiated an agreement of this type. We do have experience in undertaking one-way free trade through our Caribbean Basin Initiative. We've also had a free trade agreement with Canada in the automobile sector. But we have never attempted an agreement which fully meets the definition of a free trade area in terms of the scope and the degree of reciprocal access which is contemplated in our agreement with Israel.

The free trade area is formed when two or more countries eliminate duties and nontariff barriers on substantially all trade between them. Many countries are linked today by such free trade arrangements, although the agreements vary substantially in content.

If I may, I will just summarize a couple of points. First that the GATT does permit free trade areas or customs unions as a deviation from article I as long as we meet certain well defined criteria. I will state at the outset that we anticipate that both countries can and will meet the criteria and be fully consistent with our GATT obligations.

Beyond the GATT definition, I want to point out one fact. We do expect to include other items, including services, and investment in the agreement to further liberalize our bilateral relations, as well as to establish the precedent of including these important areas in our bilateral and multilateral agreements.

I might say, as I think you have noted, Mr. Chairman, that we have not made a final decision on the most appropriate type of authority to implement such an agreement. But I do want to express my interest in working with this committee and your colleagues on the House side to develop that approach which is most effective in resolving the issue.

Now, if I may, I will just sketch it very briefly, the Israeli-United States approach. We have had these conversations now ongoing since 1981 with varying tempos. The matter has received a good deal more attention since the President and the Prime Minister agreed this past fall. I think you can anticipate that we are going to have around 5 months or so of negotiations. I think you can anticipate that it will be similar to the arrangement that Israel has with the European Community, but broader. As I have already mentioned, we specifically would include such items as services and investment, if that is in agreement with the Israeli Government.

In terms of trade impact, I think the numbers are fairly well defined. We presently import about 1.2 billion from the state of Israel. We export about 1.5. Of the imports that we receive from Israel, 90 percent are already duty free, either because of zero duty under the most-favored-nations' approach or because of GSP.

The major imports from Israel include cut diamonds, tomato products, resistors, internal combustion engines, electrical articles, and high fashion apparel such as swim wear. About 40 or 45 percent of our exports are dutible, with tariffs averaging at about 10.3 percent.

The problem we face, I think, is self-evident, because they have an agreement with the European Community in the industrial area. As that agreement phases in, our producers and products face an increasing disadvantage, the nearly $8 billion Israeli market.

This is particularly true in the industrial sector. But we also believe our agricultural exports could increase significantly under a free trade arrangement; particularly, given the relative lack of agricultural coverage under the European Community-Israel free trade area.

I might mention the most significant present exports to Israel. They include soybeans, grains, kraft paper and textile fibers, tungsten engines and engine parts, computers and other office machinery, electronic and electrical equipment and transportation equipment. In other words, it's fairly broadly based.

In addition to facing high duties or relatively high duties on a whole range of these products, our firms currently experience difficulty as a result of numerous nontariff barriers. And we believe that a free trade arrangement would provide us with an opportunity to eliminate many of these barriers as well.

We will also have to address the question of Israeli subsidy practices.

In sum, the advantage of the United States negotiating a free trade area with Israel is that we stand to gain unrestricted access to an $8 billion Israeli market which is growing and growing very nicely, a market in which a high proportion of imports are dutible now and in which many nontariff barriers exist in exchange for eliminating duties on essentially 10 percent of our own imports from Israel, and providing secure access on products currently covered by the GSP.

I think the fact that the Israeli labor force is limited in size, their labor costs are higher than all of the developing countries and their populace is highly educated would argue that while they undoubtedly will increase their exports to the United States under such an arrangement, they are certainly not likely to flood our market with low cost labor intensive products. And the net of this is to be of substantial benefit, in my judgment, to both parties.

I think that's sufficient, Mr. Chairman, just to indicate the state of play. We have begun our conversations. We are continuing them. And we very much appreciate the interest and the involvement of this committee as we pursue the matter to a conclusion, hopefully, sometime in late spring or early summer.

The CHAIRMAN. Thank you very much, Ambassador Brock.

[The prepared statement of Ambassador Brock follows:]

STATEMENT OF AMBASSADOR WILLIAM E. BROCK BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman, I want to thank the Committee for providing the opportunity to discuss an important new trade initiative. President Reagan and Israeli Prime Minister Shamir agreed on November 29, 1983 to begin discussions between our two countries on the establishment of a two-way free trade area between the United States and Israel. The United States has never negotiated an agreement of this type. We have experience in undertaking a one-way free trade area through our Caribbean Basin Initiative. We also have a free trade agreement with Canada in the automobile sector. But we have never attempted an agreement which fully meets the definition of a free trade area in terms of the scope and the degree of reciprocal access which is contemplated in our agreement with Israel.

A free trade area (FTA) is formed when two or more countries eliminate duties and non-tariff barriers on substantially all trade between them. Many countries are linked today by such free trade arrangements, although these agreements vary substantially in context. The European Community, the European Free Trade Association (EFTA), and the EC-Israel Free Trade Area are but a few examples of the existence and variation of these agreements. Each existing free trade area is different in terms of coverage, number of participants and approach to staging of the agreement.

The GATT permits free trade areas or customs unions as a deviation from Article I (Most Favored Nation Treatment) under Article XXIV, as long as the agreement meets certain criteria. Free trade areas approved under the GATT must be designed "to facilitate trade between the consitituent territories and not to raise barriers to the trade of other contracting parties with such territories." Free trade areas must cover "substantially all the trade" between the parties and must be staged into effect within a "reasonable" length of time. The agreement we anticipate with Israel will have to meet these criteria in order to be fully consistent with our GATT obligations.

Beyond the GATT definition we expect to include services and investment in the agreement to further liberalize our bilateral relations as well as to establish the precedent of including these important areas in our bilateral and multilateral agreements.

We have not yet decided the most appropriate type of authority to implement an agreement with Israel, but will be working with Congress in the coming months to accomplish this. I would like to take this opportunity to describe to you in more detail what the Israelis have proposed to us, the economic merits of this initiative, and the status of our discussions.

THE ISRAELI PROPOSAL

The Government of Israel proposed the idea of a U.S.-Israel free trade area in 1981. At that time, interagency work began on determining the benefits of such a proposal to the United States. We also initiated informal discussions with the Government of Egypt to determine their interest in a free trade area. It was the view of Egyptian officials that establishment of a free trade area was not in their economic interest at that time.

Changed political circumstances in the Middle East led us to postpone further consideration of the Israel free trade area. However, last year, Israeli officials again approached us and asked that we reconsider the proposal. Further interagency work was undertaken and this fall, with concurrence of the Trade Policy Committee, I recommended to President Reagan that the U.S. agree to begin negotiations with Israel on a two-way free trade area.

It is expected that the U.S.-Israel Free Trade Area would be somewhat similar to the agreement Israel has with the European Community, although with considerably expanded coverage. However, unlike the EC-Israel agreement, the agreement the U.S. would enter would be consistent with the requirements of Article XXIV of the GATT. We expect to negotiate a comprehensive agreement covering not only tariff elimination on substantially all trade, but also dealing with subsidies, safeguards, rules of origin and a number of other subjects, including services and investment.

Under the terms of the EC-Israel Agreement, imports of industrial products from Israel were granted duty-free entry after July 1, 1977, except for certain sensitive products on which full EC concessions were delayed until December 31, 1979. Israel, for its part, eliminated duties on about 60 percent of its industrial imports from the

EC in five stages by January 1, 1980. Duty-free treatment for the remainder was to be staged in by 1985, with two possible two-year extensions granted to Israel at specific stages. Israel has asked for both of these extensions and will eliminate duties on all industrial products by January 1, 1989.

In addition to trade in industrial products, the 1975 Agreement provided for preferential treatment of agricultural and processed agricultural goods traded between Israel and the EC. Despite the limits imposed by the EC's Common Agricultural Policy, the Community agreed to make tariff reductions on about 80 percent of its agricultural imports from Israel. Israeli exporters, however, must still comply with the requirements of the CAP and are often faced with the imposition of minimum prices, tariff quotas and voluntary restraint agreements. Due to the continued existence of these EC practices, Israel's tariff concessions to the EC have been quite limited.

The EC-Israel agreement also includes rather detailed provisions on safeguards, countervailing duties, antidumping, rules of origin, national security and consultation and dispute settlement. Our own agreement would likely contain similar provisions.

ECONOMIC BASIS FOR THE UNITED STATES-ISRAEL FREE TRADE AREA

Total U.S. imports from Israel in 1982 were $1.2 billion, while total U.S. exports to Israel were $1.5 billion About 90 percent of U.S. imports from Israel currently enter the U.S. duty-free, either on a MFN or GSP basis. Major U.S. imports from Israel cut diamonds, tomato products, resistors, internal combustion engines, electrical articles, and high fashion apparel products such as swimwear.

On the export side, about 40–45 percent of our exports to Israel are dutiable, with tariffs averaging about 10.3 percent. However, U.S. products increasingly are facing a disadvantage in the $8 billion Israeli market as a result of the EC-Israel Free Trade Area. This is particularly true in the industrial sector where our trade directly parallels that of the EC. We also believe that our agricultural exports could increase significantly under an FTA particularly given the relative lack of agricultural coverage under the EC-Israel Free Trade Area. Our most significant exports to Israel include grains, soybeans, kraft paper, textile fibers, tungsten, engines and engine parts, computers and other office machinery, electronic and electrical equipment, and transportation equipment.

In addition to facing high duties on a wide range of products entering the Israeli market, U.S. firms currently experience difficulty as a result of numerous Israeli non-tariff barriers. We believe that the free trade agreement provides the opportunity to eliminate many of these barriers. The issue of Israeli subsidy practices will also have to be addressed in the agreement.

In sum, the advantage of the U.S. negotiating a free trade area with Israel is that we stand to gain unrestricted access to an $8 billion Israeli market in which a high proportion of imports are dutiable and in which many non-tariff barriers exist, in exchange for eliminating duties on essentially 10 percent of our own imports from Israel and providing secure access on products currently covered by GSP. Some people may claim that this still does not look like a fair deal when one considers Israeli access to our large market. However, the fact of the matter is that the size of the Israeli market and economy effectively limit their ability to take undue advantage of the U.S. market. The Israeli labor is limited in size, their labor costs are higher than all other developing countries and their populace is highly educated. They undoubtedly will increase their exports to the U.S. under an FTA, but they are unlikely to flood our market with low cost, labor intensive products.

STATUS OF DISCUSSIONS

We began our formal FTA negotiations with Israel on January 17 in Washington. This first round of discussions focused heavily on the overall framework of an agreement, on the kinds of provisions which would have to be included and on the manner in which we will proceed with future negotiations.

While we have agreed at the outset that the agreement should meet the GATT criteria of coverage of substantially all trade between us, we will not undertake detailed negotiations on product coverage and staging until we have obtained economic advice from the International Trade Commission on probable economic effects of eliminating U.S. duties. We have requested this advice from the ITC and it has been promised within four months of the request date. The ITC will be holding public hearings in the next few months on all products which are currently dutiable in the United States. We already have initiated discussions with our private sector advisors, and these will continue throughout the negotiations. In addition, the Trade

Policy Staff Committee will be holding hearings in conjunction with ITC hearings in an effort to obtain further advice from the private sector.

We believe that our discussions with the Israelis got off to a promising start and we are cautiously optimistic that we can achieve agreement within the next six months or so. While U.S. procedural and legal constraints prevent us from negotiating product coverage at this time, we do believe that we can use the interim period to discuss the other provisions that will be necessary in the agreements, such as non-tariff barriers, rules of orgin, services and investment and safeguards.

We have ageed to continue our discussions during February. A working-level team will travel to Israel next week to gather more information about Israel's import practices. We expect that a full delegation meeting will then take place in Washington and I plan to meet thereafter with the Israeli Minister of Industry and Trade, Gideon Patt to assess the status of our discussions.

As our discussions with Israel proceed in the coming months, I look forward to conferring with you on a regular basis. Thank you again for giving me the opportunity to address you today.

The CHAIRMAN. Mr. Tracy, do you have a statement?

Mr. TRACY. Mr. Chairman, no, I have no statement. I am simply here to lend my support to Ambassador Brock and to answer questions if asked.

The CHAIRMAN. Fine. If it's all right with the Ambassador, we might hear briefly from Congressman Gephardt, who, as I understand, just recently returned from Israel, and who would like to speak in support of this proposal. Congressman Gephardt, we are pleased to have you with us today.

STATEMENT OF HON. RICHARD A. GEPHARDT, A U.S. REPRESENTATIVE FROM THE STATE OF MISSOURI

Mr. GEPHARDT. Thank you, Mr. Chairman. Members of the committee, it's my honor to be here and to just take a brief moment to give some of the insights I was able to gain in a trip both to Israel and to Egypt in January. And on both occasions, I was able to discuss with representatives of those countries this proposal, and I think some of the things I have learned might be of some use.

I guess you know without saying that the economic situation in Israel is a very serious one. And while this proposal would not solve that situation, it certainly could not hurt it. And I think it's the kind of solution that we need to look for in trying to help Israel meet its economic crisis. As you all know, that country had a 190-percent inflation rate last year, with the possibility of the rate doubling next year. Thirty percent of their budget goes to pay interest on outstanding debt; 30 percent of the budget is for the military, much of which obviously goes for military parts sent by the United States. It has a marginal tax rate of 60 percent on income above $20,000 a year. And, of course, that doesn't include the Social Security tax in their country or the 15-percent value added tax. So they have a very tough and, I think, declining economic situation. And if you combine this with the present political deadlock in Israel, I think the possibility of very substantial economic problems are real.

I think, obviously, there is widespread agreement in our country and in Israel and in Egypt at the highest levels of government and in the population at large that the Camp David peace process and the process of the present administration is the best hope for the Middle East. Central to that is demonstrating that through peace and economic development governments in the Middle East can provide more for their people than through continued warfare. The failure of economic development in Egypt or Israel, I think, would destroy this ongoing peace process.

As far as I could tell, a free trade agreement with Israel would do a great deal for the Israeli economy at virtually no cost to the American taxpayer; greater trade would likely prove to be beneficial for our economy as well.

I brought the subject of a U.S.-Israeli free trade agreement up at a meeting with President Mubarak of Egypt, and he felt that this would be a positive development for the entire region. He did not indicate that Egypt would like to receive equivalent treatment as a sizable percentage of government revenues in Egypt comes from tariffs on imports. I think it's very unlikely that Egypt would pursue a free trade agreement with the United States in the foreseeable future, although he did express interest in talking about it with our American trade representatives.

In short, I would strongly urge that we grant negotiating authority to the U.S. Trade Representative as soon as possible. I commend you for these timely hearings and will urge my colleagues in the Ways and Means Committee to act as expeditiously as possible on this matter.

Some of you may remember that I had grave reservations, as I know some of you did, about the Caribbean Basin Initiative and some of the effects that would come from that to parts of the American economy. I don't think those worries are present in this situation. I think that it is a plus for our economy; I think it's a plus for one of our strong allies in the Mid-East. And I think as soon as we can negotiate a fair treaty we should get on with trying to make it a reality.

And I appreciate the opportunity to be here.

The CHAIRMAN. Thank you very much, Congressman Gephardt.

[The prepared statement of Congressman Gephardt follows:]

STATEMENT OF U.S. REPRESENTATIVE RICHARD A. GEPHARDT OF MISSOURI

Mr. Chairman, I appreciate the opportunity to share with you some of the insights from my recent trip to Israel and Egypt, especially as it relates to the establishment of a Free Trade Area with Israel.

I do not think it is possible to overemphasize the seriousness of the economic situation Israel finds itself in today.

190% inflation last year, with a possibility of this rate doubling next year.

30% of the budget to pay interest on outstanding debts.

30% of the budget for the military.

A marginal tax rate of 60% on income above $20,000.00, and this does not include social security or the 15% Value Added Tax.

If you combine this economic morass with the present political deadlock in Israel, the possibility of an economic collapse is very real.

There is widespread agreement in the United States, Israel and in Egypt, at the highest levels of the governments and in the population at large that the Camp David peace process is the best hope for the Middle East. Central to the Camp David accord is demonstrating that, through peace and economic development, governments in the Middle East can provide more for their people than through continued warfare. The failure of economic development in either Egypt or Israel would destroy the peace process.

A Free Trade Agreement with Israel would do a great deal for the Israeli economy at no cost to the U.S. taxpayer. Greater trade would likely prove to be beneficial for our economy as well.

I brought the subject of a US-Israeli Free Trade Agreement up in a meeting with President Mubarak of Egypt. He felt that this would be a positive development for the entire region.

He did not indicate that Egypt would like to receive equivalent treatment, and as a sizeable percentage of government revenues in Egypt come from tariffs on imports, I think it is very unlikely that Egypt would pursue a Free Trade Agreement with the U.S. in the foreseeable future.

In short, I would strongly urge you to grant negctiating authority to the United States Trade Representative as soon as possible. I commend you for these timely hearings, and I will urge my colleagues in the Ways and Means Committee to act as expeditiously as possible on this matter. If there are any questions, I would be happy to answer them.

The CHAIRMAN. Are there any questions of Congressman Gephardt? If not, we can excuse Congressman Gephardt and zero in on Ambassador Brock. Does anybody have any questions?

Senator Chafee?

Senator CHAFEE. I noticed Congressman Gephardt said that he had some serious misgivings about the Caribbean Basin Initiative, but he doesn't see those in this situation. I suppose his misgivings about the Caribbean Basin Initiative were because as some of the products, perhaps from Missouri, were going to be affected. Is that a fair statement?

Mr. GEPHARDT. No, it really isn't. It went to my concern that the area would be used as a conduit for goods that were manufactured in other areas. And I was concerned about the way the legislation was written regarding value added. I really don't think that's a worry with Israel. I think there are some worries about certain commodities. I would hope that we not exempt anything. I think there are ways to deal with those situations where there may be real pressure on parts of our economy—they can be dealt with as the treaty is negotiated.

Another concern I had with the Caribbean countries was the fact that very few of the countries there have wage scales that are anywhere near the United States, and that could prove to be a problem with some of the parts of our economy. I don't think that's the case in Israel.

Senator CHAFEE. Well, if you have suggestions on how you can handle these special problems that will result from a treaty like this, I would be glad to hear them. I mean obviously one's attitude on this legislation is whose ox is being gored. And in this instance the ox that I represent is being gored. [Laughter.]

And I'm hearing some pangs of anguish and cries of anguish. And I'm not sure what you meant by if you give the Ambassador—you recommended that we give the negotiating authority to Ambassador Brock. Now once we do that, the horse is out of the barn. And then you suggested that arrangements could be made to take care of particular situations. What kind of arrangements?

Mr. GEPHARDT. Well, my suggestion would be that we put a limit on either various areas or any area where an impact is shown to come about, an adverse impact to some part of the American economy over a period of time. Then they could be reviewed either by the Office of the Trade Representative in negotiations or by the Congress to see if some measure shouldn't be taken to try to overcome that adverse impact.

I think there's a way to structure the treaty so that we can ensure that no part of our economy is quickly and adversely impacted by the treaty.

Senator CHAFEE. Yes, but Congress would have lost whatever control it might have by that point. We would be completely dependent upon Ambassador Brock considering what might be a minor phase in the grand picture as he sees it, but a very important phase to some areas of America. And so I'm a little leary of letting loose the tether here, the tether on Ambassador Brock, that is.

Mr. GEPHARDT. Perhaps there is a way to write the authority in the legislation so that there's a requirement that if certain events occur—and I'm not sure if you can write that adequately—but there would have to be a return to the Congress for the Congress to review that situation, and perhaps speak to it.

Senator CHAFEE. Well, we certainly appreciate your taking the trouble to come here and hearing your thoughts. Thank you.

Mr. GEPHARDT. Thank you.

The CHAIRMAN. Are there other questions of the Congressman? [No response.]

The CHAIRMAN. Thank you very much. We appreciate your testimony.

Mr. GEPHARDT. Thank you.

The CHAIRMAN. Now we will turn to Ambassador Brock. Under the early bird rule, Senator Chafee will be recognized first.

Senator CHAFEE. Mr. Ambassador, you heard in my questions to Congressman Gephardt my concerns. And they relate particularly to the jewelry business.

I have been a fervent supporter of free trade, and I have been especially opposed to protectionism for those industries which are amongst the highest paid industries in our Nation, but which have not been prepared to come down on their wages in order to be more competitive. Particularly, I'm speaking of the steel industry and the automotive industries, which have the highest paid industrial wages in our Nation.

But now we are dealing with an industry that is amongst the lowest paid in our Nation—the jewelry industry. I know no one will quarrel with that proposition. No one is earning $23 an hour plus fringe benefits in the jewelry industry. The wages are closer to $6.50 an hour. And Mr. Runci from the Manufacturing Jewelers and Silversmiths is going to be testifying later, and I would appreciate if you or your people would review that testimony because this is a very serious problem particularly in my State of Rhode Island.

Now the Israeli jewelry industry is a very mature industry. It's not something that is just striving to catch on; 85 percent of the country's jewelry is exported; 77 percent of those exports come to the United States. And it's the second largest supplier of precious metal jewelry in the United States.

Now what protection are we going to have for that industry if we should agree to your proposal that we give you negotiating authority to, in effect, have free trade?

Ambassador BROCK. Well, there are a number of elements in the response to that question. And let me say at the outset that as a matter of background that I do know the Senator's position, and it has been noble, and I'm very grateful for the leadership you have shown. There is no Senator or Member of the House that has been more consistent and more supportive of the concept of freer trade in this country than the Senator from Rhode Island. And I greatly appreciate that.

So when you say that you have got a problem, I listen and I pay attention.

Senator CHAFEE. I mean I haven't come in here and sought protection for our machine tool industry or other industries like that. But this is right on the margin. This is a low wage industry which employs a whole series of immigrants, people who have come from the Far East, from Columbia, from all over. We've got a league of nations in our plants. That's the way these people are starting up the economic ladder, and to knock them out through unlimited imports in this area, particularly in the gold chain area, is extremely concerning to me. It's of great concern.

Ambassador BROCK. Let me try to list some of the elements of assurance. First, in the negotiation itself we have asked for the advice of the ITC in terms of trade impact. That will be given approximately in May, I think. So we have that study ongoing now. That's to evaluate just what problems may or may not be involved in this kind of an agreement.

Second, if severe problems do appear, then you obviously are going to take that into consideration as you negotiate. No agreement is going to be brought into full force and effect across the range of all products on the day of signature. Both countries probably will want to take some time to phase this program in. So you do take that into account. And, again, you look at the specific problem areas and you take that into consideration.

Third, we have asked the Government of Israel to do something more, considerably more, than they agreed to do in their arrangement with the European Community. We have asked that they take into account areas that you have not asked about, such as services and investment. But we have also asked that subsidies be on the negotiating table so we can take into consideration any governmental intervention that would create a trade impact of any negative consequence in the United States. We have that as an additional safeguard, if you will.

So with all that, coupled with the existence of U.S. law, which provides for full safeguard treatment of affected firms under any normal trading circumstance, as well as this type of arrangement, it seems to me that we have the possibility at least of dealing very carefully and precisely with the kind of problem that you raised. I can't tell you precisely what we will do because I don't know. But I do know that we are worried about it. We are going to watch it. We've sought the advice of the best people we can get. And we are going to listen to the testimony of the industry and take that into consideration.

Senator CHAFEE. Well, am I correct in thinking there are two approaches to this? One is for the Congress to give you unfettered negotiating authority, subject only to whatever limitations you choose to impose as you outlined in the answer to my previous question.

The other approach is for Congress to say that you can negotiate in A, B, C, and D or in every section but E, F, and G, something to that effect. Am I correct that these are the two approaches that we might take?

Ambassador BROCK. Well, obviously, the latter is not an approach which we would support, Senator.

Senator CHAFEE. Has it been done? Is that a technique that Congress has followed?

Ambassador BROCK. It is.

Senator CHAFEE. Take the CBI. In the CBI we said you can't negotiate in textiles, in shoes, in cameras, or whatever it was. Isn't that the way it was done?

Ambassador BROCK. Yes.

Senator CHAFEE. By the time we were through, everybody had cut out their little area.

Ambassador BROCK. You had made the negotiations more difficult and less productive. That's correct. [Laughter.]

Senator CHAFEE. But it wasn't an unprecedented action?

Ambassador BROCK. No, it wasn't unprecedented. No. But, Senator, if I may, there may be a third way of doing it. And that is to give us authority without trying to list a whole series of exceptions because once you start that, I don't know where you stop. And that is to say whatever you do, bring it back to this body for approval.

Senator CHAFEE. The thing that bothers me in the administration's suggestion, is that each industry would have to bargain. The jewelry industry is just a little teeny part of the big picture, a part that might be thrown out, or thrown off the negotiating table as a sacrifice for something bigger—soybeans or something—in return for our little gold chains. Thus we lose control. Is that not so under the proposal you have up here now?

Ambassador BROCK. Not really because you will be involved, the staff of this committee will be involved, this industry will be involved as we go through this process. You know how we operate. We try to take into consideration all of these concerns. You have a right to express that.

But I will tell you, Senator, that when you are engaged in a broadly based negotiation, every item that is taken off the table makes the negotiation that much less achievable and productive and worthwhile. You know that. The whole purpose of multilateral negotiations has been to achieve a balance of concessions and opportunities across the range of our economic acitivity. It does not mean that you don't take into account those who would be most severely affected. You certainly do.

Senator CHAFEE. Let me ask you a final question. I know my time is up, Mr. Chairman.

I didn't quite understand—but I believe it was in your statement—that whereas there is currently basically free trade with Israel, except for a few products, having this completely free trade operation proposal would ensure that nontariff trade barriers would disappear. I missed something there. If they are not disappearing now, why would nontariff trade barriers disappear when trade barriers came down?

Ambassador BROCK. Because we are not just negotiating tariffs. We are negotiating a free trade arrangement which is comprehensive by the very nature of the arrangement, which we have never done before I grant you. But which under the GATT is required to be substantially large enough to cover substantially all trade.

We simply aren't going to spend all of our time on tariffs. As a matter of fact, that would not be a productive exercise because most of the world's trade is not impeded anymore by tariffs. It is impeded more by nontariff barriers. But when you do something like this, obviously, you are going to put a lot of attention on the nontariff barriers. And we think in both areas. Both in tariffs where they do affect some 40 percent of all that we sell to Israel, as well as in the nontariff areas, we have opportunities for more business.

Senator CHAFEE. Is this going beyond manufactured goods and agricultural products? Are you getting into services in this too?

Ambassador BROCK. Yes, sir.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Danforth.

Senator DANFORTH. Mr. Ambassador, right now about 90 percent of Israel's exports to the United States are duty free. If you negotiated this agreement with Israel, the other 10 percent would be duty free. If we began whittling away at that 10 percent by making exceptions, there wouldn't be very much left, would there?

Ambassador BROCK. No.

Senator DANFORTH. Most of the industries which are covered by the 10 percent, the 10 percent of Israel's exports that are dutiable, are industries, such as the jewelry industry, shoes, textiles, and others that are similarly situated—the weaker U.S. industries. Is that right?

Ambassador BROCK. Well, I'm not so sure I would describe them as weaker. They are some very strong industries, but they have been particularly beset by imports.

Senator DANFORTH. And the reason that they are not covered by the Generalized System of Preferences is that they are import sensitive?

Ambassador BROCK. That's correct.

Senator DANFORTH. Now with respect to the GSP, the GSP program expires in January 1985. There are many detractors of the GSP and one of the allies of extending it is the State of Israel. If we were to grant this negotiating authority, would that moot out the support of those who support Israel for the GSP extension?

Ambassador BROCK. In my judgment, it would not. But I think the proper people to ask would be those who would have to take that position.

Senator DANFORTH. Why do you think that it should not moot out the support for extending the GSP?

Ambassador BROCK. Because we have had conversations on the subject, and I believe that the Government of Israel, which has been a remarkably true and loyal supporter of GSP throughout the process, would continue that.

Senator DANFORTH. To grant negotiating authority is not the same as to conclude successful negotiations.

Ambassador BROCK. No.

Senator DANFORTH. And negotiations, especially if we are hoping to get something out of the negotiations as well as give something up in the negotiations, take some time. The GSP runs out in less than a year. So for time reasons, if for no other reason, there would be a continued Israeli interest in the GSP, I would think.

Ambassador BROCK. Well, I would hope that on a parallel track to the consideration of this approach, the Senate and the House would give active consideration to extending GSP. We have offered that legislation to the Congress, as you well know, Mr. Chairman, and your own subcommittee. It is important to our national interest that we extend GSP this year.

Senator DANFORTH. It would be important to Israel, too, wouldn't it?

Ambassador BROCK. Very, very much so.

Senator DANFORTH. For the reason that to grant negotiating authority and to conclude negotiations are two very different things.

Ambassador BROCK. Well, let's put it a different way. If there is any phasein of a new agreement during that time, they would need GSP if for no other reason than to maintain the benefits they now have. Otherwise, if you were going to phase something in, they could lose those benefits.

Senator DANFORTH. May I ask one other question, Mr. Chairman?

The CHAIRMAN. Sure.

Senator DANFORTH. We hope to get something out of the negotiations, as well as give something up. Right?

Ambassador BROCK. Yes, of course.

Senator DANFORTH. Who would be the likely beneficiaries in the United States or don't you know yet? Are there those who clearly have something to gain by entering into these negotiations with Israel?

Ambassador BROCK. Yes. And, frankly, they cover a very broad range. The grain producers of this country would clearly benefit. The people in tractors and heavy equipment, engines, pharmaceuticals. I could provide a pretty extensive list of those that are primarily affected by tariffs now. And, frankly, they are not only the 40 percent of our exports that are covered by duties—40 to 45 percent—but there are a number of areas where we have new opportunities that we see. We're still in the process or consulting with our private sector to gauge their own economic benefit. And it appears to be substantial.

Senator DANFORTH. The Europeans are now being granted preferential treatment by Israel that the United States is not being granted; isn't that right?

Ambassador BROCK. That is correct.

Senator DANFORTH. And it would be your belief that the negotiations could equalize those opportunities so that we would be in a better opportunity of taking advantage of those markets.

Ambassador BROCK. They will equalize and do a bit more because the European agreement does not cover agricultural products to an effective degree, and ours, we hope, would do something.

Senator DANFORTH. Do you think that this agreement would improve our trade balance?

Ambassador BROCK. There's no question that it would improve our total trade, our employment, and I think our trade balance as well.

Senator DANFORTH. Thank you.

The CHAIRMAN. Thank you.

Senator Packwood, I think, had to leave. Senator Heinz.

Senator HEINZ. In your testimony—I arrived in the middle of it—have you decided as yet whether you are going to be country specific or not in the proposal you send us, or are you going to seek a broader grant of negotiating authority?

Ambassador BROCK. It is very much my hope that we would not be country specific, Senator.

Senator HEINZ. That you would not be country specific?

Ambassador BROCK. Yes. The difficulties that I think are obvious, and we really don't want this thing to get bogged down in so much detail. That's the reason we will resist exceptions.

But if we follow the course of being not country specific then we will have to come back, in my judgment, to you for that which we have achieved.

Senator HEINZ. Do you have any other ideas whether the nonspecificity would include all countries or would there be a limitation on countries that could be included?

Ambassador BROCK. I don't see any reason for an exemption. Common sense will exclude quite a few, like something over 140. But there are some that we would like the opportunity to at least have some conversations with, and then come back and see if that's what you all would like to do.

One of the concerns that has been expressed to me is that this not be authorities to begin a new trading round in a multilateral sense. We are not seeking that. And I want to assure you of that fact. But I do think, that as we have negotiating authority to negotiate in the nontariff areas, for example, and bring back any agreements for a response from the Congress, that coverage of the tariff area would be very beneficial in this case.

Senator HEINZ. So you would subsume tariff cutting authority in this negotiating authority if you had your way?

Ambassador BROCK. It has to include that. That's really—you start by negotiating and then you move to the nontariff areas—services and investment.

Senator HEINZ. Would that be like old section 124?

Ambassador BROCK. Could be. Could be 102. I think that's where we would like the advice of this committee and the people here. We would like to work with you and develop the best approach.

Senator HEINZ. What would be the difference between what you are asking for and the kind of grant of negotiating authority that could lead to a new multilateral trade agreement?

Ambassador BROCK. In the conversations that we are presently having with our trading partners about a new trading round, we are looking at the types of items that ought to be on the agenda. Most of them are nontariff items. We are talking about including services under the GATT. We are talking about including investments. We are talking about finalizing a safeguards code. Dealing with agricultural problems, high technology. Very few, if any of those, require tariff-cutting authority.

Senator HEINZ. My impression of the Tokyo Round was that most of our problems that we sought to deal with in the Tokyo Round were also nontariff barriers.

Ambassador BROCK. That's right.

Senator HEINZ. And that the way we dealt with them was to cut our tariffs in return for getting the subsidies code or the dumping code, and so forth. Why is that not the same kind of pattern for the future?

Ambassador BROCK. Could be, but we haven't got a whole lot left to cut, Senator. We haven't got much left to give. We are the most open market in the world. We have the lowest tariffs in the world. We don't have many things left with which to bargain. It seems to me that you would look for other areas because there is not a whole lot left to give in the tariff area. What countries are seeking now, at least the developing countries that I have talked to—more of them are seeking some assurance of market access than they are a reduction in tariffs.

Senator HEINZ. If there is not a whole lot left to give, why should we give you much authority to give what we have got left? [Laughter.]

Ambassador BROCK. Well, I can go to——

Senator HEINZ. I'm not being facetious.

Ambassador BROCK. I understand.

Senator HEINZ. If the hypothesis is you can only get if you give, and if we have got nothing left to give, what's the point in giving you the authority for these little residual dribs and drabs?

Ambassador BROCK. First of all, when you are dealing with a specific country, there are some areas where a little bit of give can be very important to them on just a small number of products. I think I was referring to a multilateral negotiation, such as that which would take place in a new trading round. I don't think tariffs will be our most useful weapon, but I would hate to have any negotiator go to a new trading round without the ability to negotiate on tariffs because you would deprive him or her of a very useful tool. But the tool will have greater value with individual countries. I accept that. And that's why I think in this particular case we could use this authority. We do have to have it with regard to Israel. Otherwise, the negotiations really don't mean very much.

Senator HEINZ. For my last question: Do you anticipate that at some point you will be in a position where we will be able to sit down and discuss with you again with greater specificity what you are looking for from other countries? I gather you are not prepared to discuss here and now what we are looking for with respect to specific countries.

Ambassador BROCK. And a new trading round or in this context. Well, it isn't that we are not prepared. I think you and I have both heard an awful lot of people in this country say that they are prepared to do business with almost anybody if they play by the same rules that we play.

Senator HEINZ. That lets everybody out.

Ambassador BROCK. It does. But one of the values of this kind of an agreement is that it says we are both going to play it by the same rules. Now if you can reach that kind of an agreement with anybody—I think Americans are ready to compete. We just want to be sure that it's fair and equitable and that we have a fair chance of selling our product. So I don't have any objection to talking to anybody on that kind of a basis. There are not a whole lot that will be interested in talking to us on that kind of a basis. I guess that's the point. But if they want to talk, sure, we will talk. That's the whole idea of trying to write a good solid agreement the first time.

Senator HEINZ. It would just be my expectation that if you want a broader grant of authority, that we ought to know what objectives, in a more specific way, you hope to achieve by getting it.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Symms.

Senator SYMMS. Mr. Ambassador, right along the line of what Senator Heinz was talking about, would you welcome a new round of negotiations dealing with the subject of indirect subsidies?

Ambassador BROCK. Sure. I don't think we could achieve it in the next 12 months. I think it would take a good deal of time and effort to sell the urgency of that. But as far as the United States is concerned, we could begin that talk right now because we are really getting damaged by the process of subsidies, the largest single problem in the world trading system in terms of the practices of other governments, in my judgment. Second only to the value of the dollar.

Senator SYMMS. Well, I, in general, don't have any problem with your proposal, frankly. I think that in a general sense it's a good idea for us to try to trade with our friends and allies and strengthen the economy on both sides.

I have had some concern in two other related allies of ours—free China and free Korea. That is quite a dramatic change in the GSP for them. Where Senator Chafee has a problem possibly with imports of jewelry from Israel, well in my part of the country we export large agricultural commodities to Taiwan and to Korea. And if they can't sell in our markets, they can't buy from us. So that concerns me.

It looks like a conflict to me to be reducing the GSP to Korea, to South Korea, and free China and Taiwan at the same time we are going the other way in Israel when they are all three very strong allies and friends of the United States and important to us strategically.

Ambassador BROCK. Senator, it has been the policy of this administration—and I think the implicit policy of the Congress—that as nations mature and become world class competitors in industrial sectors that they move into acceptance of the responsibilities implied by that competitive circumstance.

Senator SYMMS. You think a 50-percent cut, though, in 2 years might be a little rigid?

Ambassador BROCK. I'm not sure that I know the basis of that figure, but if it simply is in accordance with U.S. law when we reach a competitive needs circumstance, $50 million approximately, 50-percent import penetration to the U.S. market, we really don't have any flexibility in terms of graduation. That's what the law says.

But let me remind you that while Korea and Taiwan are terribly important trading partners of ours, and I accept the essence of your question, I think they both have free, healthy trading situations with the United States. I don't think either one of them is complaining. I think they have done very well. And I think there are solid grounds for our expressing concern with our access to their markets, particularly in the case of Korea. They have had a liberalization last fall, but there is a way to go over there. And it is true that Americans have a right when a country has become a world class competitive—certainly Korea's shipbuilding, steel, textiles and other areas—should we not have the same access to those markets that they have to ours.

Senator SYMMS. Thank you.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Will the agricultural economy of this country be helped by this move of free trade?

Ambassador BROCK. Yes, sir.

Senator GRASSLEY. With Israel?

Ambassador BROCK. Yes, sir.

Senator GRASSLEY. Then along that same line, any exemption of agricultural products and commodities from the agreement would in turn hurt American agriculture?

Ambassador BROCK. You would have to expect that. Yes.

Senator GRASSLEY. Does our trade surplus with Israel occur irrespective of military sales? Or let me ask you this—or is that a significant factor in our surplus?

Ambassador BROCK. The surplus numbers that I gave you did not include the military sales, so it would be larger if you included the military sales.

Senator GRASSLEY. Third, and last, what U.S. industries in particular do you see facing stiffer domestic competition if we grant Israel's mutual agreement with the President for free trade?

Ambassador BROCK. Jewelry.

Senator GRASSLEY. Pardon?

Ambassador BROCK. Jewelry. I have been thoroughly advised of that fact. [Laughter.]

Senator GRASSLEY. All right.

Ambassabor Brock. The present products that we receive from Israel are in these basic sensitive areas: Textiles, footwear, jewelry, citrus, cut flowers, and some chemicals.

Senator GRASSLEY. Mr. Chairman, that's all.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Mr. Chairman, just one quick question.

In your colloquy with Senator Danforth about those sensitive industries in the United States, I think he suggested that products couldn't come in under GSP in those areas, and your answer was that that was right.

But there's a gap here. Jewelry is covered by GSP. A large quantity of jewelry now comes in from Israel under the GSP. So I wouldn't want any misunderstanding that the statistics that we currently have on the imports from Israel show that a substantial portion of them are already duty free. What this proposal would do is to let the balance in, and I am concerned because we are already undergoing intense competition from duty-free imports from Israel under GSP.

Ambassador BROCK. You are absolutely right. And maybe I misunderstood, but I thought we were talking about what if GSP were to terminate. And I provided a hypothetical answer to the effect that we might be phasing in some items for zero duty coverage. If an item was coming in under GSP now from Israel, and GSP were to expire, and it were phased in under the agreement over a 3-year period, then Israel would lose some of its present benefits during that period if GSP were not renewed. And that's what I was trying to say. I don't know if I said it very well or not.

Senator CHAFEE. Well, thank you very much, Mr. Ambassador.

Thank you, Mr. Chairman.

The CHAIRMAN. I am going to submit some questions in writing, but I just want to ask a couple for the record.

[The questions from Senator Dole and Senator Pryor follow:]

SENATE FINANCE COMMITTEE QUESTIONS

Question 1. With regard to this proposal, there may be some concerns among Members of Congress that the Administration may have commenced tariff negotiations without pre-established negotiating authority carefully delineated by Congress, as was the case for previous tariff negotiations. Indeed, in your statement you refer to "formal negotiations" that began on January 17, yet you also note that "U.S. procedural and legal constraints prevent us from negotiating product coverage at this time."

(*a*) Have the discussions with Israel specifically addressed product coverage, including the possibility of exceptions from coverage?

(*b*) Your basic proposition is that "substantially all" trade must be covered in order for there to be a free trade agreement at all. Is there any reason why the Congress should await the ITC report on probable economic effects before enacting tariff negotiating authority? Would it facilitate your negotiations to have authority now, rather than later? Will you submit the agreement to Congress for final approval?

Answer. (*a*) No. We have made clear to the Israelis that no discussion of product coverage can take place until we receive probable economic effects advice from the U.S. International Trade Commission (USITC). This advice has already been requested and should be received by the Administration in late May. We have begun to discuss the parameters of the agreement, excluding product coverage, and will continue to discuss such issues as non-tariff barriers, rules of origin, possible dispute settlement and notification procedures and other issues which are not directly related to product coverage.

(*b*) No. Congress need not await the ITC report to enact tariff negotiating authority. It would facilitate our negotiating with Israel greatly to have broad tariff negotiating authority in place as soon as possible. In any event, we will submit the agreement we reach with Israel to Congress for final approval. With regard to the potential concern of Congress that negotiations have commenced without pre-established negotiating authority, the Administration since the commencement of this exercise has endeavored to conform to the detailed procedural requirements that have been set out in the Trade Act of 1974 in Sections 102 and 131–135. These provisions require the President to seek advice from the USITC and private sector advisors, request ITC hearings, conduct Executive Branch hearings, and confer at early stages with the Senate Finance Committee and the House Ways and Means Committee. These procedures have been the guide to Administration action on this issue. The Administration has also anticipated that final Congressional review of any trade agreement that was concluded by the President would be an integral part of accomplishing the United States' objectives.

Question. 2. The President, in his State of the Union address, referred to a possible new "round" of trade negotiations. In recent months other matters have arisen suggesting the need for tariff negotiating and proclamation authority; for example, the agreement with Japan to reduce tariffs on semiconductors and computers. Do you anticipate requesting negotiating authority limited to the U.S.-Israel Free Trade Area, or do you believe it is necessary to seek broader authority?

Answer. The Administration is seeking broader authority than simply limited to the establishment of a U.S.-Israel FTA. It is our belief that the President could use this authority to conclude highly advantageous and GATT-consistent arrangements with select trading partners to promote freer trade on a bilateral basis.

The Administration does not seek, nor would it use this authority to begin a new round of multilateral trade negotiations.

Question 3. Ninety percent of imports from Israel enter the U.S. duty-free. The firms and workers in industries that produce articles within the other 10 percent presumably consider their industries to be import sensitive and will seek to be exempted from the proposal.

(*a*) Do you anticipate that the proposed free trade area would eliminate duties on articles now dutiable?

(*b*) If so, what assurances can you give the affected workers and firms that they will not be significantly affected by the duty eliminations?

(*c*) Would maintaining the current level of duty free imports satisfy the GATT standard that requires free trade areas to encompass "substantially all" of the bilateral trade?

Answer.

(*a*) We intend to adhere closely to the GATT requirements pertaining to free trade areas, including the one that "substantially all" trade be covered in a potential agreement. To meet this requirement, we would have to eliminate tariffs on articles now dutiable.

(*b*) We are examining appropriate ways to deal with sensitive product areas in these negotiations, including measures such as staging and safeguards. The USITC will hold public hearings, as will the Trade Policy Staff Committee (TPSC), as part of our negotiating process. We will take the views of interested firms and workers into careful account as we move toward final negotiations.

(*c*) In entering a Free Trade Area with Israel the Administration is concerned that the terms of any agreement conform with the GATT-imposed requirements for a free trade area, but is particularly concerned that the optimal economic benefit be derived from the arrangement. Fortunately, by conforming with the GATT requirements, the Administration believes that the United States will also reap the benefits of the most open, beneficial and economically interrelated arrangement between the two countries possible.

The GATT definition of a free trade area in Article XXIV requires the elimination of duties and other restrictions on trade on "substantially all trade" between two countries. There is no precise definition of the term. GATT working parties on this issue have not offered a consensus position. The term is understood to be both a quantitative as well as qualitative measure of the degree to which bilateral trade is conducted without tariff or other trade restrictions. Therefore, as the process continues, it will not be possible at any time to state exactly the percentage of trade which must be duty free in order to represent "substantially all trade" according to the GATT definition.

Although at the present time a large percentage of U.S.-Israel trade is conducted on a duty-free basis, it is not necessarily the case that this is the optimal free trade environment which the Administration would like to establish with Israel. The current state of relatively free trade between the two nations is a result of trading patterns developed in response to trading barriers. Trade will increase in areas where there are minimal trade restrictions.

To achieve the most open environment of free trade it would be necessary to eliminate barriers on as much of the entire potential universe of trade between the two countries as possible. That is why it is contemplated that restrictions on all products and as many non-tariff barriers as can be identified will be removed by the agreement. In addition, such a course will also enable the United States and Israel to conform to the Article XXIV requirements of the GATT.

Question 4. Can you state with more specificity what U.S. exports are being disadvantaged by the EC-Israel free trade arrangement, and in addition, predict what other export industries may expect to benefit from the proposed agreement?

Answer. We have received complaints that a variety of U.S. products are being disadvantaged in the Israeli market as a result of the EC-Israel agreement. These products include fiberglass products, slide fasteners and parts, wire of various substances, including copper, culture medium (for beverages), food additives, compactors, x-ray equipment, film and graphic arts processors, computer tapes and discs and cellophane. In addition to these products which could benefit from the negotiation of duty free treatment similar to that received by the EC, I believe that we can expand our exports in a number of areas, including high-technology products (e.g. computers and data processing equipment), paper products, aircraft and other transportation equipment, and in the area of agriculture, grains, some processed foods, tobacco, and perhaps in some meat categories. This list is obviously not exhaustive, but it does give some indication of the types of products for which there is growth potential as a result of this agreement.

Question 5. You suggest that the agreement will address Israeli export subsidy practices. Will an agreement be conditioned on Israel's commitment to eliminate these subsidies and/or to join the Subsidies Code?

Answer. As part of the FTA agreement we will require Israel to eliminate export subsidy practices.

Question 6. Will the proposed arrangement have any adverse impact on other U.S. trading partners?

Answer. No. The GATT Article XXIV requirements state that no GATT member can be disadvantaged more by the existence of a free trade agreement than they were under conditions prior to that agreement. As the United States intends to conform to these requirements it is expected that our other trading partners will continue to receive the same treatment they currently do in the U.S. and Israeli markets.

Question 7. Mr. Ambassador, I understand that the Administration may ask the Congress for general negotiating authority, not authority limited specifically to Israel. I am concerned that the Administration may be sliding—sideways, as it were—into a new round of trade negotiations without adequately consulting with the Congress. Is it the intention of the Administration to consult with the Congress, should you decide to engage in a new round of multilateral negotiations? What type of negotiating authority does the Administration contemplate?

Answer. The Administration, in seeking negotiating authority to conclude a free trade arrangement with Israel, is not seeking negotiating authority to begin a new round of multilateral negotiations and would not use any authority it received for that purpose.

The authority contemplated by the Administration would only be sufficient to enable the President to enter into comprehensive Free Trade Arrangement with Israel and perhaps extend such arrangements to other trading partners, if that appears to be in the best interests of the United States.

The best approach for accomplishing this would be through an amendment to Section 102 of the Trade Act of 1974. Under this provision the President currently has the authority to seek the modification of non-tariff barriers which have a trade distortive effect. An amendment which would extend this authority to the negotiation of tariff barriers as well would give the President the flexibility to negotiate a full and comprehensive agreement which would provide for the optimal balance of interests between the U.S. and Israel.

By adopting this legislative approach the Congress need have no fear that agreements would be entered into without proper Congressional consultations, or review by other interested parties.

The provisions of Section 102 with regard to non-tariff barriers are well known and already in place. The procedural requirements set out in Section 102 itself, as well as Section 131-135 of the Trade Act of 1974, provide for early conference with both the Senate Finance and House Ways and Means Committees, ITC advice on all tariff items and some selected non-tariff barriers, and advice from the private sector received through Executive Branch hearings, ITC hearings and the entire private sector advisory program. Most important, any agreement the President would conclude would have to be returned to Congress for full review and implementation, following the procedures of Section 151.

Section 102 authority, expanded to include tariff items, is, in the Administration's view, sufficient to conclude an arrangement with Israel and for other free trade initiatives, with full Congressional and private sector participation. It is not legislation which would authorize a new round of multilateral trade negotiations.

Question 8. Mr. Ambassador, we now have a serious trade problem, with the merchandise trade deficit expected to reach $100 billion for 1984. If the Administration decides to pursue a new round of trade negotiations to expand international trade, what sort of support will you advocate to help out the workers and industries injured by further trade expansion? In your view, are the Trade Adjustment Assistance and Job Training Partnership programs sufficient for this purpose?

Answer. I agree with you that we now have a serious trade problem, and as you know I have been doing my level best to turn that situation around. However, there is general agreement that the reason why the U.S. has lost much of its competitive edge in international trade is because of the high value of the dollar which makes American exports expensive and imports relatively cheap. In addition, the American economy has been growing much faster than that of other countries resulting in brisk American purchase from abroad.

If we decide to pursue a new round of trade negotiations it would be with the view of improving the world trading system and opening up foreign markets to U.S. goods. We as a matter of fact expect that any possible trade talks would result in an increase in U.S. jobs through exports, particularly in the high technology and services industries, and we do not expect any adverse impact on American workers.

Does this mean we expect no future need for trade adjustment assistance? The answer of course is that there will be a continued need for adjustment assistance. However, we hope that the need will not increase as a result of any possible trade talks.

The TAA and the Job Training Partnership Act (JTPA) are designed to take care of present problems, and we are closely watching to see how well the JTPA, which only recently went into effect, can handle the job.

RESPONSES TO QUESTIONS POSED BY SENATOR DAVID H. PRYOR ON THE PROPOSED UNITED STATES-ISRAELI FREE TRADE AREA

Question 1. Will the negotiating authority you seek be broader than this FTA with Israel.

Answer. As I mentioned in my testimony before the Senate Finance Committee, I would prefer to seek broader negotiating authority at this time. The administration will be submitting a legislative proposal on this issue in the near future.

Question 2. What type of safeguard provisions will be part of the agreement you intend to negotiate? Will it have more definition and teeth than the EC-Israel FTA?

Answer. At this time we have not yet determined the exact type of safeguard provision that we would seek in the U.S.-Israel FTA. We are aware, however, that we must work within the context of existing U.S. law to determine the type of provision we seek. I believe that it is most appropriate to examine the question of safeguards after we have received advice from the ITC on the probable economic effects of eliminating U.S. duties and have begun our negotiations on product coverage.

Question 3. How will you deal with balance of payments provisions, like those in the EC-Israel FTA agreement, that normally override all other terms of the agreement?

Answer. We are very aware of the need to ensure that concessions are not undermined by frequent use by Israel of GATT legal actions for balance of payments reasons. At this time we are reviewing possible ways to address this problem in the context of the FTA, but we have not yet determined which approach to adopt.

Question 4. You stated at the hearing that you expect an additional $8 billion in trade to result from this FTA for our country. Please give your reasons for this statement and also list the products you believe would go to Israel that aren't doing so under existing law.

Answer. My statement at the hearing referred to additional access to an $8 billion market, not to a specific increase in trade of $8 billion. I do believe that we can significantly increase our trade performance in the Israeli market under a free trade area.

The Israeli market is currently protected by duties averaging over 10 percent on approximately 45 percent of their imports and by numerous non-tariff barriers. We believe that the combination of these two factors and the existance of the EC-Israel Free Trade Area has limited our ability to compete effectively in the Israeli market. With the establishment of a U.S.-Israel FTA, all of these factors would be nullified.

I believe that we can expand trade in a number of areas, including high technology products, (i.e. computers and data processing equipment), paper products, and aircraft. In addition, there are a number of products which currently are negatively affected by the EC-Israel Free Trade Area which could benefit from a free trade area between the U.S. and Israel. These products include fiberglass products, slide fasteners, copper wire, culture medium (for beverages), food additives, compactors, x-ray film and graphic arts processors, computer tapes and discs and cellophane and numerous agriculture products.

Question 5. With all the U.S. aid going to Israel today, perhaps $1.7 billion, isn't this already substantial help to the Israelis? In some areas this aid may already be allowing them to compete with U.S. suppliers.

Answer. The aid we have provided to Israel over the past years has indeed helped Israel. However, the Israelis would like the opportunity to reduce the portion of aid funding from the U.S. by expanding their trade and thus becoming more self-sufficient and less reliant on continued U.S. aid funds. The gradual reduction of Israel's reliance on U.S. aid for its economic survival is also in the interest of the United States.

Question 6. Will certain volume quotas (restraints) be part of the agreement?

Answer. We have not yet determined whether or not certain types of quotas would be a part of a staging scenario for the agreement, although this is a possibility which will be considered when we receive ITC advice.

Question 7. In your negotiations with Israel, will current GSP be a given or considered a concession from the U.S.?

Answer. GSP eligible items will be treated as currently dutiable items and staging of duty elimination would be initiated from the MFN rate of duty on these items. However, we believe that Israel should retain access to the GSP program while the staging is being completed.

Question 8. Will the Administration be proposing appropriate legislation perhaps by September?

Answer. We hope to discuss with the Senate Finance Committee Members the most appropriate legislative approach to negotiate and implement such an agreement. We expect that it will be necessary to obtain Congressional approval for some form of tariff negotiating authority with the understanding that any agreement would be subject to Congressional approval under expedited procedures contained in the Trade Act of 1974.

The CHAIRMAN. Now as I understand, you refer in your statement to formal negotiations that began on January 17. There might be some concern among Members of Congress that the administration may have commenced tariff negotiations without any preestablished negotiating authority. My question is, Have the discussions with Israel specifically addressed product coverage, including the possibility of exceptions from coverage?

Ambassador BROCK. No. We are being very careful to wait on that until the Congress has acted. And even then we will have to wait probably further for the ITC's findings to be sure of our ground.

The CHAIRMAN. That was my second question. Do you think it's necessary to wait for the ITC report? Would it make it easier for you to facilitate your negotiations to have the authority now rather than later?

Ambassador BROCK. It would make it much more comfortable to have the authority. We, obviously, are going to take the ITC's findings into account as we proceed with the final phase.

The CHAIRMAN. So there's no need to wait for that?

Ambassador BROCK. No.

The CHAIRMAN. That wouldn't be a problem?

Ambassador BROCK. Not at all.

The CHAIRMAN. You suggested in your statement that you will address Israeli export subsidy practices. Will an agreement be conditioned on Israel's commitment to eliminate these subsidies and/or to join the subsidies code?

Ambassador BROCK. I'm reluctant to say what the final agreement will contain, Mr. Chairman, until we see it. But I think the indications are that the Israelis are willing to discuss this kind of question. Now I don't know about the code, but certainly in terms of their own practices. And I think we expect to make a good deal of progress in the area.

The CHAIRMAN. Will the proposed arrangement have any adverse impact on other U.S. trading partners? That may be something that you are not prepared to answer at this time.

Ambassador BROCK. No; I really don't think so. It seems to me that these sorts of arrangements have the primary effect of increasing the totality of trade. It will give us a competitive opportunity that we might not otherwise have. But I don't think it would disadvantage others. My own judgment is that the more of this sort of thing we could do, the better off the world trading system is.

The CHAIRMAN. Is there any likelihood that Egypt might reconsider its participation in the free trade area?

Ambassador BROCK. I honestly don't know. I talked to the Egyptian president and its government on more than one occasion. Told them precisely what we were thinking about, how it was proceeding, where we intended to go, how much time that might take, and what the composition might be, and suggested that since we were concerned about the Camp David accords and the economic development of both Israel and Egypt, that if they felt it was in their interest in any fashion that I would welcome that. And then we would proceed to see what we could do.

They said at that time that they did not believe it was in their interest to pursue this course. They know both in public and in private of our expressed willingness to engage in similar conversations with not just Egypt but with other friends around the world. And if they want to change, they have every right to do so. We would welcome that.

The CHAIRMAN. In addition to its apparent economic rationale, the free trade arrangement, if it's agreed to, could also advance the U.S. foreign policy goals in the Middle East. Is that in fact another consideration supporting this proposal?

Ambassador BROCK. Well, I would very much hope so. It's not on the negotiating table, but it certainly is in my mind.

The CHAIRMAN. You also indicated that you are thinking about including service industries in these arrangements. Again, is that in process? You may not be prepared to say what type of restrictions on services trade that you set to eliminate, but have you identified something specifically that you are going to be looking at?

Ambassador BROCK. We have officially told the Israeli Government that we would like to include services. We haven't gone too much beyond that yet. We will consult with our private sector, with theirs, with their government and see where we go. We would like to include it.

The CHAIRMAN. You also indicate that you will include "investment." I'm not certain what that means.

Ambassador BROCK. As you know, we have been involved in writing bilateral investment treaties or agreements around the world, a number of which will be before you this year. We have a good friendship, commerce and navigation treaty with Israel, but we would like to look at the investment question to be sure that there is a free flow of capital between the two of us. And if we can improve that aspect of the agreement, we will do so.

The CHAIRMAN. Are there other questions of Ambassador Brock?

[No response.]

The CHAIRMAN. Mr. Tracy, do you have anything to add?

Mr. TRACY. I'm just fine.

The CHAIRMAN. Good.

Mr. TRACY. I speak for agriculture, Mr. Chairman, whether they like it or not. Thank goodness.

The CHAIRMAN. We need help.

Senator DANFORTH. We need a continuous USTR for agriculture and others.

35-438 O - 84 - 3

Ambassador Brock. You will have my support of agriculture and the Department of Agriculture as long as they have such outstanding people in charge.

The CHAIRMAN. As I indicated at the outset, we are going to look at this hearing record, and we have yet a number of witnesses to hear. We want to work with you and get a bill drafted if we can, one we can agree on, and move on it as quickly as we can.

Senator Symms.

Senator SYMMS. Mr. Chairman, I just want to thank the Ambassador, and particularly thank him for his attitude about indirect subsidies and encourage you that we are working on legislation that deals with that. And we hope that you can support an effort to get a new round of negotiations on indirect subsidies, because I think it really is of critical importance to a continued world if we are going to trade in it.

Ambassador Brock. Senator, I appreciate your interest, and I look forward to working with you.

Senator SYMMS. Thank you.

Ambassador Brock. It's a subject of very real concern to me.

The CHAIRMAN. Thank you very much, Mr. Ambassador, Mr. Tracy. We appreciate it.

Ambassador Brock. Thank you.

The CHAIRMAN. Now we will start with the first panel and we have a number of them. The first includes Tom Dine, executive director, American Israel Public Affairs Committee; Mr. Elmer Winter, representing the American Jewish Committee; and Mr. E. Jay Finkel from Porter, Wright, Morris, and Arthur, representing the Zionist Organization of America. We will suggest that you try to summarize your statements. We have some 20 witnesses to hear in the next hour and 20 minutes. So if you can give us your best 2½ minute summary, it would be appreciated.

Tom, do you want to kick it off?

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE, WASHINGTON, DC

Mr. DINE. Thank you, Mr. Chairman, for the opportunity to testify before this distinguished committee on a proposed free trade area between the United States and Israel.

I would like to summarize my testimony and ask that the full text be inserted in the record.

The CHAIRMAN. It will be made a part of the record. All statements will be made a part of the record as though given in full.

Mr. DINE. Thank you very much.

[The prepared statement of Mr. Dine follows:]

TESTIMONY OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Thank you, Mr. Chairman for the opportunity to testify before this distinguished committee on a proposed Free Trade Area between the United States and Israel. Appearing with me are Mr. Douglas Bloomfield, AIPAC's Legislative Director, and Mr. Steven Rosen, AIPAC's Research Director. I will summarize my testimony and ask that the full text be inserted in the hearing record.

AIPAC is a domestic American lobby concerned with American foreign policy. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one-half million members throughout the United States.

AIPAC strongly supports the establishment of a Free Trade Area (FTA) between the United States and Israel as good trade policy and sound foreign policy for the U.S. It would be a meaningful step towards solidifying the unique relationship between our two democratic nations and a way to provide mutual benefits for both countries.

Israel shares with the U.S. a heritage of democratic traditions and Judeo-Christian values, and is a member of the family of free nations. Its democratic character is rooted in the principle that government derives its legitimate power from the people, who express themselves through open elections, unfettered freedom of speech, free trade unions, a robust free press, and other rights protected by an independent judiciary. Israel is one of the great success stories of the democratic experience in the modern world. In addition, poll after poll has shown that Americans have felt a special affinity for Israel since its birth as a nation in 1948. That support has also been reflected here in the Congress which has been consistent in its moral, economic and military support for Israel throughout the years.

Israel is ,additionally, a country of considerable strategic importance to the U.S. and the West. Its critical location at the anchor of the Mediterranean basin and in the heart of the Middle East, the fighting strength of its armed forces, and its commitment to prevent Soviet-allied forces from becoming the dominant powers in the region, make Israel a strategic ally of great value in this critical part of the world.

But Israel's strength and free institutions depend on the health of their economic foundations. These are, as you well know, under great stress.

To put the problem in perspective, it is important to begin with a recognition that today's Israel in fact constitutes one of the more impressive economic achievements of the postwar years. A nation of impoverished immigrants returned to a land almost barren of natural resources. Within a few years, Israelis built agricultural, industrial, and service sectors comparable in their level of development to many of the nations of Europe. This is reflected in the statistics of per capita production, and in the visible evidence you witness when you travel throughout the country.

This remarkable development in a few short decades was achieved primarily by the hard work and entrepreneurial spirit of the people themselves, in an economy that rewards free and intelligent enterprise. It is also an example of what people can accomplish in a free and unfettered market.

But Israel is, at the same time, staggering under the burden of financing its defense, as it tries to maintain a military balance with an enormous coalition of adversaries who have almost as many aircraft and tanks as NATO. Since 1973, several of the Arab League states have enjoyed an enormous infusion of wealth generated by inflated oil prices, and they have devoted a great share of this to amassing arms against Israel. As a result, Israel is forced to devote over a third of its resources to defense - compared to 6% in the U.S. and 1% in Japan.

Another particular factor that imposes a great strain on the Israeli economy is the refusal of its neighbors to engage in normal trade. Beyond denying their own markets, the Arabs have employed the economic boycott and petro-pressures to close many Third World markets to the Jewish state.

As a result, Israel, as a trading nation dependent on imports and exports, has been forced to concentrate largely on the markets which remain open in Europe and the United States as its principal trading partners. These are the lifeline of its economic existence, and thus fluctuations in the import duties and policies of these markets reverberate throughout the Israeli economy.

The unique character of U.S.-Israel economic relations also argues for the establishment of an FTA. The United States, through an annual $2.6 billion aid program, recognizes the need to strengthen Israel's economy in furtherance of U.S. national interests. Beginning in 1974 with the creation of the U.S.-Israel Joint Committee on Trade and Investment, the United States has been looking at ways to help enhance the trading relations between our two nations.

The European nations have taken a major step towards enhancing their own relations with Israel by admitting it as an associate member of the European Common Market and signing a Free Trade Area agreement with Israel. This allows Israel duty-free access to the second largest market in the world, reciprocated by progressive duty-free access for European products in Israel.

Now, President Reagan declared on November 29, 1983, that the United States has agreed to open negotiations to create a similar relationship. This is an historic event, as it would put the United States on the same footing as the free nations of Europe in their conduct of economic relations with Israel.

A U.S.-Israel FTA would also be of significant benefit to the United States. The United States is Israel's largest trading partner. Twenty-three percent of Israel's exports go to the U.S., and twenty-five percent of its imports come from here. For the United States, Israel represents our second to third largest market in the Middle East. Israel imported last year more than $1.7 billion in civilian goods from the United States, thus creating about 50,000 U.S. jobs, based on the Department of Commerce principle that each $1 billion in exports creates 30,000 jobs.

The United States has always enjoyed a highly favorable balance of trade with Israel, resulting in a 1983 trade surplus in excess of $500 million. Most of Israel's exports to the United States (90%) already enter duty-free while only 55% of U.S. exports to Israel have duty-free status. Israel thus has the potential for being a far stronger market for the U.S. if a Free Trade Area were established.

Mr. Chairman, if we do not take action, there are reasons to believe that the competitive position of American exporters to the Israeli market will suffer. The terms under which European exports enter Israel are improving as the provisions of Israel's agreement with the European Community come into effect. U.S. firms will soon be at a competitive disadvantage in comparison with their European counterparts. This can be prevented if a Free Trade Area is established. This will protect our thriving exports to Israel in such areas as metal-working machinery, electronic components, electronic production and test equipment, and computers. Indeed, these and other industries would significantly expand their shares of Israel's $8 billion market under an FTA.

Israel would, under the terms of a Free Trade Area, also of course be able to expand its exports. It could, over time, help to reduce Israel's balance of payments gap and its reliance on U.S. economic assistance.

But the threat to American industry would be minimal. Israel is unlikely to flood the American market, because it is not a cheap labor enclave. As a very small country with a relatively high-priced labor force, Israel would find it difficult to undercut prices of U.S. manufacturers and flood U.S. markets with cheap, labor-intensive products--even if they all entered the U.S. duty-free.

Nor will Israeli agricultural exports have a negative net effect on the U.S. farmer. Indeed, our agricultural exports to Israel exceed by nearly eight to one those of Israel to the U.S. ($421 million compared to $53 million, in 1982). The American farmer, therefore, is likely to benefit, as he holds or expands his market share against European competitors and as he benefits from Israeli technological advances.

In summary, establishment of a Free Trade Area is a step we can take to help Israel while helping ourselves. In taking this step, we will join our European allies in stating that Israel is a part of the family of free nations. It will be good for the U.S. economy, strengthen a vital ally in the Middle East, and reaffirm the bonds between ourselves and a fellow democracy.

I would also like to say a word about the importance of renewing the Generalized System of Preferences which is due to expire in January, 1985. During the years that the GSP has been in existence, both the U.S. and Israel have benefitted as Israel made considerable concessions in order to gain GSP treatment for its products. At present, 35% of Israel's exports to the U.S. come in duty-free under the GSP. Until a Free Trade Area is fully established, the GSP will continue to be an important element in U.S.-Israel trade relations.

Thank you, Mr. Chairman.

Mr. DINE. AIPAC strongly supports the establishment of a free trade area. It is good trade policy and sound foreign policy for the United States. In its implementation, it would be a meaningful step toward solidifying the unique relationship between two democratic nations, and a way to provide mutual benefits for both countries.

Israel shares with the United States a heritage of democratic traditions and Judeo-Christian values, and is a member of the family of free nations. Poll after poll show Americans feeling a special affinity for Israel since its birth as a nation in 1948. That support has also been reflected here in the Congress, which throughout the years has been consistent in its moral, economic, and military support for Israel. Israel is additionally a country of considerable strategic importance to the United States and the West. Its critical location at the end of the eastern Mediterranean and in the heart of the Middle East, the fighting strength of its armed forces, and its commitment to prevent Soviet-allied forces from becoming the dominant powers of the region, make Israel an ally of great strategic value in a critical part of the world.

But the strength and free institutions of Israel depend on the health of their economic foundations. These are, Mr. Chairman, as you well know, under great stress.

To put the problem in perspective, it is important to begin with a recognition that today's Israel in fact constitutes one of the most impressive economic achievements of the post-war years. A nation of impoverished immigrants returned to a land almost barren of natural resources. Within a few years, Israelis built agricultural, industrial, and service sectors comparable in their level of development to many of the nations of Europe. But Israel is at the same time staggering under the burden of financing its defense as it tries to maintain a military balance, facing as it does an enormous coalition of adversaries who possess about as many aircraft and tanks as NATO.

Since 1973, several of the Arab League States have enjoyed an enormous infusion of wealth generated by inflated oil prices, and they have devoted a great share of this to amassing arms against Israel.

As a result, Israel is forced to devote over a third of its GNP to defense, compared to about 6 percent in the United States, and 1 percent now in Japan.

Another particular factor that imposes a great strain on the Israeli economy is the refusal of its neighbors to engage in normal trade. Beyond denying Israel their own markets, the Arabs have employed an economic boycott and petropressures to close down many Third World markets to the Jewish state. As a result, Israel as a trading nation dependent on imports and exports is forced to concentrate largely on open markets in Europe and in the United States. These trading partners are the lifeline of Israel's economic existence and, thus, fluctuations in the import duties and policies of these markets reverberate throughout the Israeli economy.

Regarding the European market, those nations have taken a major step toward enhancing their own relations with Israel by admitting it as an associate member of the European common market, and signing a Free Trade Area Agreement with Israel.

In that regard, President Reagan declared on November 29, 1983, that the United States has agreed to open negotiations to create a similar relationship. This is a historic event, as it would put the United States on the same footing as the free nations of Europe and their conduct of economic relations with Israel. A United States-Israel free trade area would also be of significant benefit to the United States. The United States is Israel's largest trading partner. Israel imported last year more than $1.7 billion in civilian goods from the United States, thus creating about 50,000 American jobs based on the Department of Commerce principle that each $1 billion in exports creates 30,000 jobs.

The United States has always enjoyed a highly favorable balance in trade with Israel, resulting in a 1983 trade surplus in excess of $500 million. If we do not take action, Mr. Chairman, there are reasons to believe that the competitive position of American exporters to the Israeli market will suffer because of the EC agreement with Israel. Israel would, under the terms of the free trade area, also be able to expand its exports. It could, over time, help to reduce Israel's payments gap and its reliance on U.S. economic assistance.

But the threat to American industry would be minimal because Israel is not a cheap labor enclave. Israeli goods are unlikely to pour into the American market. As a very small country with a relatively high priced labor force, Israel would find it difficult to undercut prices of U.S. manufacturers and flood U.S. markets with cheap labor-intensive products, even if they all entered the United States duty free.

In summary, establishment of a free trade area is a step we can take to help Israel while helping ourselves. In taking this step, we will join our European allies in stating that Israel is an integral part of the free world. It will be good for the U.S. economy, strengthen a vital ally in the Middle East, and reaffirm the bonds between ourselves and a fellow democracy.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

STATEMENT OF ELMER WINTER, REPRESENTING THE AMERICAN JEWISH COMMITTEE, WASHINGTON, DC

The CHAIRMAN. Mr. Winter.

Mr. WINTER. Mr. Chairman, and members of the committee my name is Elmer Winter. I'm chairman of the Committee for the Economic Growth of Israel. We are a nonprofit organization consisting of 116 U.S. business executives and 28 Israeli business executives. And our role is to expand the business relationships between Israel and the United States.

It's further our goal to help Israel become financially independent. By way of further introduction, I come from the business side. I'm the cofounder and past president of Manpower, Inc., an international company operating throughout the world and four offices in Israel. I'm also appearing on behalf of the American Jewish Committee, where I have served as the national president for 2 years.

And I, too, appear before you in support of the U.S. administration's proposal to establish a free trade area with Israel. I believe that the implementation of this program would be to the mutual benefit of the United States and Israel.

I have in my statement that I have submitted to you seven reasons why I believe the proposed FTA will be to the benefit of both countries. Certainly, it will provide and open new export opportunities for U.S. manufacturers. Opportunities for the purchase of goods made in America in Israel will certainly be expanded dramatically.

I've also indicated in my statement that the proposed FTA would open new R&D opportunities for U.S. companies in Israel. There are many American companies now that are conducting research in Israel, and I believe, as I pointed out in my statement, that the FTA would assist in the expansion of that type of R&D, which would benefit American companies.

Then I point out that the proposed FTA will provide new opportunities for U.S. companies operating their plants in Israel to sell their products in Europe. There are some 150 American companies operating facilities in Israel, and I think that this would be of great importance to them.

Then I point out the proposed FTA will provide to Israel an opportunity to reduce her deficit and the balance of payments in relation to the United States.

I do want to point out that Israel has bitten the economic bullet. And I point it out in my testimony here, and a number of ways in which this has come about. Israel is definitely moving in the direction of trying to correct some of the ills of the past, the devaluation of the shekel by 30 percent is one indication of that. The proposed Government cuts of 8 to 9 percent, painful as they may be, will certainly assist toward bringing economic stability to the country.

And then a reduction of some 50 percent in the level of Israel Government subsidization of basic goods and services will make a material difference in the reduction of the budget.

Then I point out in No. 5 that the proposed FTA will assist Israel in becoming financially independent of the United States in the future. And I think that is something that we in this country would certainly welcome. I know the Israelis would. And I think this would provide the engine for that to come about.

I did try to point out—because my whole background is in the area of employment—that the proposed FTA will not adversely affect jobs in the United States. And I give the three reasons why I believe this will be the case.

Then, lastly, I point out—and it's something that we ought to be thinking about in the future—a Mid-East common market. And that I would hope the U.S. Government would address itself to at some point. I think that could well provide the cement that will hold any peace agreement together that will be forthcoming in the years ahead. So for all of these reasons I would urge the U.S. Senate to support the administration's proposal for the development of a free trade area with Israel. Thank you very much.

The CHAIRMAN. Thank you, Mr. Winter.

[The prepared statement of Mr. Elmer L. Winter follows:]

Testimony of Elmer L. Winter, Chairman of the Committee for Economic Growth of Israel and Honorary National President of the American Jewish Committee

My name is Elmer L. Winter. I am Chairman of the Committee for Economic Growth of Israel (CEG-I), a nonprofit organization consisting of 116 US business executives and 28 Israeli business executives. Our role is to expand the business relationships between Israel and the United States. It is further our goal to help Israel become financially independent. By way of further introduction, I am the co-founder and past president of Manpower, Inc., an international company operating through 1000 offices in 31 countries -- with four offices in Israel.

I am also appearing on behalf of the American Jewish Committee. I have served as national president of the American Jewish Committee, one of the leading American Jewish organizations concerned with promoting closer United States political, military and economic ties with Israel.

I appear before you in support of the US Administration's proposal to establish a Free Trade Area with Israel. I believe the implementation of this program would be to the mutual benefit of the United States and Israel.

In the work of CEG-I over the past seven years, as business executives, we have assisted a large number of US and Israeli companies in their efforts to make business connections leading to exports from the US to Israel; exports from Israel to the

United States; investments by US companies in Israel and the exchange of technologies between business organizations in both countries. We also have assisted American companies in finding research partners in Israel. We operate on a business-to-business basis. We do not receive any financial support from the Government of Israel or the Government of the United States. We believe that our efforts helped improve and cement the business relationships between the US and Israel.

We fully support the development and the implementation of the proposed Free Trade Area between the USA and Israel for the following seven economic reasons. (I will leave to others the important political benefits that the proposed FTA will provide to the US and Israel in strengthening their long-standing and important relationship.)

1) <u>The proposed FTA will open new export opportunities for US manufacturers.</u>

At the present time Israel provides an important export market for US manufacturers. The exports are in excess of $1.5 billion of civilian goods annually. The Department of Commerce estimates that exports from the US to Israel generate approximately 100,000 jobs in the USA.

In the implementation of the FTA, increased exports of products made in the USA will be generated because of the lowering of tariffs imposed by Israel against US products. This will mean increased US jobs and an increased share of the market in Israel for American-made products. This will also assist the

US in reducing its deficits in its trade overall of $69 billion.

Israel offers an $8 billion market to US manufacturers. The proposed FTA will offer ready access to this large and profitable market by US exporters.

By Israel reducing tariffs against US products, US manufacturers will have an opportunity to be more competitive against products made in Europe, which will be sold in Israel at reduced tariffs. It is important to note that Tariffs on EEC products to be sold in Israel will be reduced to zero starting in 1987.

Many US manufacturers told us of their difficulties in selling their products in Israel because they cannot compete with products made in Europe. This situation will worsen as Israel will be required to reduce tariffs on products made in Europe as part of Israel's EEC arrangements. The implementation of the proposed Free Trade Area between Israel and the United States will lessen the impact of this problem.

2) <u>The proposed FTA will open new R&D opportunities for US companies in Israel.</u>

There are over 105 US companies operating in Israel. Many of these companies are conducting R&D in Israel using the technology developed by private Israeli companies and Technion, Weizmann Institute, Hebrew University, etc. These companies are the beneficiaries of the substantial grants provided by the Government of Israel and the Bi-national Research Development Foundation (BIRD-F). This foundation was created jointly by the United States and Israel with each country providing $30 million for R&D purposes.

Many new breakthroughs have been accomplished by US companies through their R&D in Israel. The proposed FTA will expand the R&D opportunities in Israel for US companies since the products flowing from this R&D will lead to the manufacture of products that can be exported from the US abroad. These newly developed products will also be of benefit to US buyers both in industry and at the consumer level.

3) The proposed FTA will provide new opportunities for US companies operating their plants in Israel to sell their products in Europe.

Israel enjoys a duty-free situation for exports to EEC countries. Many US companies are unable presently to sell their products in Europe because of tariffs imposed by European countries. By operating plants in Israel, these US companies can manufacture and sell their products competitively in Europe. By adopting the proposed FTA plan, more US companies will be able to sell their USA-produced components to Israel duty-free for inclusion in a final product to be assembled in Israel and sold to EEC countries. This, in effect, will provide additional export opportunities for US companies.

4) The proposed FTA will provide to Israel an opportunity to reduce her deficit in the balance of payments in relationship to the United States.

Israel suffers from an annual deficit in her balance of payments with the United States to the extent of $300 million. In 1982 exports from the US to Israel amounted to $1.5 billion.

In 1982 exports from Israel to the United States amounted to $1.2 billion thus constituting a net deficit against Israel in the amount of $300 million.

This deficit contributes in a substantial way to Israel's overall annual deficit of $5 billion.

Israel cannot be a strong and viable nation with an annual deficit of $5 billion per annum. It is to the interest of the United States that Israel be economically strong and that her economy be viable. By increasing the opportunities to Israel to sell more products in the United States duty-free (beyond the 2,700 items now provided for), Israel will have an opportunity to eliminate her negative balance of payments with the United States.

It is important to note that Israel has bitten the economic bullet to help pull herself up by her own boot straps. This effort might well be termed, "And now for the good news."

The changes taking place to help improve the economy of Israel are:

A) The devaluation of the Israeli shekel vis-a-vis the US dollar by 30% and the creeping devaluation averaging 0.3 to 0.5% a day make investment in Israel more attractive. Israel's inflation will be offset by the devaluation of the shekel, thus protecting American investment.

B) The proposed government budget cuts of 8-9%, painful as they will be, will provide economic stability by reducing rampant inflation. The Government of Israel proposes to cut the equivalent of $600 million out of its $21.5 billion budget. It is hoped that Prime Minister Shamir can obtain the consent of those affected to accomplish the budget cuts Cohen-Orgad has suggested.

C) A reduction of 50% in the level of the Government's subsidization of basic goods and services will help reduce the budget.

D) A complete freeze on the hiring of public service workers will further bring down government costs.

E) A decline of 7-10% in real wages will increase Israel's ability to be more competitive in worldwide export markets.

F) Israel has stemmed the flow of foreign currency abroad. Israelis can no longer buy or sell foreign currencies; they are limited to taking $3,000 when they go abroad.

This should provide encouragement to the United States as Israel moves in the direction of regaining economic viability.

5) <u>The proposed FTA will assist Israel in becoming financially independent of the US in the future.</u>

We, in CEG-I, are committed to assisting Israel to become financially independent of the USA. We believe it is to the best interest of the United States and Israel that Israel work to a point where she will be able to stand economically on her own two feet.

Our group has designed a plan, "A Plan to Make Israel Financially Independent in 1990." This plan calls for the expansion of trade between the United States and Israel; the increase of R&D by US companies in Israel; the development of joint R&D projects by US and Israel in energy, agricultural development, medical technology, etc.

The proposed FTA will help move Israel towards economic independence. This will gradually reduce the funds that the United States Government commits annually to assist Israel to meet her economic needs.

6) <u>The proposed FTA will not adversely affect US jobs.</u>

We are concerned about the high unemployment that exists in America. We do not want to suggest any plan that would contribute to the lessening of job opportunities in the US.

We believe the proposed FTA would add jobs for Americans for the following reasons:

A) The FTA will increase the opportunities for the export of US-made products to Israel thus creating more American jobs.

B) US manufacturers will be able to sell more products -- employing more workers in the US -- as a result of sales in EEC countries of American-made products via Israel.

C) There will be an expansion of products made in the US using new technologies developed through joint R&D in Israel.

Israel is not a low labor cost country. The Israeli-made products that will benefit from the proposed FTA will be in the hi-tech field. This will have a minuscule effect on the employment picture in the US.

7) <u>The proposed FTA will be the first step towards the future development of a Mid-East Common Market.</u>

We in CEG-I, believe that it is important that we prepare now for the development of a Common Market in the Mid-East -- a market which would include Israel and her Arab neighbors. We believe that when peace comes between these countries that open trade will be the cement that will hold the peace together.

It is our belief that the US can and must play a major role in bringing about a Common Market in the Mid-East. This may well provide the incentive for some Arab countries and Israel to meet and resolve their political differences. The proposed FTA between the United States and Israel could provide the vehicle for a successful launching of a Mid-East Common Market.

In conclusion, we again strongly urge the United States Senate to support the administration's proposal for the development of a Free Trade Area with Israel.

STATEMENT OF E. JAY FINKEL, PORTER, WRIGHT, MORRIS, & ARTHUR, WASHINGTON, DC, REPRESENTING THE ZIONIST ORGANIZATION OF AMERICA

The CHAIRMAN. Mr. Finkel, if you could summarize, it would be helpful.

Mr. FINKEL. Thank you, Mr. Chairman. I'm E. Jay Finkel with the law firm of Porter, Wright, Morris & Arthur. I'm appearing this afternoon on behalf of the Zionist Organization of America. The Zionist Organization of America supports a United States-Israel free trade area, which will have positive economic advantages for the United States. An FTA will, first, avoid U.S. exporters being at a disadvantage in competing in the Israel market against EEC exporters who already have an FTA with Israel.

Next, it will help U.S. consumers obtain economical high quality household use items from Israel. Third, it will give the United States better access to Israeli high tech research and high tech products complementing our own.

Fourth, it will facilitate United States-Israeli joint ventures in world trade and may help U.S. firms to penetrate EEC markets.

And, fifth, it will point the way as a prototype for similar arrangements with other countries.

The Zionist Organization of America has a few suggestions on technical aspects of the proposal, one of which is that product coverage should be 100 percent. Any exceptions will lead to many exceptions. We believe that a pandora's box does exist there, once we move away from the principle of complete coverage.

Second, the phasein timetable should be rapid but it should recognize Israel's need for a longer time to adjust than the U.S. economy requires.

And, third, the origin rules should be no more stringent than in the recent Caribbean Basin Initiative.

The Zionist Organization of America believes the FTA will be trade expanding and GATT consistent. An FTA will help Israel to earn its way through commercial sales and so ultimately have less need for official U.S. aid.

The United States and Israel are both strong democracies with market economies and a spirit of private enterprise. An FTA will provide economic strength in support of our joint aims for regional peace in the Middle East.

That, Mr. Chairman, is a summary of the fuller statement which I have submitted for the record.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. E. Jay Finkel follows:]

STATEMENT OF E. JAY FINKEL, ESQ.,
ON BEHALF OF THE ZIONIST ORGANIZATION OF AMERICA
BEFORE THE SENATE COMMITTEE ON FINANCE
CONCERNING FREE TRADE AREA ARRANGEMENT
WITH ISRAEL, FEBRUARY 6, 1984

I am pleased to appear before this Committee today on behalf of the Zionist Organization of America (ZOA) in support of the proposed free trade area arrangement between the United States and Israel. ZOA believes such an arrangement to be a logical and desirable extension of one of the United States' most important international relationships.

While there is undoubtedly political significance to any move that creates closer ties between the United States and Israeli economies, ZOA believes a free trade area arrangement with Israel can be entirely justified in terms of the resulting economic advantages to the United States, without reference to political considerations. The concept is fully consistent with the principles of free and open trade. It is also consistent with existing international obligations of the United States. We commend Ambassador Brock and his colleagues for having sufficient flexibility to respond constructively to Israel's suggestion that a free trade area be considered, and we urge the Congress to take the legislative steps necessary to permit the arrangement to be negotiated and implemented at the earliest possible time.

U.S.-Israel trade is significant by any standard. In 1982, Israel provided a market for $1.5 billion of U.S. goods, and for a larger volume of U.S. total merchandise exports than to Sweden, India or Colombia. The potential for U.S. exports is much greater, since the total Israeli import market is in the neighborhood of $8 billion. In the same year 1982, the United States imported $1.2 billion of Israeli products. Imports into the United States from Israel, important though they are to Israel in terms of its export earnings, represent only a fraction of one percent of total U.S. imports. U.S. exports to Israel, however, represent fifteen percent of total Israeli imports, making the United States one of Israel's largest single suppliers.

The composition of U.S.-Israel trade is noteworthy, too: over a quarter of U.S. exports to Israel are agricultural, providing a market for over $400 million of products of American farms. Only a small percentage, less than 5 percent, of U.S. imports from Israel are agricultural; of the balance, nearly half consists of essentially non-competing diamonds, leaving a current level of manufactured goods imports of about one-half billion dollars.

Among the reasons ZOA believes a free trade area with Israel would be beneficial to the United States are the following:

1. <u>To avoid being disadvantaged vis-a-vis Common Market suppliers</u>. Roughly 40-45 percent of U.S. exports to Israel are now subject to Israeli import duties. These duties average slightly over ten percent. Since 1975, however, Israel has been phasing in a free trade area arrangement with the European Economic Community (EEC), or Common Market. That phase-in is approaching completion with respect to manufactures, so that in the near future, EEC exporters will face no tariff barriers in Israel. Unless the United States enters into a comparable free trade area arrangement, U.S. exporters of goods to Israel who are otherwise as efficient as their EEC counterparts will nevertheless suffer because they will be facing an Israeli tariff. The situation is somewhat different with respect to agricultural exports to Israel. Here, with an arrangement in place, the United States could obtain an absolute advantage vis-a-vis EEC exporters because the Israel-EEC arrangement still allows for significant tariffs on European exports to Israel.

2. <u>To obtain benefits for the U.S. consumer</u>. Imports of consumer goods help avoid inflationary pressures and ease the burden on hard-pressed family budgets. Reasonably-priced, high quality Israeli goods have established an

excellent reputation in the U.S. market. A free trade area will allow U.S. consumers to take advantage of these manufactured, processed agricultural and agricultural products for household use. Since some of these goods now enter under Generalized System of Preferences (GSP) arrangements whose future is uncertain, the free trade area would ensure their continued availability in the U.S. marketplace.

3. To facilitate U.S. access to Israeli high-tech capabilities. The United States and Israel both enjoy preeminent positions in the development and exploitation of various advanced technologies. Israel's successful high-tech strategy of development has yielded results that are frequently complementary to U.S. areas of emphasis. A free trade area arrangement will thus allow U.S. high-tech firms to acquire, at less expense, componentry for incorporation into new products or sophisticated equipment needed for research or for production of high-tech products.

4. To open new opportunities for U.S.-Israeli joint ventures aimed at world markets. Increased two-way trade within a U.S.-Israel free trade area will inevitably open further possibilities for U.S. companies to join with Israeli companies in profitable joint ventures. Together they could address new opportunities in third markets. Because Israel would occupy a unique position as the common

member of both free trade areas -- the U.S. and the EEC -- U.S. access to European markets could be enhanced. By pooling product development, production and marketing skills with Israeli partners, American firms otherwise hesitant to enter the export arena would find it far easier to do so.

5. To provide a prototype for similar arrangements with other U.S. trading partners. As a pioneering effort in U.S. trade policy, the U.S.-Israeli free trade arrangement could serve as a prototype for future such arrangements with other U.S. trading partners. To the extent those future arrangements can become multilateral -- that is, structured to include all countries with which the United States has a free trade area arrangement--the negotiating posture of the United States within the GATT-oriented world trading system will be enhanced.

The foregoing reasons for U.S. support for a free trade area with Israel have been stated in rather general terms, because the dialogue between the official delegations of the two governments is still at a fairly conceptual level. Nevertheless, certain technical issues can be identified on which ZOA would like to indicate its views as to the approach U.S. negotiators might take.

First, as to product coverage, there is of course the need to qualify under the "substantially all" criterion of GATT Article XXIV. If Israeli negotiators should propose that all tariff classifications, without exception, be within the scope of the arrangement, ZOA would hope that the United States would respond in kind. The utility of the arrangement depends on its comprehensiveness, and if one U.S. producer group succeeds in establishing its product on an "exceptions" or "sensitive" list, the pressures for other substantial derogations will be intense.

Second, the timetable for phasing in the reduction to zero of mutual tariffs should be as rapid as possible. But it must also consider the fact that the ability of a large diversified economy like ours to digest a series of tariff reductions is much greater than that of the smaller Israeli economy. A slower phase-in rate of tarrif reductions for Israel than for the Unites States will be essential to ensure that the implementation of the arrangement is successful. Such features were incorporated into the Israel-EEC agreement of May 11, 1975.

Third, rules of origin for defining goods eligible for free trade area treatment should reflect the fact that Israel's small economy is dependent on numerous imported materials and components for its industrial output. Transformation and value-added rules should therefore be liberal. In this regard, the recent U.S. experience in fixing a 35 percent local content rule for purposes of the so-called Caribbean Basin Initiative may be a useful precedent.

The free trade area proposal is sound public policy both with respect to U.S. trade policy and in the broader, long-term context of the U.S.-Israel relationship. As trade policy, ZOA believes it likely to be trade-expanding, rather than trade-restrictive, and therefore entirely within the spirit of GATT. As conceived by both sides, it would be in a form explicitly authorized by GATT Article XXIV and thus would be an aspect of multilateralism rather than a retrograde step towards bilateralism. The United States has long since accepted Article XXIV-sanctioned arrangements among other countries.

In relation to the long-term U.S. Israel relationship, the direct economic benefits that would accrue to the United States have already been outlined. In addition, it is eminently sensible for the United States, which provides substantial economic assistance to Israel, to help that country to reduce its economic aid requirements by allowing it to earn more dollars in the U.S. marketplace. That this can be done through private enterprise transactions between the two market economies is an extra benefit that deserves recognition.

The United States and Israel share common values of international conduct and a common goal of achieving a general Middle East peace. U.S. interests are served by actions that help Israel to remain strong militarily and enable it to continue to practice its vigorous form of democracy in a region where autocratic rule is unfortunately endemic. As in the case of the United States, a strong Israeli economy is a foundation-stone of over-all Israeli national strength. The proposed free trade area arrangement holds promise of giving new developmental impetus to the Israeli economy, while at the same time conveying substantial benefits to the United States. The arrangement deserves the support of the Congress.

The CHAIRMAN. Senator Chafee has to depart at 4. Maybe we could just have Mr. Runci come up. And Senator Pell is here. He has another commitment. Pull up a chair there and we will slip you in next here.

Senator Pell, Senator Chafee.

Senator CHAFEE. Mr. Chairman, I want to thank you very much for permitting Mr. Runci to go on. He represents the Manufacturing Jewelers and Silversmiths in our State, which I mentioned earlier, is a very substantial sector of our economy.

Senator PELL. Mr. Chairman, I know full well that the jewelry industry is highly important to our State and I am glad to join in welcoming Dr. Runci. I also see other old friends in the panel of witnesses and trust the chairman and the committee to produce a Solomon-like solution.

The CHAIRMAN. We will work out something.

STATEMENT OF MATTHEW A. RUNCI, ASSISTANT EXECUTIVE DIRECTOR, MANUFACTURING JEWELERS AND SILVERSMITHS OF AMERICA, INC.

The CHAIRMAN. Mr. Runci, if you could summarize your statement, it would be appreciated. We know what the issue is. Senator Chafee sort of zeroed in on that. And it has just been referred to by Mr. Finkel, so maybe you could just highlight the issue.

Mr. RUNCI. I have a one page summary, sir.

Mr. Chairman, my name is Matthew Runci. I'm assistant executive director of the Manufacturing Jewelers and Silversmiths of America. MJSA is the principal national trade association representing approximately 2,200 manufacturers of precious and costume jewelry as well as findings, chains, and other jewelry-related products.

Our membership employs about 87,000 persons throughout the United States. More than a third of these companies employing approximately 23,000 persons are located in the State of Rhode Island.

I appear before the committee today, Mr. Chairman, to express our unqualified opposition to the inclusion of jewelry and jewelry-related products in the proposed free trade area between the United States and Israel. And our reasons are as follow:

Israel currently ranks as the second largest supplier to the United States of precious metal jewelry.

Second, the jewelry industry in Israel is well developed and highly competitive in international trade. Israeli sources report that 85 percent of the country's jewelry production is exported.

Third, Israeli jewelry exports continue to enter the United States largely duty free despite the fact that GSP eligibility was suspended for two product categories after competitive-need ceilings had been exceeded.

In 1982, more than 97 percent of shipments entered the United States duty free.

Fourth, the U.S. Jewelry Commodity Group registered a trade deficit of $980 million in 1982, an increase of 21 percent over the previous year. Imports of precious metal jewelry now hold a 25-percent share of the U.S. market. Imports of gold chain, which constitute the largest portion of Israeli shipments, now hold a 60 percent share of the U.S. market. The domestic jewelry manufacturing industry is slowly beginning to emerge from a depressed condition due to the nationwide recession, inflation, and the volatility of precious metal prices. This industry is fragmented, and over 80 percent of the manufacturers employ fewer than 20 persons each.

Employment in the industry is now stable after a 4-year period of decline. In Rhode Island, which accounts for about 20 percent of the national total precious jewelry industry employment, employment has declined at roughly twice the national rate since 1978.

Ten firms manufacturing gold chain in the State of Rhode Island alone have sought or are now receiving Federal assistance under the trade adjustment assistance program for import impacted businesses. Our association, as a result, is currently preparing an industry-wide assistance proposal for chain manufacturers which will soon be submitted to the ITA.

That concludes the summary of my statement, Mr. Chairman.

[The prepared statement of Mr. Matthew Runci follows:]

Statement of Matthew Runci
Assistant Executive Director
Manufacturing Jewelers & Silversmiths of America Inc.

Mr. Chairman, my name is Matthew A. Runci. I am Assistant Executive Director of the Manufacturing Jewelers & Silversmiths of America. MJSA is the principal national trade association representing approximately 2200 manufacturers of precious and costume jewelry, as well as findings, chain, and other jewelry-related products. Our membership employs about 87,000 persons throughout the United States. More than one-third of these companies, employing approximately 23,000 persons, are located in the State of Rhode Island.

I appear before your committee today to express our unqualified opposition to the inclusion of jewelry-related products in the proposed free-trade area between the United States and Israel. We are deeply concerned by the prospect of an indefinite extension of tariff-free privilege to a nation which already ranks as the second largest supplier of jewelry of precious metal to the United States and whose jewelry manufacturing industry is highly competitive in international trade. Further, we maintain that the domestic industry, now slowly emerging from the recession, even while experiencing an overall import penetration level of 25 percent, would be subjected to probable further adverse economic impact as the result of such a move. Moreover, that particular industry segment which would feel the effects of this proposal most directly, namely manufacturers of gold chain who are located primarily in the State of Rhode Island, are currently experiencing market penetration of 60 percent by directly competitive imported product.

BACKGROUND

MJSA has made numerous appearances before the Subcommittee on Trade of this Committee, the Ways and Means Committee of the House, and the International Trade Commission. The record of these appearances stretches over the last four and one-half years. In every instance our position has been that further extension of tariff-free privilege to nations with demonstrated international competitiveness in jewelry manufacturing could only adversely affect domestic producers. Thus, we opposed in 1979 a petition by Israel to subdivide into separately eligible categories for purposes of the Generalized System of Preferences (GSP) the then existing single TSUS category for precious metal jewelry. The effect of such a proposal, we argued, would be to increase by a multiple of five the total value of shipments that might enter the U.S. duty-free from any eligible beneficiary country. As a result of this move, we held the intent of Congress in establishing a competitive-need formula would be circumvented, since the petitioning nation had reached the existing statutory limit and was transparently seeking a means to extend and expand eligibility. The petition was subsequently approved, with amendments, but with its original intent intact. Our Association filed appeals at every available opportunity thereafter.

We have before us today a proposal which is clearly intended to achieve a similar objective. As Congress conducts its review of the GSP, many have called attention to the question of continued eligibility for the more economically advanced of the developing nations. Israel certainly ranks high among those eligible countries and is perhaps, therefore, concerned with its future status following the expiration of current statutory authority. A bilateral agreement, much as the one proposed, would seem to pose a means to insure continued preferential zero-tariff treatment regardless of the outcome of the GSP review. For reasons enumerated in the statement which follows, MJSA, on behalf of jewelry manufacturers in the United States, must take objection to the inclusion of jewelry products in the proposed free trade area.

ISRAEL'S STATUS AS A SUPPLIER TO THE U.S. MARKET

Israel ranks as the second largest supplier of precious metal jewelry to the United States. Shipments through the first three quarters of 1983 totalled $65.5 million, representing 10.1 percent of the total U.S. imports of this commodity during the period. In 1982, shipments to the U.S. totalled $91.9 million, or 8.2 percent of the total U.S. imports.

Italy is the largest supplier to the U.S. of precious metal jewelry. Shipments through the first three quarters of 1983 totalled $334.9 million, representing 46.3 percent of total U.S. imports of this commodity during the period. In 1982, Italy's shipments to the U.S. totalled $516.5 million, or 59.7 percent of total U.S. imports.

The rankings of principal suppliers of precious metal jewelry to the U.S. market are shown in Exhibit 1. Israel has ranked not lower than fourth position since 1978, and has occupied the second position since 1981. Further, Israel's share of total U.S. imports of this commodity has increased steadily since 1977, when it accounted for 3.6 percent of the total, through 1983 (nine months), when it reached 10.12 percent. This annual growth is shown in Exhibit 2.

Israeli government and jewelry industry sources continue to highlight the importance of the United States in their overall marketing plan. Nella Yaacobi, director of Israel Export Institute's Jewelry Center, was reported as predicting in the fall of 1983 that the nation's total exports of gold jewelry in that year were expected to exceed $130 million, of which more than $100 million (or 77 percent) was exported to the U.S. Confirming that U.S. exports now form the backbone of the Israeli industry, the same source acknowledged that

85 percent of the country's total jewelry production is now exported. Besides the United States, other principal markets are the United Kingdom, West Germany, and Japan.

Because of the extreme importance of the U.S. market, Israeli manufacturers closely monitor fashion trends in America. One manufacturer, Jacob Tobias, head of Tobias Jewellery Ltd., Ramat Gan, Israel, reported that he visits the United States seven to eight times each year, changing about 65 percent of his merchandise annually as a result of market information collected here. Further, manufacturers interviewed by a representative of the American trade press emphasized that the Israeli industry concentrates on producing downscale merchandise in order to keep price points low for better penetration of the U.S. market.[1/]

The jewelry industry sector reportedly comprises 140 companies, of which 131 are involved in exporting. The five largest companies provide 70 percent of exports, while 126 smaller companies combined have an export volume of $13 million to $35 million per year. Gold chains account for over 70 percent of annual production, the rest consisting of ornamental and wedding rings, bangles, earrings and other gift articles.[2/]

An examination of Israeli's exports to the U.S. reveals that gold necklaces and neck chains of various styles* have remained the predominant product. At the same time, their share of total Israeli exports to the U.S. has declined from a high of 97 percent in 1978-79, to about 50 percent in 1982 (Exhibit 3). Shipments of other

1/ "Good Israel Fair Prices Draw U.S. Buyers," National Jeweler, May 16, 1983, p.3.
2/ Aushandel, June 24, 1982, p.3

*TSUS Items 740.11-740.13 and 740.70. Prior to 1980, chain was not broken out separately from other gold jewelry.

gold jewelry*, a broad category which includes many types of articles, including bracelets, pendants, and other finished jewelry incorporating gold chain of similar or identical style to that classified as above, has grown rapidly from 21.7 percent of total to just under 50 percent in 1982 (Exhibit 4).

Precious metals analyst Mark Delevan Harrop has reported that Israel continues to emphasize new, less costly, mass-produced machine-made rope chains in its U.S. marketing program.1/ At the same time, Beny Pomerantz, director, jewelry, giftware, and light industries for Israel's Ministry of Trade, was recently quoted by U.S. trade press sources as having emphasized government encouragement for growth in non-chain-related sectors of the Israeli jewelry industry. Large factories are now reported producing jewelry mounted with precious and semi-precious stones intended for export to the U.S., Europe and Japan.2/

It would appear, then, that with unspecified encouragement from the government of Israel, jewelry manufacturers have begun to diversify their production, while at the same time maintaining production of mass-produced machine-made chain of various types which qualify for duty-free treatment under the GSP. Overall industry production has apparently been adjusted in such a way as to make best use of tariff preference arrangements and domestic labor supply.

In spite of the changing mixture of product shipments, or rather perhaps, as a direct result of it, Israeli jewelry exports continue to enter the U.S. duty-free at a consistently high rate. In

1/ Gerwitz Report, (November, 1983), p.4

2/ National Jeweler Newsletter, (January, 1984)

*TSUS Item 740.14

1977, more than 97 percent of shipments entered the U.S. duty-free under the GSP. In 1982, the last full year for which data is available, still more than 97 percent of Israeli exports entered the U.S. tariff-free (Exhibit 5). This performance is rather remarkable in light of the fact that during this period Israel was twice denied GSP eligibility for important product categories after exceeding statutory competitive-need limits. This action occurred first in 1981, when by Executive Order, the Administration restored duty on two categories of product (TSUS Items 740.11, Rope, Necklaces, and Neck Chain, and TSUS Item 740.70, Chain in Continuous Lengths). One year later, TSUS Item 740.11 from Israel was "graduated" and duty permanently restored since exports to the U.S. had continued to grow (50 percent) between 1980 and 1981 after duty was reapplied. In the case of TSUS 740.70, this category was redesignated as GSP-eligible by the Administration in 1982.

Not only did the restoration of duty on certain products have no significant impact on Israel's ability to export its products to the U.S. duty-free, but it also had no discernible long-term impact on Israel's balance of trade in jewelry products with the U.S. The value of exports has risen from $35 million in 1978 to $92 million in 1982 (Exhibit 2). During the same period U.S. exports to Israel have remained inconsequential. For practical purposes, therefore, the U.S. has had and will likely continue to have a net trade deficit with Israel in jewelry which is roughly equal to the value of Israel's exports to this country annually.

JEWELRY AND RELATED PRODUCTS: OVERALL U.S. TRADE PERFORMANCE

The jewelry commodity group registered a significant increase in its trade deficit in 1982 over the previous year. The total reached

$980 million, an increase of 21 percent over the $807 million in 1981 (Exhibit 6).

U.S. jewelry imports rose 12 percent, reaching over $1.0 billion in 1982. Exports fell 19 percent, from $233 million to $188 million. Italy was the major source of imports, with $525 million. Switzerland was the primary export market, accounting for $71 million, or 38 percent of all U.S. jewelry exports.

Much of the overall increase in jewelry imports resulted from a 22 percent rise in precious metal jewelry imports. These imports increased from $706 million in 1981 to $864 million in 1982. Italy, at $516 million, surpassed all other countries with 60 percent of precious metal imports. Israel was second at $92 million. Italy's reputation for finely crafted, stylish and competitive jewelry is held accountable for its strength in the U.S. market. This reputation is further enhanced by the continuation of a coordinated and aggressive government-supported marketing program.

The decline in jewelry exports between 1981 and 1982 was due to decreased U.S. exports of both precious metal and costume jewelry. Precious metal jewelry exports dropped 19 percent, from $141 million to $114 million. Costume jewelry exports fell by 18 percent, from $82 million to $67 million. Switzerland, at $69 million, was the primary market for precious metal jewelry exports. Japan, at $10 million, was the major market for costume jewelry exports. The strong value of the U.S. dollar in 1982 made imports more attractive, while contributing to sales difficulties for exports, again except to Switzerland (Exhibit 7).

PROFILE OF THE DOMESTIC INDUSTRY

Precious Metal Jewelry (SIC 3911)

The precious metal jewelry industry has been experiencing economic difficulties for the past several years. The nationwide recession, inflation and stagnation which have persisted since 1979 have reduced consumer buying power and have created high levels of unemployment. Since precious jewelry is a product whose purchase can most easily be deferred in times of economic hardship, industry sales remained flat between 1979 and 1982 before beginning a gradual recovery during the second half of 1983.

During the period from early 1976 to January 1980, gold rose steadily in price from $130 per troy ounce to a brief peak of $875 per troy ounce. As inflation ran rampant, people turned to investing in and collecting hard assets including gold and gold jewelry. Industry sales rose dramatically during that period. Beginning in 1980, the price of gold began to drop precipitously. A year and a quarter later, the price was at $400 per troy ounce where it has remained since. As the price of gold fell, demand for precious metal jewelry also fell sharply.

GOLD USED IN THE KARAT GOLD JEWELRY INDUSTRY WAS 65 METRIC TONS IN 1975. FROM THAT LEVEL, IT INCREASED YEAR-BY-YEAR TO 82 METRIC TONS IN 1979. IN 1980, THE LEVEL DROPPED TO 47 METRIC TONS, AND IT DECREASED FURTHER TO 45 METRIC TONS in 1981.

The impact on the jewelry industry was enormous. Bankruptcies, or financial embarrassments, as they are known in the industry, multiplied. Unemployment increased and profits all but disappeared. Competition intensified and profit margins shrank.

Problems in the domestic industry were worsened by imports. Rising demand in the period prior to 1979 encouraged foreign producers to obtain a share of the market. Imports increased dramatically from 7.2 metric tons in 1975 to 43.2 metric tons in 1979. As demand fell, imports, in terms of tonnage, fell also, but there was a permanent loss of share of the market to domestic producers. In 1972 the import/new supply ratio for SIC 3911 was 0.049. It rose to 0.234 in 1979 and has since leveled off at 0.200.

The industry, as defined by SIC 3911, has total annual sales of $3.75 billion at manufactured prices. This translates to $10 to $12 billion at retail prices. It is generally labor intensive and currently employs 37,000 workers. Manufacturing is regionally concentrated, principally in the New England area and the greater New York Metropolitan area, with smaller concentrations in the mid-Atlantic, Florida and California areas. Manufacturing is fragmented into a very large number (2,200) of small firms. Of the 2,200, 1,800 have fewer than 20 employees each. The four largest manufacturers account for only 18 percent of total production. Cost of entry into the industry tends to be low and the production technology is well known. With only a few exceptions, there is no manufacturing brand recognition, and the key to retail sales is the final retail outlet. Thus, manufacturers have to compete vigorously on the basis of price and service to secure distribution.

The raw material costs are both high and extremely volatile. Through the 1970's, as precious metals prices rose sharply and continuously, the custom was for manufacturers to own their raw materials. In the rising market, they profited from price increases in the commodities as well as from their normal operations. During that period, financing was through conventional bank borrowings. When metal prices fell, commodity inventory profits turned into very significant losses. It became clear that metal speculation and jewelry manufacturing were two separate businesses. At that point, most manufacturers turned from borrowing money to buying gold to leasing gold. Under the leasing program, a producer leases a quanity of gold and, depending upon his volume, pays a charge of from 3 1/2 to 5 percent per year based on the daily market price. The manufacturer processes the gold as he normally would. When he ships to his customer, the sales invoice price is based on that day's market price of gold. Simultaneously, he calls the leasor and buys the equivalent number of ounces of gold from his leased stock at the same price. He settles his account for the gold for which he has committed on the usual terms. Thus, the manufacturer has accomplished two things:

1. His financing costs are reduced from the 12 percent to 14 percent he would pay to brrow money to buy gold to the 5 percent that he has paid to lease the gold; and
2. He has taken no speculative risk. He buys and sells gold on the same day at the same price.

This leasing or consignment concept can be extended to all levels of the industry right back to the mine. In the extreme, it would mean that the speculative risk is entirely absorbed by the miner.

Jewelry Chain

The jewelry chain industry is a sub-division of the precious metal jewelry (SIC 3911) industry. It shares many of the characteristics of the parent industry but also exhibits some significant differences. No definitive separate statistical information is available on the domestic jewelry chain market. The following discussion is based on estimates obtained from the literature, from discussions with several manufacturers and from import data published by the Department of Commerce.

The total domestic market for precious metal jewelry chain is estimated to be in the $500 million to $550 million range. Of the total, 40 percent is produced domestically and 60 percent is imported. This is in sharp contrast to the overall jewelry industry for which imports are 25 percent of the total domestic market.

Domestic production figures are taken from a 1982 study prepared by the Manufacturing Jewelers & Silversmiths of America Inc. under an ITA grant (#99-26-07105-30). In that study, we estimated domestic production as follows:

Year	Production (Millions of Dollars)
1976	$ 105
1977	$ 162
1978	$ 212
1979	$ 244
1980	$ 219

Import figures are taken from several Department of Commerce tariff categories. Chain imported in continuous lengths is covered in TSUSA 740.7000 (rope, curb, cable, chain made of precious metal and produced in continuous lengths). Prior to April 1980, chain imported in the form of finished necklaces was included in the "basket" category, 740.1020, and no separate figures are available. Effective April 1, 1980, necklaces were broken out as 740.11, rope; 740.12, mixed link; and 740.13, other. These categories were changed to 740.1010, 740.1015 and 740.1025, respectively, during 1981.

Total imports are as follows

Type of Chain	Imports (millions of $) Year			
	Last 9 Months 1980	1981	1982	First 5 Months 1983
Continuous lengths	$ 6.1*	$ 2.6	$ 6.5	$ 3.0**
Rope	7.7	13.5	18.6	8.6
Mixed link	3.1	6.9	4.6	1.5
Other	152.3	284.3	373.4	117.7
Total	$169.2	$307.3	$403.1	$130.8

*12 Months

**Estimated

Country of Origin	Imports (millions of $) Year			
	Last 9 Months 1980	1981	1982	First 5 Months 1983
FR Germany	$ 1.5	$ 3.8	$ 3.2	$ --
Israel	24.5	41.1	44.8	14.0
Italy	124.5	243.5	324.3	102.6
Lebanon	--	2.1	2.8	1.3
Peru	4.5	4.3	13.9	6.9
All others	14.2	12.5	14.1	6.0
Total	$169.2	$307.3	$403.1	$130.8

Combining the figures for domestic production with the figures for imports and using reasonable estimates for the years missing in each series provides the following domestic market totals:

Year	Domestic Market ($ - millions)	Average Price of Gold - $/tr/oz
1976	$ 205	$ 125
1977	292	148
1978	382	193
1979	444	304
1980	444	613
1981	507	460
1982	603	380
1983	514*	410

*(Annualized from five-month figures)

The market in terms of dollars is more volatile than in terms of units because of the fluctuations in the price of gold. If the dollar figures are corrected for the price of gold, the units produced in 1982 were 130 percent of those produced in 1976 and 1983 units will be only 6 percent above 1976 units.

Sales of chain are subject to the same general economic factors as jewelry in general. Deep consumer recessions reduce sales and change product mix. Occasionally, fashions change and help to increase sales, e.g., it has become acceptable for men to wear gold chains and this has boosted the market. The recent downturn, however, has resulted in severe overcapacity and numerous failures in the chain industry. Imports continue to be a very major problem.

It is estimated that there are about 40 domestic chain producers. The bulk of the domestic industry is centered in Providence, Rhode Island although some chain is made in New York, South Carolina and Florida. Eleven firms produce half of the value of total shipments. Thus, their sales average $10 million per year each. The 30 smaller firms average $3 million per year each in sales.

Most chain is of "classic" or standard design. However, in recent years, there has been a move to high fashion chain including tri-color, florentine finish and bevelled herringbone. The Italian industry is a leader in the high fashion segment of the market. The

Italians are also currently the major producers of chainmaking machines. This gives them a significant edge in the high fashion market since they do not make the tooling available for a new design until they have obtained market share.

Chain manufacturing technology is well known. The basic chain is made from wire on chainmaking machines which can be run in a semi-automatic mode. Machine tooling is varied to produce different designs. Secondary operations convert the basic chain to the final end-product. When the industry is experiencing a depression, chain machines are readily available from failed manufacturers so the cost of entry is low. In fact, chain mechanics can and do buy one or two machines and are reported to produce chain in their garages at night. Although they are not a significant source of product, they do help to further depress the market.

Chain manufacturing is far less labor intensive than jewelry in general. The industry average product has a labor content of 16 percent of manufacturing cost, whereas chain has a labor content of 8 percent to 10 percent (based on $400 per troy ounce gold).

EMPLOYMENT TRENDS

Employment in the precious metal jewelry industry (SIC 3911), in which manufacturers of gold chain are classified, increased steadily during the 1970's from a low of 31,000 in 1971 to a peak of nearly 44,000 in 1979. By 1981, the number of employees had declined to a low of 36,700 nationwide and has remained relatively stable since that time. Current employment is probably about 37,000.

Rhode Island has traditionally accounted for approximately 20 percent of the national employment total in this segment of the industry. However, between 1978 and 1981, Rhode Island's employment level in precious metal jewelry manufacturing declined at nearly twice the rate of the national industry average. Employment in the state among firms classified under SIC 3911 declined by 2,500 jobs over four years (Exhibit 8).

The total impact on industry employment in Rhode Island during this period has been greater, however, because of the ripple effect in related and support industries. Manufacturers of findings and castings; contract shops engaged in soldering, engraving, faceting, electroplating, assembly, and polishing; and suppliers of equipment, tools, precious metals and other materials have all been affected. In total, jobs lost since 1978 in this industry segment and related trades may number as high as 10,000 in Rhode Island alone.

CONCLUSION

To summarize, the Manufacturing Jewelers and Silversmiths of America is opposed to the possible inclusion of jewelry-related products in the proposed free-trade area between the United States and Israel. Our reasons are as follows:

1. Israel currently ranks as the second largest supplier to the United States of precious metal jewelry.

2. The jewelry industry in Israel is well developed and highly competitive in international trade. Israeli sources report 85 percent of the country's jewelry production is exported.

3. Israeli jewelry exports continue to enter the U.S. largely duty-free, despite the fact that GSP eligibility was suspended for two product categories after competitive-need ceilings were exceeded. In 1982, more than 97 percent of shipments entered tariff-free.

4. The U.S. jewelry commodity group registered a trade deficit of $980 million in 1982, an increase of 21 percent over the previous year. Imports of precious metal jewelry now hold a 25 percent share of the U.S. market. Imports of gold chain, which constitute the largest portion of Israeli shipments, now hold a 60 percent share of the U.S. market.

5. The domestic jewelry manufacturing industry is slowly beginning to emerge from a depressed condition due to the nationwide recession, inflation, and volatility of precious metal prices.

6. This industry is fragmented and over 80 percent of the manufacturers employ fewer than 20 persons each.

7. Employment is now stable after a four-year period of decline (1978-1981). In Rhode Island, which accounts for 20 percent of the national total industry employment in this sector, employment has declined at roughly twice the national rate.

8. Ten firms manufacturing chain in Rhode Island have sought or are receiving federal assistance under the Trade Adjustment Assistance Program for import-impacted businesses. MJSA is preparing an industrywide assistance proposal for chain manufacturers which will soon be submitted to the International Trade Administration.

EXHIBIT A

The Importance of R.I. to the U.S. Jewelry Industry*
Employment: 1970-1981

Year	R.I.	U.S.	R.I./U.S.
1970	19,411	72,294	26.9
1971	17,789	67,373	26.4
1972	18,854	71,665	26.3
1973	20,649	74,598	27.7
1974	22,409	78,254	28.6
1975	20,517	73,691	27.8
1976	23,911	81,958	29.2
1977	26,274	84,239	31.2
1978	30,910	91,138	33.9
1979	28,112	89,435	31.4
1980	24,572	80,344	30.6
1981	22,779	78,600	29.0

* Includes Precious Metal Jewelry (SIC 3911), Silverware and Hollow Ware (SIC 3914), Jeweler's Materials and Lapidary Work (SIC 3915), and Costume Jewelry (3961).

Source: County Business Patterns 1970-80, R.I., U.S. Dept. of Commerce Annual Survey of Manufacturers, U.S. Bureau of Census.

EXHIBIT 1

U.S. IMPORTS FOR CONSUMPTION BY PRINCIPAL SOURCES

PRECIOUS METAL JEWELRY

Value (1,000 dollars)

SOURCE	1978	1979	1980	1981	1982	1983 (Nine Months)
Italy	353,771	549,390	291,260	391,355	516,539	334,939
Israel	34,469	60,191	48,765	75,956	91,908	65,376
Hong Kong	47,269	52,001	62,027	73,249	80,061	62,050
Switzerland	22,647	33,828	60,738	59,929	55,932	41,999
Peru	82	7,856	11,298	7,131	18,389	18,330
FR Germany	13,762	16,596	14,303	19,464	17,812	13,342
France	7,518	6,948	9,027	10,463	11,454	9,553
Lebanon	316	513	1,872	5,225	10,275	---
Thailand	6,944	7,181	6,857	8,809	8,315	10,455
Spain	12,173	13,340	9,276	6,798	7,188	7,297
All Other	42,294	47,326	39,851	47,964	46,400	40,096
Total Imports	541,244	795,170	555,273	706,344	864,273	603,437

EXHIBIT 2

ISRAEL: EXPORTS AS PERCENT U.S. IMPORTS
OF PRECIOUS METAL JEWELRY
Value (1,000 Dollars)

SOURCE	1978	1979	1980	1981	1982	1983 (Nine Months)
Israel	34,469	60,191	48,765	75,956	91,908	65,376
Total Imports	541,244	795,170	555,273	706,344	864,273	603,437
% Total	5.23%	6.1%	6.2%	7.72%	8.2%	10.12%

35-438 O - 84 - 6

EXHIBIT 3

IMPORTANCE OF GOLD CHAIN IN

ISRAEL EXPORTS TO U.S.
Value (1,000 Dollars)

	1977	1978	1979	1980	1981	1982
Gold Chain (TSUS 740.11-13, 740.70)	13,357	33,745	58,904	26,631	45,749	45,076
Total	14,518	35,095	60,310	48,855	76,323	91,666
% Total	92.0%	96.2%	97.7%	54.5%	59.9%	49.2%

EXHIBIT 4

IMPORTANCE OF OTHER TYPES OF GOLD JEWELRY

IN ISRAEL EXPORTS TO U.S.

Value (1,000 Dollars)

	1980	1981	1982
Gold Jewelry (TSUS 740.14)	10,636	32,048	44,185
Total	48,855	76,323	91,666
% Total	21.7%	41.9%	48.2%

EXHIBIT 5

DUTY-FREE SHIPMENTS AS %

TOTAL ISRAEL JEWELRY EXPORTS TO U.S.

Value (1,000 Dollars)

	1977	1978	1979	1980	1981	1982
Duty-free (GSP)	14,166	34,618	N/A	47,467	71,100	89,263
Total	14,518	35,095	60,310	48,855	76,323	91,666
% Total	97.6%	98.7%	N/A	97.2%	93%	97.4%

Exhibit 6

IMPORTS AS A PERCENT OF CONSUMPTION/EXPORTS AS A PERCENT OF PRODUCTION
1970-1982

PRECIOUS

	Domestic* Production	Imports	Exports	Apparent Consumption	Imports as a % of Apparent Consumption	Exports as a % of Domestic Production
1970	770.9	29.1	41.8	758.2	3.8	5.4
1971	821.5	35.8	31.4	825.9	4.3	3.8
1972	981.8	50.6	39.9	992.5	5.1	4.1
1973	1174.7	63.2	70.2	1167.7	5.4	6.0
1974	1233.4	84.3	72.7	1245.0	6.8	5.9
1975	1514.0	100.5	74.9	1539.6	6.5	4.9
1976	1766.0	177.8	84.9	1858.9	9.6	4.8
1977	1907.7	307.1	86.9	2127.9	14.4	4.5
1978	2131.4	542.4	133.8	2540.0	21.4	6.3
1979	2554.7	793.6	151.8	3196.5	24.8	5.9
1980	2740.5	544.9	253.7	3031.7	18.0	9.2
1981	2770.0+	695.5	201.3	3264.2	21.3	7.3
1982	2800.0+	854.4	152.8	3501.6	24.4	5.4

COSTUME

	Domestic* Production	Imports	Exports	Apparent Consumption	Imports as a % of Apparent Consumption	Exports as a % of Domestic Production
1970	450.9	47.5	6.6	491.8	9.7	1.5
1971	479.6	46.9	6.2	520.3	9.0	1.3
1972	441.7	51.5	7.0	486.2	10.6	1.6
1973	494.7	62.4	10.7	546.4	11.4	2.2
1974	544.2	78.7	16.6	606.3	13.0	3.0
1975	737.0	85.8	22.2	800.6	10.7	3.0
1976	695.0	121.0	27.8	788.2	15.4	4.0
1977	781.5	136.8	31.5	886.8	15.4	4.0
1978	808.1	160.5	54.2	914.4	17.6	6.7
1979	772.2	167.6	63.2	876.6	19.1	8.2
1980	857.2	199.0	79.5	976.7	20.4	9.3
1981	895.0+	230.1	85.1	1040.0	22.1	9.5
1982	910.0+	214.8	67.2	1057.6	20.3	7.4

*Value of Shipments
+Estimates

EXHIBIT 7

1982 JEWELRY TRADE PERFORMANCE AT A GLANCE

(All figures expressed in thousands of dollars)

PRECIOUS METAL JEWELRY

IMPORTS - PRINCIPAL SOURCES

COUNTRY	AMOUNT
Italy	$516,539
Israel	91,908
Hong Kong	80,061
Switzerland	55,932
Peru	18,389
FR Germany	17,812
France	11,454
Lebanon	10,275
Thailand	8,315
Spain	7,188
All Other	46,400
Total Imports	$864,273

EXPORTS - PRINCIPAL MARKETS

COUNTRY	AMOUNT
Switzerland	$68,931
Japan	8,551
Hong Kong	6,986
Canada	4,749
France	3,935
United Kingdom	2,736
FR Germany	2,522
Mexico	2,224
Netherlands Antilles	1,853
Haiti	1,455
All Other	10,546
Total Exports	$114,488

COSTUME JEWELRY

IMPORTS - PRINCIPAL SOURCES

COUNTRY	AMOUNT
Hong Kong	$51,943
Taiwan	37,782
Japan	28,013
Korean Republic	21,874
Italy	6,744
France	5,536
Switzerland	4,755
Philippines Republic	3,908
India	2,761
FR Germany	2,513
All Other	12,371
Total Imports	$178,250

EXPORTS - PRINCIPAL MARKETS

COUNTRY	AMOUNT
Japan	$9,912
Canada	8,870
United Kingdom	6,163
France	5,557
Australia	3,428
Hong Kong	3,387
Ireland	3,035
FR Germany	2,838
Switzerland	1,787
Netherlands	1,712
All Other	20,119
Total Exports	$66,810

EXHIBIT 8

Employment in Jewelry and Jewelry-Related Industries
Rhode Island and United States
1970-1981

	COSTUME (SIC3961)			PRECIOUS (SIC3911)		
Year	R.I.	U.S.	R.I./U.S.	R.I.	U.S.	R.I./U.S.
1970	7,565	19,583	38.6	6,386	32,242	19.8
1971	6,950	18,193	38.2	6,054	30,979	19.5
1972	7,571	19,753	38.3	6,384	32,343	19.7
1973	8,336	21,963	38.0	6,940	33,936	20.5
1974	10,285	22,541	45.6	7,285	34,404	21.2
1975	9,653	22,266	43.4	5,802	32,619	17.8
1977	12,592	24,924	50.5	8,615	39,954	21.6
1978	15,325	27,487	55.8	9,485	41,992	22.6
1979	13,807	26,309	52.5	9,126	43,688	20.9
1980	12,188	23,407	52.1	7,568	37,961	19.9
1981	10,964	23,400	46.9	7,074	36,700	19.3
%Change 1970-81	+44.9	+19.5		+10.9	+13.8	
%Change 1978-81	-28.9	-14.9		-25.4	-14.4	

The CHAIRMAN. Senator Chafee, Senator Pell.

Senator CHAFEE. Mr. Runci, I made the statement earlier in questioning Ambassador Brock that the employees in your industry are to a considerable degree first generation immigrants from the Far East, the Southeast Asia, from Colombia, from Portugal. Is that a correct statement?

Mr. RUNCI. Yes, that is correct, Senator.

Senator CHAFEE. And what about the average wage in your industry, roughly? I know you have toolmakers and so forth, but take for the production, the foot press operator, for example,

Mr. RUNCI. Senator, I believe the figure that you mentioned earlier of $6.50 an hour is a fair representation of average.

Senator CHAFEE. Including fringes?

Mr. RUNCI. Yes, sir.

Senator CHAFEE. Thank you.

The CHAIRMAN. Senator Pell.

Senator PELL. In our State your industry is by far the largest in the number of employees. It is of very real economic importance. I know the fine job that you and Dick Frankovich have done on behalf of the industry and I congratulate you on it.

Mr. RUNCI. Thank you very much, Senator.

The CHAIRMAN. Thank you, Mr. Runci, and Senator Pell, Senator Chafee.

As I understand, Mr. Sadd, you oppose this legislation?

Mr. SADD. Yes.

The CHAIRMAN. Well, let me just address a question or two to the other group.

Based on the testimony we have just heard, do you expect Israel to offer 100-percent product coverage, without any exceptions, Mr. Finkel?

Mr. FINKEL. Mr. Chairman, it is my understanding from informal contacts that to date at least the Israeli objective in negotiation is 100-percent coverage.

Mr. WINTER. Also I think it's important to note that jewelry does come in under GSP today. And I think it's to the extent of some $50 million. And I don't know how much more beyond that would be involved if this FTA was approved.

The CHAIRMAN. Do you want to comment on that, Senator Chafee?

Senator CHAFEE. As Mr. Runci testified, 97 percent of the jewelry that comes in now is free from duty. And I suppose that's a two-way street. One, you could say, well, what's 3 percent more? And the other is, what more do you want besides 97 percent? But we've got to discover whether that's 97 percent in dollar value, which I presume it is, and whether most of it is in the high cost jewelry, as opposed to what we call costume jewelry, which, of course, is the $20 and less item. Maybe it's now around $30 or less. We have considerable part of that market which we do not wish to lose because of the effect on these very people that we were discussing earlier.

Mr. WINTER. Mr. Chairman, could I just answer a question of Senator Danforth on the continuation of the GSP beyond the end of the year?

The CHAIRMAN. Sure.

Mr. WINTER. It's my understanding that the FTA, if passed this year, would phase in these tariffs over a period of years. And I would certainly think it's important to continue the GSP during that interim period. And if you asked that question, it would be my answer at this point.

The CHAIRMAN. Do you have other questions?

Senator DANFORTH. I do. I just want to reiterate the same point. And that is you are here now for the free trade area proposal. We had hearings on the GSP, I guess, a couple of weeks ago and you were not here for that. Thirty-five percent of imports into the United States from Israel are now duty free under the GSP. And I was just curious as to the degree of interest. I mean should we read in anything from your absence from the GSP hearings? Do you feel strongly about the continuation of GSP? Is your feeling on the continuation of GSP in any way lessened by whatever we do with respect to the free trade area?

Mr. DINE. Senator, if I could answer your point. It's a good point. It's a fair point. We were told by the committee staff to wait until this hearing to comment both on the GSP and the free trade area. And that's the reason.

I'd also like you to know we have been in informal contact with members of this committee on that particular point. So we've tried to comment as positively as possible.

Senator DANFORTH. And what is the degree of your feeling on the GSP?

Mr. DINE. Very much in need because it's an unstable system. It's not businesslike to keep it going, but until there is a free trade area it seems to me that it makes common sense to continue the GSP.

Mr. WINTER. I think if you keep in mind the EEC, that took a period of some 8 years before it has been completely phased in. So you would have to have some GSP to maintain the support of the system.

Senator DANFORTH. I just want to say the GSP issue is very much in doubt. It has people who feel very strongly against it and who will fight very hard to keep it from being reauthorized. Therefore, those who feel strongly the other way are going to have to fight just as hard to get it reauthorized.

Mr. DINE. I understand your message.

The CHAIRMAN. Mr. Finkel, do you believe that Israel is willing in this agreement to refrain from subsidizing its exports to the United States? Have you had any informal discussions on that?

Mr. FINKEL. I have not, Mr. Chairman. But as Ambassador Brock said, that subject and additional subjects such as services and investment are very high agenda items for the discussions. I am certain that that question will be addressed in the course of the negotiations. I'm equally certain that Ambassador Brock will make it clear that the United States will look at the subsidy situation according to criteria that the United States has adopted with respect to subsidy treatment by our trading partners. And I'm sure that the overall negotiation will reflect a fair and just outcome.

Mr. DINE. If I could, Mr. Chairman. In my informal conversations, I know that Finance Minister Cohen-Orgod and Trade Minister Gideon Patt, are very conscious of what Ambassador Brock is up against. And, frankly, they are free traders and they are free market people. And they know they have got their work cut out for them internally. But they are looking forward to cooperating with Ambassador Brock.

The CHAIRMAN. I appreciate that, Mr. Dine.

I have about three or four additional questions, but we have a number of witnesses, so I'm wondering if it will be all right if I submit them in writing and then we will have it for the record because I think it's important we make a complete record. Ambassador Brock has indicated he would rely on the record very heavily as he gets into drafting legislation. So I will ask, if you are willing, to submit questions in writing in maybe the next week or so.

Mr. DINE. Sure.

The CHAIRMAN. Thank you very much. We appreciate it.

[The information referred to follows:]

SENATOR DOLE'S QUESTIONS SUBMITTED TO MR. FINKEL AND MR. DINE AND THEIR RESPONSES THERETO

Senator DOLE. Mr. Finkel, do the agricultural, chemical and general manufactured products industries have a legitimate basis for concern about increased exports from Israel?

Mr. FINKEL. Mr. Chairman, if Israel were a country with low production costs, like some of the Asian countries with which we have had and still have import problems, there might be a legitimate basis for concern on the part of the U.S. sectors you mentioned. But Israel isn't in general a low-cost producer. It hasn't a big labor force; the labor force it does have is accustomed to wage levels and employee benefits that are much closer to our standards than to Asian standards; investment capital is relatively scarce and expensive; and many production inputs must be imported at substantial cost. We should therefore not see dramatic price differentials, with Israeli goods flooding in when duties are removed. Our over-all experience with GSP supports that view. Of course, if there were no increase likely in U.S. imports from Israel, there wouldn't be much incentive to the Israelies to go ahead with this proposal. But—and I'm agreeing with Ambassador Brock on this point—given the relatively small size of Israel's production base in relation to the size of the U.S. market and the U.S. firms supplying it, I don't think U.S. producers are going to experience any significant adverse effects. I also don't think that any foreseeable effects will be measurably more important to U.S. producers than technological change, or domestic labor costs on U.S. interest rates or any of the dozens of other competitive factors that have an impact on any given industry and that Israel has nothing to do with.

Senator DOLE. Would inclusion of a safeguards provision be a serious detriment to the agreement? And would exceptions for the remaining dutiable products be a serious detriment to the agreement?

Mr. FINKEL. I see no objection to safeguards available to both parties as an integral feature of the agreement. In fact, safeguards are a useful concept, both to enhance the confidence of the parties in initially accepting the agreement and to address problems that may arise in its implementation. We had them in the Tokyo Round, and they are part of the Israel-EEC free trade area agreement. But we have to be clear what we mean by safeguards: they should not be devices by which effective progress on duty reduction is brought to a halt. And they should be able to be invoked only when a serious problem has arisen on a sensitive product. I personally feel they should be transitional and not extend beyond the duty-reduction period; once the duty-free point is reached on both sides, they should be assimilated into the general safeguard provisions of our trade laws.

Exceptions from the product coverage of the arrangement are a very different matter. Once some exceptions begin to be granted, there is no real basis to deny others, and of course at some point it becomes impossible to meet the GATT test of coverage of "substantially all" the trade between the partners. It's the purpose of safeguards to promote adjustment; an exception is a blunt instrument that says we're going to shield an industry indefinitely. We should remember, too, that exceptions are a two-way street that can impair our own access to particular Israeli markets.

Senator DOLE. Do you expect Israel to offer 100% coverage?

Mr. FINKEL. As I mentioned earlier, I do not know for a fact that they will, but I believe so and I believe that is Ambassador Brock's impression also.

Senator DOLE. Do you believe Israel is willing in this agreement to refrain from subsidizing its exports to the U.S.?

Mr. FINKEL. I don't want my response to be seen as conceding that any particular Israeli practice constitutes a subsidy of the kind that is objectionable by accepted standards of international trading relations. This general area is one that has been talked about by the parties before. Ambassador Brock has said that it will be included in the topics to be negotiated, and that the Israeli government is willing to negotiate on it.

Senator DOLE. Are labor costs in Israel substantially comparable to those prevailing in the U.S.?

Mr. DINE. While it is difficult to compare labor costs in Israel directly with those in the U.S., they are relatively comparable. Labor in Israel is not cheap. The overwhelming majority of Israelis are unionized, and Israel's trade unions have traditionally played a strong and influential role in the Israeli economy. Although the average Israeli take-home salary is lower than the average American paycheck, Israeli workers get a series of free benefits in addition to their salaries which U.S. workers do not, including complete health benefits, maternity and military reserve benefits, telephone services, professional literature, pension and education funds and bonuses throughout the year.

General living and working conditions in Israel also differ substantially from those in the U.S. Worker productivity is lower, as is the overall standard of living.

Senator DOLE. Need U.S. industries fear a flood of low-cost imports resulting from this proposal?

Mr. DINE. As I mentioned in my testimony, this proposal will not lead to a flood of low-cost imports from Israel for several reasons: the relatively high cost of Israeli labor; Israel's advanced level of dependence on imports for raw materials and for other components for manufacturing into finished goods; the high costs of transporting goods thousands of miles; and the small size of Israel and its limited productive capabilities.

Senator DOLE. How will the free Trade Agreement advance U.S. foreign policy interests in the Middle East?

Mr. DINE. U.S. foreign policy interests in the Middle East, as enunciated by several Administration spokesmen, are: to secure peace and stability in the region; and to assist our friends and strengthen the pro-western, democratic forces in the area. Concluding a Free Trade Agreement with Israel will help to advance both those goals. It will help the peace process by bolstering the economic security, self-reliance and self-confidence of a nation central to that process and one whose vulnerabilities have made it an object of invasion three times in its short history. It will strengthen

U.S. bonds with America's most reliable and only democratic ally in the Middle East. It will also help Israel expand its exports and thus reduce its balance of payments deficit and its reliance on U.S. economic assistance.

Senator DOLE. What industrial sectors in Israel are particularly protected still by tariffs and would be of interest to U.S. exporters?

Mr. DINE. Israeli tariffs are particularly high for consumer goods and luxury items. These are areas where the U.S. is competitive and enjoys special prestige and name recognition among Israeli consumers.

Among the consumer products which presently have a high tariff but where the tariff against EC items will be eliminated by 1989 are: tractors, cars, other transport vehicles, clocks, TVs, paper and paperboard, fabrics, certain kinds of footwear, glassware, bolts and nuts and screws of iron and tobacco products.

Some other examples of products where U.S. exporters are disadvantaged by tariffs compared to the EC currently are: copper wire, cellophane, fiber glass products, computer discs and magnetic tapes, culture medium, refrigerator and air conditioning flexible piping, compacters, X-ray film and graphic arts processors, toner and developer for laser printers, and zippers.

Other major U.S. exports to Israel facing duties are: electrical goods and apparatus, automatic data processing machines, fasteners, medical apparatus, controlling instruments, certain chemicals, engines and engine parts, construction machinery, telecommunications equipment and wrought plates and sheets.

STATEMENT OF DAVID J. SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS, WASHINGTON, DC

The CHAIRMAN. Mr. Sadd, I have you on a separate panel so you may proceed. And we hope you can summarize your statement. And the entire statement will be made a part of the record.

Mr. SADD. The National Association of Arab Americans welcomes the opportunity to present testimony to this committee. We are deeply concerned that U.S. trade and economic policy in the Middle East promote U.S. national interest in the region, and contribute to the well-being of both the United States and the countries of the Middle East. Trade is an important component of our Nation's foreign policy. It can help to strengthen our partnership with countries that share our concern for peace, stability, and mutual economic growth. Yet the United States must take steps to ensure that our trade relations with foreign countries do not endanger vital domestic industries, nor contradict our broader foreign policy interests.

Establishing a free-trade area with Israel, unfortunately, threatens to do both. We are opposed to the free-trade proposal on the basis of economic grounds. We believe there is an inherent limitation of the Israeli market for U.S.-manufactured goods, and there is a threat to U.S.-high-tech industries, based on a 50-percent subsidized R&D framework for high-tech products in Israel.

We are opposed to the United States-Israeli free-trade proposal on political grounds. We believe it furthers an imbalance in U.S. trade policy toward Israel and the Arab world, and further appears to reward Israeli policies which are perceived in the Arab world and much of the rest of the world as illegal or immoral.

I'd like to make a couple of comments on the economic side. Israel is a country with a quasi-socialist economy, recently described in Forbes magazine as living well beyond its means, with a chronic budget gap closed only by massive infusions of U.S. aid, huge borrowings, sale of Israeli bonds, large-scale fundraising in Jewish communities. In addition to a crushing military burden, Israel supports a pervasive welfare system and a relatively high standard of living that the economy is simply not big enough to support.

The small size of the Israel, its instability, and the high level of Government intervention presents inherent limitations for American exports. Further, Israel's objective of dramatically increasing high-technology exports directly threatens U.S.-high-tech industries.

Israeli industry enjoys a degree of Government subsidy and assistance unparallel to other Western free-enterprise societies. American companies with no such Government incentives will find it difficult to compete in Israeli markets. We note with particular concern that the Israeli Government provides a 50-percent subsidy to the development of new high-tech products in Israel, and we note with additional concern the easy flow of U.S. research provided to Israel through the Bird Foundation and through other technology-sensitive arrangements, such as the development of the Lavi Aircraft.

In closing, we want to propose that if the administration seeks to go forward with a free-trade agreement it should select a country where there is some real potential advantage to the United States. If the object is to bail out the Israeli economy, we should stick with economic aid where the exposure to the American economy and the effect upon American jobs is measurable and controllable.

Thank you.

[The prepared statement of Mr. David J. Sadd follows:]

National Association of Arab Americans

WRITTEN TESTIMONY OF DAVID J. SADD, EXECUTIVE DIRECTOR OF THE NATIONAL ASSOCIATION OF ARAB AMERICANS, BEFORE THE SENATE COMMITTEE ON FINANCE, FEBRUARY 6, 1984

The National Association of Arab Americans welcomes the opportunity to present testimony to this committee on the establishment of a free trade area with Israel. As representatives of the more than three million Americans of Arab descent across the United States, the National Association of Arab Americans is deeply concerned that U.S. trade and economic policy in the Middle East promote U.S. national interests in the region and contribute to the well-being of both the United States and the countries of the Middle East.

Trade is an important component of our nation's foreign policy. It can help to strengthen our partnership with countries that share our concern for peace, stability, and mutual economic growth. Yet, the United States must take steps to ensure that our trade relations with foreign countries do not endanger vital domestic industries, nor contradict our broader foreign policy interests. Establishing a free trade area with Israel, unfortunately, threatens to do both.

In this regard we will address our concerns as follows:

I. The Economic Advisability of a U.S.-Israeli Free Trade Area
   - A. The threat to U.S. high-tech industries
   - B. Inherent limitations of the Israeli market for U.S. manufactured goods

II. The Political Advisability of a U.S.-Israeli Free Trade Area

A. Preferential treatment for Israel in view of current Israeli policies

B. Increased imbalance in U.S. trade policy toward Israel and the Arab world

III. Conclusions and Recommendations

I. The Economic Advisability of a U.S.-Israeli Free Trade Area

The proposed free trade area (FTA) would eliminate tariffs on all trade between Israel and the United States. While the United States has encouraged industrial growth in less-developed countries by lowering import tariffs through the Generalized System of Preferences (GSP) and the Carribean Basin Initiative, a free trade area is an unprecedented measure. Currently, 90 percent of all Israeli imports already enter the United States duty-free due to Israel's most favored nation status and its eligibility under the GSP. The remaining 10 percent of Israeli imports are largely from the citrus and textile industries.

Why, then, should there be a need to establish a free trade area with Israel? There is considerable evidence to indicate that there is no such need. Israel is not a less-developed country. It has a relatively high GNP per capita of \$4,500, and enjoys a high standard of living. Although Israel is experiencing economic problems at the moment, many of these problems can be traced directly to controversial policies that have been carried out by its government, including the 1982 invasion and occupation of Lebanon and the continued construction of settlements in the occupied Arab territories (at an estimated annual cost of $600 million).

On the other hand, the establishment of a free trade area may well help Israel at the expense of domestic American industries. High technology industries in the United States are particularly vulnerable. High-tech is a pivotal growth industry in the United States that is vital to U.S. national security. The United States should take measures to ensure our continued position of leadership in that industry.

Israel seeks to increase dramatically its exports of high technology products to the United States. In 1981, high-tech exports amounted to $1.2 billion, or 33 percent of total Israeli industrial exports. By 1991, the Ministry of Trade hopes to increase the level of high-tech exports to $6.8 billion, or 62 percent of total industrial exports. At that rate of growth, U.S. imports of certain Israeli high-tech products would soon exceed the competitive needs limit under the GSP, rendering Israeli high-tech exports ineligible for GSP. The competitive needs limit, which is $57,688,000 for a given product this year, was designed to protect American industry and jobs from an influx of duty-free goods into the domestic market.

The threat to American high-tech industry is compounded by the fact that the cost of developing new high-tech products in Israel is about one-half that in the United States. In addition, the United States has indirectly aided in the development of the Israeli high-tech industry through massive infusions of military and economic aid. The Israeli government has, for a number of years, subsidized research and development in its high-tech and defense related industries.

A free trade area with Israel will also have a negative impact upon the American citrus industry. Moreover, U.S. citrus growers already find it difficult to compete in northern European markets following the agreement between the EEC and Israel to lower tariffs on Israeli oranges.

The size of the Israeli market and the instability of the Israeli economy presents inherent limitations for American exports (see Attachment A). If the United States intends to negotiate bilateral agreements establishing free trade areas as a method of promoting more liberalized international trade, it would be better served by negotiating first with a country whose market for American manufactured goods is much greater and the benefits to domestic industry can be more easily demonstrated. Brazil, for example, with its sizable population has a $15 billion market, compared to only $8 billion for Israel.

In 1983, Israel imported $2.3 billion worth of goods from the United States. Israel received, however, $2.485 billion in U.S. aid. One may ascertain from this that $185 million of U.S. aid was not even spent in the United States. In the Continuing Budget Resolution for 1984, moreover, Congress authorized $550 million for the development of the Israeli Lavi aircraft, $250 million of which may be spent in Israel. As a result, American defense contractors were effectively robbed of $250 million in business, and American workers were deprived of at least 7,000 jobs (see Attachment B).

If a "buy American" standard does not apply even to the expenditure of American aid, it is difficult to imagine that American products will compete favorably in Israel. Congress has a responsibility, therefore, to ensure that the United States does not promote industrial growth in Israel at the cost of U.S. jobs and tax revenues.

Indeed, Israel has not always shown a predisposition to buy from America the goods that it needs. In its purchase of coal, for example, Israel has favored South Africa over the United States (see Attachment C). Despite massive U.S. economic aid, in 1982 Israel purchased only 96,495 tons of coal from the United States and 700,000 tons from the apartheid country of South Africa. One could question the morality of this, particularly in view of the suffering in Appalachia due to the worst coal slump in decades.

Further, the Israeli government plays a role in economic affairs considerably larger than the role the government of any industrialized Western country plays. The Israeli government is responsible for half of all industrial investments. It affects pricing by means of subsidies and the capital market by supporting interest rates and directing credit. Even with the elimination of tariffs, American manufacturers would have to compete with government subsidized industries.

II. The Political Advisability of a U.S.-Israeli Free Trade Area

Mr. Chairman, our members have long perceived a fundamental imbalance in U.S. policy toward Israel and the Arab world. Last December, following the

Reagan-Shamir summit, the agreement to negotiate a free trade area with Israel was announced concurrently with the strategic cooperation agreement. In return for generous trade concessions, an unprecedented level of U.S. grant assistance, and broader strategic and military cooperation, Israel offered no political concessions. Instead, it reaffirmed its rejection of the Reagan peace plan and its refusal to put a freeze on building Jewish settlements in the West Bank. It continues to oppose any arms sale to Arab countries. It refused to make a commitment to inform the United States before taking unilateral military action against its neighbors.

Since the passage of the Jackson-Vanik amendment, our trade relations with the Soviet Union have been directly related to that country's policy toward human rights and emigration of Soviet Jews. Is not freedom, dignity, and self-determination for the Palestinians equally precious? Many of the Palestinian inhabitants of the occupied territories have been subjected to a pattern of deprivation of their human rights by the Israeli government and the Israeli occupation forces. Christian and Moslem institutions are threatened by Israeli extremist groups in the West Bank. We submit that Israel should be held accountable for its policies, which have caused much suffering for Palestinians and Lebanese in recent years. If trade is indeed an extension of our foreign policy, then trade concessions for Israel should be contingent upon behavior which is compatible with America's national interests and high moral standards.

Preferential treatment for Israel in the area of trade is particularly puzzling in light of the vast market potential of the Arab world. Proponents of a U.S.-Israeli free trade area point to a potential $8 billion market for

U.S. companies. Yet in 1982 the Arab world collectively imported well over $70 billion. In 1983, the United States enjoyed a $4.6 billion trade surplus with the Arab world. Congress, however, has imposed restrictions which make it difficult for U.S. companies seeking to export to the Arab world. Antiboycott regulations, and complexities surrounding the Foreign Corrupt Practices Act (FCPA) undermine American competitiveness in Arab markets.

Ironically, while it is illegal for American companies to bribe foreign officials for lucrative contracts, a U.S. congresswoman recently learned on a trip to South America that Israel has bribed South American military officials not to purchase arms from the United States, but to buy from Israel instead (see Attachment D). Nonetheless, the Administration is prepared to offer unprecedented trade concessions to Israel.

Conclusion and Recommendations

Mr. Chairman, establishing a free trade area with Israel presents considerable liabilities for certain domestic U.S. industries, while it offers the U.S. economy as a whole only questionable benefits. If the Administration is intent upon negotiating viable, mutually beneficial agreements, then its initial effort should be directed toward a country that has a more promising market for American exports. Moreover, the importance of our domestic high-tech industry for national security should compel us to ensure that that industry remains fully protected.

On the political level, Israeli actions over the past two years, including the invasion of Lebanon and continued rejection of the Reagan peace initiative, makes trade concessions to Israel unconscionable. To the extent that trade can be used as leverage to moderate Israeli policies and gain political concessions, the United States should seek to promote Israeli policies which coincide with U.S. interests and objectives in the region.

MEPARC

Issue Analysis
Background

ISRAELI ECONOMY

DATE: December 1983

I. INTRODUCTION

As new Israeli Prime Minister Yitzhak Shamir took office, a major banking crisis focused international attention on the plight of Israel's economy. The crisis, which began in September, had been brewing for months. Bank shares, artifically supported by the big Israeli banks, had become dangerously overpriced in the past year or more, offering real profits of 25 percent or higher to investors eager to beat triple-digit inflation. Hundreds of thousands of Israelis had bought the shares and their holdings amounted to approximately $7.5 billion, an amount equal to one-third of Israel's GNP.

But as rumors mounted that the Israeli shekel would be substantially devalued this fall, some investors began to sell bank shares in order to buy foreign currencies. Soon, the trickle became a flood. More and more shares were dumped on the market, and the banks were exposed. In a scramble to save their stock, the banks borrowed as much as $1 billion from domestic and foreign sources in order to buy up their own shares from the public. But the rush continued, and as a panic mounted, the government agreed to intervene. It closed the Tel Aviv stock exchange and guaranteed the value of the bank shares. It also devalued the shekel by 23 percent and slashed subsidies on food and fuel by as much as 50 percent.

As the dust settled, analysts tried to determine the causes of the crisis and to assign blame. The most vulnerable immediate target was Finance Minister Yoram Aridor, who had presided over three years of triple-digit inflation, a worsening balance-of-payments deficit, and a growing foreign debt that in 1983 reached $21.5 billion, or over $20,000 per Israeli household. On October 13, Aridor, already unpopular, was forced from office after his controversial plan to link Israel's economy to the dollar provoked public outrage.

It was clear to many observers, however, that the banking crisis was not only the result of recent mismanagement, but of chronic economic problems that have plagued Israel for years. Aridor's policies, while indeed questionable, had only exacerbated old maladies. Menachem Begin's Likud coalition had come to power in 1977 promising economic reform to correct problems it blamed on the Labor leaders who had governed Israel for 30 years. Quite apart from government management, however, some of Israel's economic difficulties can be attributed to factors inherent in the geographical, political, social, and ideological character of the Zionist state.

II. BACKGROUND

Three major factors have shaped the Israeli economy over the years. The first is the hostile political and natural environment in which the new state was planted. The boycott of Israel by neighboring Arab states, a succession of wars, and the scarcity of natural resources in the region, have all left marks on the economy. Israel devotes a disproportionate share of its resources to defense (currently 30 percent of the budget); imports almost all of its fuel, materials for processing, and machinery; and, despite an intensive agricultural development program, lacks the water resources to become self-sufficient in agriculture. To help counter these expensive drawbacks, Israel has relied since its birth on massive infusions of foreign capital, mostly from the United States and Jews around the world. Its dependence on these sources, and its foreign debt, have grown markedly over the years.

The second factor is Israel's Zionism, its state ideology. Zionism promises a home in Palestine for any Jew who wishes to settle there, regardless of the limited resources of the region. While the huge influx of immigrants, many of them highly skilled, helped fuel Israel's boom years, it also saddled the government with an immense burden of social welfare. New immigrants are guaranteed houses and jobs, in effect, a "minimum standard of living," bearing no necessary relation to their productive capacity. In recent years, as productivity in Israel has declined, wages and the standard of living have continued to rise. Even the Likud has felt compelled to "deal kindly with the people" through subsidies and other benefits, despite its commitment to free enterprise. Another economic burden arising from Israel's Zionist ideology is the government's financial support of the network of settlements in the occupied territories. While work on the settlements has slackened, and the burden has eased, these settlements were a drain on Israeli resources throughout the 1960s and 70s.

While the first two factors are more or less "deterministic"--inherent in Israel's location and the nature of Zionism--the third factor is more unpredictable: the effect on Israel of international economic and political events, such as world inflations and recessions, and the 1973 oil embargo.

The interplay of these three factors is largely responsible for one of the most important characteristics of the Israeli economy: the extremely large role played by the government in economic affairs. Israel has sometimes been described as a "quasi-socialist" state as a result, but the reality is more complex. The Israeli economy can best be described as a "mixed" economy, in which three major sectors--public, collective, and private--interact in a complicated and sometimes uneasy relationship.

A. The Major Sectors

1. Public Sector: The Government

The Israeli government plays a role in economic affairs considerably larger than the role of the government of any industrialized Western country. The roots of this role go back to 1948, when a severe economic crisis followed on the heels of independence. The government was faced with thousands of new immigrants, an Arab boycott, and severe shortages of housing and food. It intervened forcefully, with measures that included rationing, exchange controls, and complete protection of manufacturing. These measures were later relaxed, but the government continued to shape the economy both directly and indirectly. It is involved in raising resources through taxation, borrowing and fund-raising, and in allocating them through investment, financing, and ownership. The government is responsible for half of all industrial investments, through loans from the development budget, and is the largest single employer. In the 1960s, total public sector expenditure ranged from 40 to 50 percent of the GNP; in 1982, government expenditures equaled 90 percent of the GNP. The government affects pricing by means of subsidies; the capital market by supporting interest rates and directing credit; and land allocation. It determines fiscal and monetary policies, exercises controls over imports and foreign exchange, and provides social services.

It is notable that in spite of the far-reaching involvement of the state in Israel's society and economy, almost all efforts to carry out comprehensive economic planning have failed. In addition, despite all its power and influence, the Israeli government has never used its role to concentrate industrial development in state enterprises. Apart from its ownership of key projects in infrastructure, defense industry, utilities, fuels, and the development of natural resources, the government prefers to encourage private investment. To this end, it contributes equity capital toward large projects with other investors, sometimes selling its shares after a project is established to raise funds for new investments. It provides credits, grants, and tax benefits for desired investments, as well as assistance in foreign marketing. This package of incentives cost the government 20 percent of the value of industrial investments in the 1970s, contributing to the high level of government spending.

2. Collective Sector: The Histadrut

Some of the basic institutions of the Israeli economy are rooted in the early effort of the late 19th and early 20th centuries to colonize Palestine. Certain of these, such as the Histadrut (Labor Federation) and the Jewish National Fund, were originally created to carry out limited economic functions related to settlement in Palestine and have retained some of these functions today. The Histadrut, which has grown to have the most important economic function of the so-called National Institutions, was founded in 1920 as the General Federation of Hebrew Workers in Eretz Israel. It represented a merger of two rival labor Zionist parties and became the "administrative backbone" of the "yishuv", or settlement process. The Histadrut directed colonization, economic production, and labor employment on the early "kibbutzim" (collective agricultural settlements), and took responsibility for defense through its military arm, the Haganah. At independence, the Histadrut remained structurally and financially autonomous, but it is closely associated with the government in its economic activities and is described in some Israeli statistical presentations as a "quasi-governmental" sector.

Today, the Histadrut is a major factor in the Israeli economy. Over 50 percent of the population belongs to the Histadrut, either through labor union affiliation (the organization periodically negotiates basic agreements on wages and working conditions with management in different fields), or in order to participate in the Histadrut's insurance coverage. Israel has no national insurance plan. Ironically, the labor activities of the Histadrut have become only a small part of its activities, handled by one of numerous specialized departments. The Histadrut also owns a network of businesses and banks, (in all, over 2,000 enterprises), including holding corporations, industrial concerns, and agro-industries, covering one-third of the net product of agriculture, construction, transportation, and communications; one-fifth of mining and manufacturing; one-sixth of trade and services; and one-tenth of banking, finance, and real estate. The Histadrut is the largest employer, after the government, and it contributes over 20 percent of the GNP.

Despite the Histadrut's "collective" ownership, its structures and organizations are those of Western capitalism, and it maintains close ties with many multinational corporate and financial interests, through numerous subsidiaries and associated companies abroad.

3. Private Sector

Private enterprise in Israel accounts for 60 percent of the net domestic product and is concentrated in banking, finance, real estate, trade, and services, where it represents 90 percent of the total. Private owners represent 73.5 percent of the NDP of mining and manufacturing; 67 percent of agriculture; and more than 50 percent of construction. Private owners operate 96 percent of the industrial establishments in Israel and employ 70 percent of the industrial workers.

B. <u>Other Economic Areas</u>

1. Kibbutzim and Moshavim

Despite the ideological importance assigned to kibbutzim and moshavim (collective villages) in Israel, they have never been economically dominant and are now less of a factor in the Israeli economy than ever before. Begun in the 19th century as a socialist agricultural enterprise, with capital, land, stock, and buildings held in common, the kibbutz has come to rely more and more on industrial enterprises to survive as Israeli agriculture has become dominated by privately owned agri-businesses. More than 40 percent of kibbutz income comes from industrial production, while approximately 35 percent of kibbutz income is invested in industry. Kibbutzim contribute only about 12 percent of Israel's GNP, mostly from industrial enterprises. Contrary to stereotype, 50 to 60 percent of kibbutz labor is hired, mostly from among Arabs or Sephardic (Arab) Jews, and these laborers are concentrated in industrial production. Hired workers do not share in the benefits of collectivization; the kibbutz has become a management, rather than a labor cooperative. In the 1970s, only about 3 to 4 percent of the Israeli population lived on kibbutzim, while 4 to 5 percent lived on moshavim. Ninety-seven percent of the kibbutzim and moshavim are affiliated with the Histadrut Worker's Company, the labor department of the Histadrut.

2. Agriculture

Agriculture has occupied a position of ideological eminence in Israel ever since Theodore Herzl, Zionism's "founding father," advocated a Jewish "return to the land" as a crucial factor in founding a viable Jewish state. But agriculture has never attained a great economic importance. In 1982, it accounted for less than 7 percent of Israel's GNP. Agriculture grew rapidly in the 1950s as a result of the expansion of cultivated lands as well as better irrigation methods, but by the mid-1950s all fertile lands were under cultivation, and planners realized that Israel could not hope to become completely self-sufficient in agriculture. Production has since shifted from food products for domestic consumption to high value products for export, especially nuts, flowers, and citrus crops. Despite self-sufficiency in most fruits and vegetables, poultry, eggs, and dairy products, Israel must import many farm products, including meat, vegetable oil, and grain.

Since 1960, agriculture has also become less significant as a source of employment for Israelis. The total number of agricultural workers has declined to less than 10 percent of the work force and the number of hired laborers, espcially Arabs from the occupied territories, has increased.

3. Industry

Industry has grown faster than any other major sector of the Israeli economy, and since the mid-1970s has contributed about 33 percent of the GNP and 87 percent or more of commodity exports. In the early years of the state, food processing, textiles, and building materials were the most important industrial products. In the 1960s, the diamond industry grew dramatically. From exports worth $5 million in 1962, the industry today accounts for more than half the world trade in cut and polished diamonds. Diamonds are Israel's largest export, and the diamond industry employs over 25,000 people. However, the foreign exchange earning potential of the diamond industry is limited by the high costs of importing rough stones (mostly from South Africa), so that only one-fifth of the value of diamond exports represents foreign exchange earnings.

Structurally, Israeli industry is a mixture of some large plants and a large number of small plants and shops. Seventy percent of establishments have fewer than 10 workers, and acount for only about 12 percent of industrial employment. Seven percent of the plants employ 68 percent of industrial workers. The large plants are responsible for over 80 percent of industrial exports, while the numerous small plants tend to produce for local consumption. Industry is mostly privately owned; public enterprises are concentrated in defense, petrochemicals, oil refining, shipyards, and mining; and Histadrut affiliated plants are mostly in basic metals, minerals, wood, machinery, and quarrying.

4. Foreign Trade

Israel has always had a large trade deficit as a result of limited natural resources, the need for industrial development, and a populace accustomed to Western standards of living. Because of foreign exchange pressures, however, the government has long sought to develop exports, especially after efforts to channel the demand for consumer goods toward import substitution in the 1950s only increased Israel's dependence on imports.

Between 1950 and 1976, exports grew at an average rate of 18 percent a year, and accelerated to 21 percent between 1970 and 1976, when they reached $2.4 billion. However, exports have never approached the volume of imports. In 1983, for example, the difference between imports and exports is expected to exceed $2.6 billion.

Since the 1970s, emphasis has been given to science-based industries such as chemicals, metal products, electronic and military equipment, and diamonds; industrial rather than agricultural products now dominate the export sector. The major foreign markets are the Common Market countries of Europe, with which Israel concluded an affiliate membership agreement in 1975, North and South America, and Asia.

Tourism has also been an important earner of foreign exchange, and efforts have been made to improve resort facilities. However, the volume of tourists has varied greatly because of the "security situation" in the region.

III. HISTORY OF GOVERNMENT POLICIES

Although the Israeli economy has developed significantly since indepedence, from "producing olive oil and flour to jet fighters and missiles," certain of its characteristic features, such as its import surplus and dependence on foreign capital, have never changed. Various governments over the years have addressed in different ways the problems these features pose, with varying degrees of success.

A. 1948 to 1967

After three years of economic crisis following the 1948 war, Israel experienced one of the highest growth rates in the world. From 1950 to 1967, the economy expanded at an average rate of 10 percent a year, comparable only to Japan, South Korea, and Taiwan. Per capita annual growth in this era averaged only 3.4 percent, however, because of the rapid population increase. From 1948 to 1951 alone, almost 700,000 immigrants entered Israel. Their number dropped to 54,000 between 1952 and 1954, but rose again to 165,000 between 1954 and 1957.

The ratio of the trade deficit to the GNP declined steadily, from 26 percent in 1952 to 14 percent in 1966, mostly because of the rapid increase in exports, led by citrus, processed foods, and textiles. Despite the dependence of these exports on imports of materials for processing, some experts believe that only a moderate tax increase accompanied by a decrease in government spending would have eliminated the balance-of-payments deficit by the early 1970s.

One important factor in Israel's rapid growth was the influx of skilled labor. But the main factor was, of course, the massive volume of foreign aid that reached Israel from various sources, enabling it to cover its import surplus and build up its foreign currency reserves. From 1950 to 1973, Israel received $18 billion from U.S. grants and loans, world Jewry, bond sales, and German war reparations. The war reparations included shipments of trains, buses, and other infrastructure materials, as well as cash payments to the Israeli government and to individual Israelis. Israel also benefited from foreign investments, which averaged $100 million a year from 1950 to 1967. Direct investments and licensing agreements also gave Israeli entrepreneurs access to advanced Western technology, greatly improving the efficiency of Israeli enterprises. From 1960 to 1967, the net capital inflow from these sources averaged $561 million annually, more than offsetting a $459 million annual import surplus.

But even this prosperity was accompanied by hazards. Foreign indebtedness increased dramatically from about $410 million in 1954 to approximately $1.6 billion in 1967. An indexing system, adopted in 1952, linked wage increases and other benefits to the cost of living and contributed to an average annual inflation rate of 5.4 percent between 1955 and 1966, considerably higher than the 1.8 percent annual rate in the United States during the same period.

In 1962, the government took steps to force Israeli production to compete internationally. It switched from a multiple to a unified exchange rate, devalued the Israeli pound, and reduced tariffs and administrative restrictions. In 1964, faced with continued rapid growth, inflation, a large import surplus, and vulnerable foreign currency reserves, the government chose a policy of "mitun," or restraint, reducing state-financed investment, raising taxes and trying to slow consumption.

By 1966, it had become clear that development plans aimed at import substitution were unrealistic, and the Israeli government enacted a comprehensive reform program aimed at shifting labor and capital to export-oriented industries. This was followed in November 1967 by a substantial devaluation of the pound.

These measures backfired, since they came at a time when immigration and foreign investment were decreasing. While 228,046 immigrants had arrived between 1961 and 1964, only 81,337 came between 1965 and 1968. Foreign investment decreased from $163 million in 1963 to $83 million in 1966. In addition, several large development projects were completed in these years. The net result was recession. Unemployment rose to 10 percent; investments, especially in housing and public services, declined; and Israel's GNP growth rate fell to 1 percent in 1966, increasing only to 2.2 percent in 1967. Significantly, however, both public and private consumption continued to grow in these years.

B. <u>1967 to 1973</u>

The six-day war breathed new life into Israel's sluggish economy, as the government laid out huge expenditures to cover the costs of the war. Imports of military hardware increased dramatically. Partly because of France's embargo of military sales to Israel, facilities begun originally for repair and maintenance of foreign weapons were converted to adapt existing weapons and even to produce new ones. By 1978, Israeli-made weapons had become a major foreign exchange earner. Military expenditures as percentage of GNP jumped from 11 percent in 1966 to 24.1 percent in 1972. Defense, dominated by government-owned plants under the Ministry of Defense, led an impressive growth in the manufacturing sector, and helped give the economy a growth rate of nearly 10.5 percent between 1967 and 1973. The government also stimulated the growth of science-based industries by providing low interest credit, tax incentives, tariff protection, export premiums, export insurance, and marketing assistance. Investments tripled, and there was a rise in both public and private spending.

But these years also mark the beginning of the inflationary spiral in Israel. In 1971, inflation was 12 percent; it was 13 percent in 1972, and 20 percent in 1973. Increased consumption, devaluation, rising fuel prices, inflation in the West, and Israel's monetary policies, which had failed to neutralize the large inflow of foreign funds, all contributed to the problem.

The rising inflation rate had political side effects, since it hit some Israelis harder than others. "Social Justice" began to emerge as a political issue, as Jewish immigrants from Arab countries found themselves falling behind European Jews. Income inequality, which statistically resembled the disparity in the industrialized economies of the West, was actually worse than it appeared, as a result of tax evasion and fringe benefits in certain sectors.

In response to political pressure, the government adopted new tax laws to help the poor and raised welfare and subsidies, policies which increased the budget deficit and encouraged consumption. By 1973, the high inflation and growing balance of payments deficit were compounded by a slowing of the GNP growth rate to 3 percent.

C. 1973 to 1977

The 1973 war, in which Israel lost many expensive weapons, accelerated the nation's economic plight. A vast rearmament program required vast expenditures abroad, not only to replace lost weapons, but also to compete in the accelerating arms race with the Arab states. These expenditures were financed mostly by a huge increase in U.S. aid, which reached an average of $1.5 billion a year between 1973 and 1978. In 1972, U.S. aid had been approximately $475 million, 88 percent of that in loans. As a result of the new aid levels and new expenditures, the balance of payments deficit rose from an average of $0.5 billion to $1 billion a year to $3.4 billion a year after 1973. The size of the army doubled, and the productive sector suffered from this loss of manpower. To make matters worse, 1974 and 1975 were years of global inflation. Since Israel imports almost all of its raw materials, price rises forced it to deplete its foreign currency reserves.

The Labor government, concerned over the increasing foreign debt and balance of payments deficit, decided to reduce consumption through tax increases, cuts in subsidies, and devaluation of the pound. These measures slowed the economy. Imports declined and the balance of payments deficit improved, decreasing from a peak of $4 billion in 1975 to $3.3 billion in 1976.

But, as in 1966 to 1967, this slowing severely affected investments, while failing to cut consumption or improve productivity, especially in the swollen public sector. Gross domestic capital formation declined sharply, and the GNP growth rate fell to 2 percent in 1975.

Part of the problem lay with the ruling coalition, dominated by worker's parties and heavily influenced by the Histadrut. These groups refused to accept measures that would impose hardship on workers; that is: any cuts in subsidies, public services or other benefits. The economic role of government had become extremely strong under Labor. By 1976, the public sector's share of fixed gross investments was 40 percent: The ratio of government expenditure to the GNP was 97 percent, and taxes equaled 53 percent of the GNP. Sixty percent of the Israeli labor force was in service industries, largely because of governmental and quasi-governmental economic activities, as well as because of the trade and transportation network associated with high levels of imports. The government had gradually assumed an immense role in the collection and allocation of Israeli resources, but because of ideological and political factors, was unable to cut either public or private consumption. It avoided severe crisis only by the use of short-term financing, and by depleting foreign currency reserves. The 1975-76 experience was a bad portent, and contributed to the defeat of Labor in the 1977 elections.

In 1976, the situation improved somewhat, as the government imposed a value-added tax and devalued the currency. The West had partially recovered from its economic problems, and the United States was able to help Israel by almost doubling the amount of grants as opposed to loans in its total aid package, from $642 million in 1975 to $1.2 billion in 1976.

D. 1977 to 1982

In 1977, the Likud coalition of Menachem Begin came to power in Israel promising a "new economic policy" to attract foreign investment and make Israeli industry more competitive abroad. While the basic goals of the Likud resembled those of the defeated Laborites--full employment coupled with economic growth--the Likud was oriented toward free enterprise rather than socialism as the basis of economic policy. Begin promised to free the market from some of the controls imposed by Labor and to let market forces assume a larger role in the allocation of resources.

But the Likud was also a coalition government, more fragile than past Labor coalitions. The two main factions within the Likud were the Herut and the Liberals. The Herut depended for support largely on low-income people and vowed to maintain full employment and social welfare programs. The Liberals, many of whom were independent businessmen, sought economic opportunity in laissez-faire economic policies. Inevitably, these two groups soon found themselves split over economic goals.

The first steps taken by the Likud involved liberalizing the financial sector. The government floated the pound on the foreign exchange market, eliminated currency controls, slashed export subsidies, and reduced subsidies on basic commodities. The impact of the currency devaluation was softened by the complex indexing system, which by 1977 included wages, pensions, welfare benefits, and bank accounts, all indexed at 80 to 85 percent of the inflation rate. Any gap was made up in basic wage increases negotiated by the powerful Histadrut, and by investments, which many Israelis began to use to beat inflation.

The government failed to accompany its monetary policies by a reduction in government spending. Begin refused to endorse cuts in defense or social services, which made up well over half the budget. Annual repayments on the foreign debt were also fixed, leaving little room for cuts. The Treasury was forced by the budget deficit to print more currency, and the money supply increased by 39 percent in 1977 and by 45 percent in 1978. The Central Bank also borrowed large sums of money on the Eurodollar market, further increasing the supply. A vast monetary expansion occurred in Israel. Liquidity increased as more Israelis invested in indexed assets such as the "Patan" dollar-linked accounts. Public expenditures and public employment rose, and real wages kept ahead of inflation, which moved into triple digits.

Exports did rise 25 percent, partly because of stepped-up arms sales to countries like Chile, Nicaragua, and South Africa. Nonmilitary export commodities stagnated. Foreign investments also increased by more than 50 percent, to $165 million, but this was still less than in the years before 1973. Much of the economic growth that did occur paid for more imports. The balance of payments deficit rose from $2.6 billion in 1977 to $3.25 billion in 1978, an amount equal to one-quarter of the GNP. High inflation discouraged investments in productive sectors. Instead, hundreds of thousands of Israelis began to speculate, especially in real estate and the stock market.

Before 1977, bank shares had fluctuated freely with the market. In that year, Bank Hapoalim began "regulating" its share prices, and soon other major banks followed suit. Soon, over 700,000 Israelis, one in every three adults, attracted by the real profits in shares, invested in the market. The scene was being set for the crisis of 1983.

By 1979, the situation was so bad that the government was forced to ban, and then to ration, capital imports. Food and fuel prices were allowed to rise to near market levels, a step that enabled the government to keep the budget at the same level, in real terms, in 1979. Proposals were made to cut ministry budgets, curtail the cost of living increases, and limit subsidized credits to industry and agriculture, but the need for real austerity measures was lost on a public cushioned from the impact of inflation. Some analysts also blame the Likud for inexperience and/or inopportunism. Begin, in particular, was said to know less than the man in the street about economic affairs and only wanted somehow to "keep everyone happy."

It is important in this context to note that U.S. aid and other capital imports were instrumental in maintaining this situation. As a leading Israeli banker commented in 1979, "The public here doesn't pay the price of inflation. The United States and the Jewish people around the world do that." In effect, U.S. generosity enabled Begin's politically divided government to follow an inconsistent and destructive economic policy, "Milton without the Friedman," according to Israeli economist Meir Merhane.

In 1980, Yigal Hurvitz replaced Simha Erlich as finance minister. In the same year, Israel was hit by the "second oil shock," requiring the government to allocate more resources to pay for fuel, and to cut subsidies and devaluate the currency more frequently. These policies reduced the balance of payments deficit, and consumption actually decreased in Israel for the first time in years. Hurvitz only lasted a year in office, however, and was replaced just before the 1981 election campaign by Yoram Aridor. Under his direction, the Israeli economy deteriorated even more rapidly.

In many Western countries, there is a "political business cycle." In an election year, voters are wooed by loose credit terms which tend to disappear after the election as the government restores tighter monetary controls. In Israel, the Likud abandoned its two-year austerity plan during the 1981 campaign, partly in order to lure disaffected young and Sephardi voters. The government increased subsidies, cut taxes on luxuries, printed more money, and encouraged the banks to support share prices. Israelis went on a spending spree just as they entered the war in Lebanon. The artificial prosperity helped return the Likud to power, but it also paved the way for disaster.

After the election, the government declined to impose tighter monetary controls. Aridor blamed inflation not on the influx of capital and monetary expansion resulting from high government expenditures, but on psychological factors related to the public's "expectations" and "perceptions." Thus, rather than fighting inflation and deficits through the classical solution of budget cuts, devaluation at a higher rate than inflation, and wage controls, Aridor's "correct economy" "massaged" inflation by artifically slowing devaluation to 5 percent a month, holding down prices of subsidized goods by increasing subsidies, and holding down interest rates. Since imports are a major part of the consumer price index in Israel, the rise in subsidies pushed up the government's deficit, while curbs on exchange rates reduced the international competitiveness of Israeli products. These interactions caused an import surge. The civilian import surplus, which had been $2.2 billion in 1981, jumped to $4 billion in 1982, while inflation reached 130 percent.

The atmosphere was rife with speculation. The stock market rose 60 percent in 1980, 25 percent in 1981, and 70 percent in 1982. With share profits so high, Israelis rushed to play the stock market. Investment in government index-linked bonds slackened, as did interest in regular savings schemes, which were limited by taxes and other restrictions. Spending on financial assets grew by 31 percent in real terms in 1982, while spending on physical assets increased by less than 6 percent. The GNP stagnated. It was the first failure of the economy to grow since 1966.

E. <u>1982</u>

Despite all the bad news in 1982, 1983 shaped up as the worst year, economically speaking, in Israel's past three decades. In January, the stock market fell drastically in one week, after the government announced minor changes in the rules governing mutual funds. Only bank shares survived undamaged. Israel's budget deficit rose to $11 billion. The foreign debt grew $550 million during the first half of 1983, following a record rise in 1982, reaching $21.45 billion, over $5,000 per capita. Israel's balance-of-payments deficit, which had reached $4.7 billion in 1982, was expected to reach $5.5 billion in 1983, despite a marked decrease in oil prices and an increase in military exports. Part of the rise grew from the artificial support of the Israeli shekel. Foreign currency reserves dropped $230 million between July and September, and another $98 million in September. The government printed the equivalent of $1 billion in the first five months of FY-1983, which added to a money supply already bloated by loans from world capital markets. This fueled inflation, which was expected to reach 150 percent. The shekel became more and more obviously overpriced, and the government was forced to increase the rate of devaluation to 7.1 percent in July and to 7.5 percent in August.

Exports also declined in 1983 to $3.1 billion, while imports increased to $5.6 billion. The GNP remained stagnant for the second year in a row at approximately $20 billion. Almost unbelievably, the public prospered. Average gross wages increased 6.6 percent in real terms over 1982, and private consumption continued to increase. But, as the summer drew to a close, the public became uneasy about the economic situation. One sign of this came after the August devaluation, when investors failed to transfer foreign currency bought before the devaluation back into shekels, obviously fearing another major devaluation.

Aridor's aides had warned him during the summer that without strong measures the economy would face a major crisis within a year. Aridor responded with proposals for a $1 million budget cut, just before Begin resigned in September. The ensuing political realignments distracted Israelis from economic affairs and paralyzed the government. The Central Bank and the Treasury conspired to maintain public calm, issuing periodic statements that, despite the statistics, Israel's economy was healthy and would soon recover from passing problems.

Public anxiety grew stronger in September. Aridor proposed that Israel accept less military assistance from the United States in return for a larger proportion of grants, angering Defense Minister Moshe Arens and drawing public attention to Israel's desperate need for cash. In the same month, the government released Israel's annual economic report which contained more grim figures, fueling fears that Israel's creditors had begun to lose confidence in Israel's economic viability, and that Israel might face problems obtaining more credit in future years. The specter of repayment problems, further depletion of foreign currency reserves, and drastic austerity measures pushed Israelis to sell their most prized investments--bank shares--in exchange for safer foreign currencies. As Shamir pulled his new government together, fear turned into panic. The proposed austerity measures seemed suddenly not only necessary but imminent. Thousands of shares were dumped on the market, as much as $11 to $30 million a day in the first days of October. The bubble had finally burst.

IV. CONCLUSION

In the wake of the October financial crisis, many analysts agreed on the immediate remedy for Israel's economic malaise: the government must attack the balance of payments deficit, cut private consumption and the budget, and impose tighter monetary controls. The new finance minister, Yigal Cohen-Orgad, has promised to undertake reforms aimed at these goals and to try to stimulate economic growth. Reportedly, Cohen-Orgad's economic philosophy rests on the belief that Israel must drastically reduce its dependence on foreign aid. As a member of the Knesset under Aridor, he outspokenly called for realistic exchange rates for the shekel and criticized the lag of devaluation rates behind inflation. He opposed "unnecessary" social welfare programs, and voted against providing free public high school education to all Israelis.

Cohen-Orgad is known to favor economic advance through government promotion of science-based industry, and has said he intends to concentrate more on increasing exports rather than reducing exports, although he believes both are necessary. He feels Israel would do well to imitate the policies of South Korea, which has overcome similar economic problems by concentrating its resources in "high-tech" industries like electronics, medical equipment, and bio-technology.

But the new finance minister faces formidable political and economic hurdles. Like his predecessors in the Likud, he joins a fragmented political coalition in which the finance minister lacks political clout. Under Labor, the post of finance minister went to a power broker from the majority party. Under Begin, it developed into a minority party position of "asymmetric" power--to spend but not to cut.

Already, Shamir's government faces internal and external political pressure not to touch social welfare programs. The Histadrut staged a nationwide two-hour strike in October to demonstrate popular opposition to proposed budget cuts; and Tami, a minority party within the Likud, has threatened to withdraw from, and thus destroy the coalition if welfare benefits are touched. The only effective counterweapon to worker-party pressure, according to some analysts, is the threat of unemployment, which might backfire on a government with such a slim majority, in a state where full employment is an accepted national goal of any government and is expected by the Israeli public.

Another ominous sign, in some eyes, is the speed with which the Shamir cabinet moved to bail out investors caught in the recent banking crisis. The government agreed to shoulder the burden of any major losses, raising doubts about its determination to carry through any true austerity program.

Without strong action, however, observers predict the crisis will worsen. The recent measures saved the capital markets from collapse, but they have not ameliorated the chronic problems of the productive sector. Unless the wage indexing system is modified, the recent devaluation will worsen inflation, and the gap between the foreign currency earnings of industrial exports and local costs of production will remain. Indeed, in the month after the crisis, according to some reports, inflation reached a level equivalent to 900 percent a year.

Worse, the current crisis could affect the amount of credit at the disposal of businesses and consumers, causing a chain reaction: reduced demand for finished products and raw materials, layoffs, and rising unemployment.

Despite the prevailing gloom, the Israeli government and the banks believe Israel will recover from this crisis. They point to the fact that Israel's credit image has not been damaged in the West. U.S. reaction to the proposed reforms has been very positive, a fact of extreme importance to Israel's ability to raise credit. Not only does the U.S. aid program provide one-quarter of Israel's annual budget, but many commercial banks, which tender short-term loans to Israel, take their cue from Washington. Significantly, U.S. economic support of Israel has been unwavering in recent months. In early November, Congress voted to grant Israel $550 million to develop its Lavi fighter plane, which is expected to beef up Israel's arms exports in the future. There has also been a tentative agreement with the U.S. Office of Management and Budget to provide all of U.S. military aid to Israel (approximately $1.275 billion) in grant form.

But any improvement in Israel's economy, based mainly on improved terms of foreign aid, raises a contradiction that has plagued Israel since its birth: economic growth has always occurred at the expense of economic independence. This sober truth would remain even if Israel's "security situation," long the scapegoat of its economic problems, were completely transformed. Even if a comprehensive peace settlement disarmed the Middle East tomorrow, and Israel's army were disbanded, the nation would still owe an average of $1.4 billion a year in interest and principal payments on outstanding loans for the next 15 years. The roots of the problem lie not only in the policy responses of different governments, but in historical factors which have shaped the Israeli economy since its inception. In this light, the current crisis appears part of much larger and more intractable problems.

ATTACHMENT B

CAMDEN COURIER-POST DECEMBER 20, 1983

AS I SEE IT

U.S. is helping Israel compete against American firms

By ROBERT HAZO
Special to the Courier-Post

Increasing strategic collaboration between the United States and Israel is threatening to "Americanize" the Arab-Israeli conflict and draw the United States into a calamitous military entanglement in the Middle East that is not in its interests. Ominous steps toward expanding that collaboration were announced by President Reagan during the recent visit to Washington of Israeli Prime Minister Yitzhak Shamir. But the expansion of political and military ties between the United States and Israel is being accompanied by burgeoning American economic commitments to Israel as well.

Over the past ten years alone, Israel has received about $22 billion in U.S. aid in the form of grants and long term, low-interest loans. During that period, there has been a trend towards increasing total annual aid to Israel and improving the already generous terms under which that aid is extended. In fiscal year 1984, Israel will receive $2.61 billion in total aid, two-thirds of which, or $1.76 billion, is to be given as grants which do not have to be paid back. Even though no other country is the recipient of such large amounts of annual aid at such generous terms, Israel is asking that all of its future aid be extended in the form of grants.

Indeed, Israel has paid back little of the U.S. aid it received in the past. More than $25 billion in aid has been given to Israel since 1948, much of it in the form of outright grants. Of the aid extended as loans, the terms of repayment are such that the United States can recover less than 20 percent of the original loans in real dollars.

PERHAPS EVEN more serious is the move by Congress last month to allow $550 million in military aid to subsidize research and development of a new Israeli jet fighter called the "Lavi". Development and production costs for the Lavi program may eventually reach as high as $6 billion, most, if not all of it, to be paid by the U.S. taxpayer. In addition, the Lavi will be sold by Israel on the world market in direct competition with U.S.-made aircraft.

Israel's ability to compete against American firms was enhanced by a congressional decision to allow Israel to use $250 million of its Lavi aid to buy military hardware and services from Israeli defense industries, rather than American ones.

Using a U.S. Commerce Department formula which estimates that for every $1 billion in American exports some 24,000 jobs are created, the $250 million in aid Israel will be spending in its own defense industries will cost 6,000 Americans their jobs.

THE THREAT to American employment will be compounded when the first 300 Lavi aircraft, rather than American-built aircraft such as the F-16, F-18, or the F-20, are absorbed into the Israeli air force at a cost of more than $3 billion. Using the Commerce Department formula, this would translate into an additional 72,000 lost American jobs. Additional unemployment would result from sales of the Lavi to third countries.

American taxpayers are thus being committed by their government to subsidize their own future unemployment. And this appears to be only the beginning. President Reagan, who has now consented to this congressional concession, appears ready to increase the amount of aid to be devoted to the Lavi program in the future.

THE PRESIDENT has also agreed to resume deliveries of U.S.-made cluster bomb weapons to Israel, despite charges that Israel used the bombs in Lebanon in both 1978 and 1982 in violation of the U.S. Arms Export Council Act and specific Israeli assurances regarding their use.

Finally, President Reagan has indicated that the United States is willing to negotiate an accord on duty-free trade between the United States and Israel. Such an accord would help to stimulate Israeli export industries and increase sales of Israeli goods to the United States, thereby adding to the already burgeoning deficits in our overall balance of payments.

In an era when domestic spending in the United States is being strictly limited or drastically curtailed, the enormous economic benefits given to Israel are a source of serious concern and controversy. The American taxpayer cannot be asked to continue to subsidize a nation of 4 million people with unlimited amounts of direct aid and economic concessions, particularly when by doing so American jobs are lost and American exports reduced.

The writer is policy research director for the National Association of Arab Americans.

ATTACHMENT C

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 98th CONGRESS, FIRST SESSION

Vol 129 WASHINGTON, THURSDAY, OCTOBER 27, 1983 No. 143

ISRAEL BUYS SOUTH AFRICAN COAL WHILE U.S. COALFIELD UNEMPLOYMENT GROWS

HON. NICK JOE RAHALL II

OF WEST VIRGINIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, October 27, 1983

• Mr. RAHALL. Mr. Speaker, on a number of occasions I have openly criticized the Japanese for dramatically reducing their purchases of U.S. coal while increasing their purchases from other exporting nations.

I make these criticisms because of the large trade imbalance between the United States and Japan, which is continuing to grow, and due to the fact that rather than buy from an ally, the Japanese are now investing in coal-related facilities in countries such as the Soviet Union and China.

I firmly believe that a certain degree of reciprocity must be maintained between the United States and its trading partners, especially when those trading partners benefit greatly from their relationship with this Nation.

I make no country exempt, and for this reason must extend my criticism to Israel.

When the Israelis look for coal, they do not look to the United States—the largest and most stable source of coal in the world. Rather, the Israelis go to South Africa and purchase coal produced by slave labor from an apartheid government.

Mr Speaker, Israel is the beneficiary of approximately one-third of the U.S. foreign-aid package receiving many billions of dollars in grants and loans from our Government. In effect, U.S. citizens and businesses are paying taxes which support Israel's military and economy. Yet, those taxpayers in southern West Virginia and throughout the Appalachian coalfields are suffering from the worst coal slump in decades today. There is massive unemployment and misery in the hills and hollows of Appalachia with about 32 percent of the coal labor work force now on the unemployment rolls.

In 1982, Israel purchased 700,000 tons of coal from South Africa, yet bought only 96,495 tons from the United States This trend continues in 1983. Recently, the Israeli Electric Corp. took delivery of South African coal from the 160,000-ton coal-carrier *Hadera*.

I would submit that South Africa has done very little for Israel. Meanwhile, U.S. servicemen have died in Lebanon due to circumstances created as a result of the Israeli invasion of that country last year. Furthermore, it is expected that the U.S.-aid package to Israel in 1984 will be increased in excess of the $2.5 billion 1983 level of support.

So I would suggest, Mr. Speaker, that Israel consider these issues while it buys coal from South Africa and make a determination of what South Africa has done for Israel and what the United States has done for Israel. The choice should be clear.•

ATTACHMENT D

THE ROCKFORD REGISTER STAR THURSDAY, AUGUST 18, 1983 PAGE= 1A

Martin says Israel blackballing U.S. firms

By Kurt Peters
The Register Star

Some foreign countries that receive U.S. aid are selling arms to South American countries and bribing military leaders in those countries to prevent them from doing business with the United States, U.S. Rep. Lynn Martin, R-Ill., charged Wednesday.

Martin, who recently returned from a nine-day tour of three South American countries, spoke at a press conference in her Rockford office.

"Some of the other countries to which we give aid sell our arms to military officials and bribe them not to do business with the United States," Martin said.

She singled out Israel, which she said has been selling American fighter planes to Ecuador.

"There's no question in anybody's mind that money passed under the table," she said.

She said the U.S. should warn Israel and

Lynn Martin

other countries that engage in such practices that this country no longer will tolerate such transactions.

Martin traveled to Brazil, Peru and Ecuador with Rep. Jim Jones, D-Oklahoma, chairman of the House Budget Committee; Rep. Sam Gibbons, D-Florida, chairman of the House Ways and Means Committee Subcommittee on Trade; and Sen. Lawton Chiles, D-Florida, ranking Democrat on the Senate Budget Committee.

The purpose of the trip, she said, was to determine whether the money the U.S. sends to South America through the Agency for International Development does any good.

Martin said she came back from South America with mixed opinions on the effectiveness of USAID money, but convinced that all money the U.S. sends abroad should have strings attached.

One of those strings should be that no country that receives aid can place an embargo on imports from the United States.

Another string should be that companies that receive aid make efforts to cut their military budgets.

U.S. money, Martin said, "should not underwrite military spending in South American countries."

There's no reason, Martin said, that South American countries shouldn't curtail their military spending to pay for some of their own social programs.

Furthermore, Martin said, each project for which the USAID money pays should bear a plaque saying the project was paid for with money from the U.S. and the recipient country.

Money from the Agency for International Development is matched by money from the country receiving the U.S. funds. It goes to small businesses, schools and other small projects.

Although South American countries are having economic problems, Martin said she feels they are solvable and that the U.S. should make all attempts to foster good relations with those countries.

"A healthy economy is in our own best interest down there, not just because of revolution, but because they buy," she said.

"In 30 to 50 years, they'll be a greater trading partner with us than Europe," Martin said.

Senator SYMMS. No questions.

Senator DANFORTH. I have no questions. I will be happy to introduce a free-trade-area bill myself for the Arab countries at such time when oil is sold on a free-market basis to the West. [Laughter.]

Mr. SADD. I believe there is a relatively low tariff in most of the Arab countries and they may be seeking the removal of some tariff barriers for the export of refined oil products, et cetera, in the United States. I think many of the Arab countries would welcome a free-trade proposal.

Senator DANFORTH. Maybe we can do business.

Thank you, sir.

Senator DANFORTH. Next we have Mr. Rossio, Mr. Zollinger, Mr. Satterford, Mr. Nehmer, and Mr. Karmel.

STATEMENT OF ROBERT D. ROSSIO, PRESIDENT, LINDSAY OLIVE GROWERS, REPRESENTING THE CALIFORNIA OLIVE ASSOCIATION

Mr. ROSSIO. Mr. Chairman, thank you.

Bob Rossio is my name. I'm president of the California Olive Association, which is a nonprofit trade organization made up of seven members, all in California, who produce the entire U.S. output of black, ripe and green olives. I'm also president and chief executive officer of Lindsay Olive Growers, a 416-member farmer-owned cooperative headquartered in Lindsay, CA. We grow and sell olives.

On behalf of our members, on behalf of the California Olive Association, I speak in opposition to the proposal that a free-trade area be made between the United States and Israel. And since Mr. Brock made his interesting answers, his replies to some questions earlier today, I'm very concerned about the scope of this inquiry because I thought it was just a free-trade area between the United States and Israel. And it seems to me that in Mr. Brock's mind that it is not country specific; that the authority he seeks will be enlarged to include countries other than Israel; and we are very much opposed.

My industry is in trouble from itself. We don't need anybody coming in from somewhere else to drop more olives on an already overburdened U.S. supply situation. That's point No. 1. We don't need any new competition. I've got enough from Spain, enough from Mexico, and I don't need any more from Morocco or Israel. And with Brock's view of this as being not country specific, then tariff free for Israel today is tariff free for Morocco tomorrow.

Israel, a country that is grand, heroic, and all of these things. Also very aggressive olive-growing country. They have about 3 to 4 million people. They have 35,000 bearing acres of olives. This country, this United States, has 200-plus million, 32,000 bearing acres in California. They have 35,000 bearing acres in Israel, I guess, waiting to come in tariff free to the U.S.

We don't need it because we have plenty of supplies on hand at the moment. They already are in this market with a modest tariff, 5 cents a pound. There is nobody in my industry that thinks that 5 cents a pound is going to keep anybody out of town. But they are already here, and they have already taken business away from us in Detroit and in other cities of the country with the tariff.

They offer nothing new. They offer nothing unique. They offer nothing different. They simply offer the same things that we are producing now at a much, much cheaper price. And, again, I submit to you that we don't need that.

We are very import sensitive in California. Foreign producers have environmental control and possibly processing advantages over domestic suppliers. And, finally, the domestic producers in this country join together in a marketing order, assess themselves funds in support of greater consumption by consumers. All foreign producers like Israel or others who would do so—I wouldn't keep Spain, or Morocco, or Mexico out of this—all of these other producers merely come in to take away from our market, to cannibalize it and they bring us nothing except their ability to do so.

And we would like very much to see fit to keep them out just as they did in GSP hearings. Israel has petitioned 3 of the last 4 years, I think. And each time they have, the GSP resolved to not give them any further preferential tariff.

Thank you.

Senator DANFORTH. Thank you, Mr. Rossio. I'm reminded of Senator Long's statement of several years ago when he said if God had not intended us to have the three-martini lunch, why did he put so many olive trees in the Holy Land. [Laughter.]

[The prepared statement of Mr. Robert D. Rossio follows:]

BEFORE THE UNITED STATES
SENATE COMMITTEE ON FINANCE

HEARING ON PROPOSED FREE-TRADE
AREA WITH ISRAEL

STATEMENT OF THE CALIFORNIA OLIVE ASSOCIATION

My name is Robert D. Rossio and I am President of the California Olive Association. This nonprofit trade association has but seven members, all in the State of California, who produce all of the U.S.-grown and processed canned ripe and canned, bottled or bulk green (so-called Spanish-style) olives.

I am also President and Chief Executive Officer of Lindsay Olive Growers, a 416-member grower-owned cooperative headquartered in Lindsay, California. Our members grow olives.

On behalf of our 416 members--the majority of whom represent small family farms--and on behalf of all of California's estimated 1,500 olive growers, I want to speak in opposition to the proposed creation of a free trade area between Israel and the United States for duty-free import of olives.

We have enough trouble in our industry from our olive trees themselves--we don't need to look for external problems.

Present estimates are that we will go into 1985's harvest with a full year's supply of olives on hand. Our industry annually sells about 80,000 tons of California-produced olives. Approximately 65,000 tons are processed as California ripe olives, the balance as green Spanish-styles. In addition to this domestic volume, the U.S. imports about 40,000 metric tons of olives--most of them Spanish green olives. When our industry is short--as it was two years ago in a few key styles or sizes--importers were quick to seize on the opportunity to bring in black California-style olives. Last year over half a million cases of such olives were imported in addition to the regular green olive imports.

We are a small industry. We are very import-sensitive. We have had a difficult time building our market. Consumption rates have been slowly increased over the years, but only with our aggressive marketing actions and our collective determination to create a viable market for California-grown and processed olives. We joined together in a marketing order for the primary purpose of establishing industry-wide standards for quality and size-grades and reaching out to our customers. Our generic advertising and merchandising programs have been willingly paid for by our farmer-members because they believe that they must make an investment in the marketplace as well as in the land. This current marketing year, for example, we are spending 3/4 million dollars in marketing order support of our industry. Lindsay Olive Growers will spend more than this amount of money in support of its own brand--Lindsay--and other processors in our industry will make their own brand-related expenditures. I make this point only because foreign producers do not pay any marketing order expenses. They do not contribute to the building of our industry: they only take away. They cannibalize.

So we are not anxious to see any further incentives offered to foreign producers. They have enough incentives already to last a lifetime.

Foreign exchange rates so strongly advantage the importer that if all other advantages were ignored we could not effectively compete on the east coast or in the midwest except at a net margin loss to our members. In addition to this serious disadvantage, we are constrained in other ways. Our growers are restricted as to sprays they may use in their cultural practices. No control over such sprays is exercised at the time of import to this country. The standards of our quality grades and cook or process requirements do not apply to the importer in the same manner as required of domestic producers.

We are not naive about the economic impact of tariff removal. Tariffs on olives are not only about 5 cents a pound. That's only 35 cents a gallon, only $1.40 a case of 4/1 gallon style. But it is a gesture of consideration for the differences between foreign cost environments and our own. It does not attempt to deal with possible subsidy offsets, but it recognizes a principle of domestic protection. This is important to us. Israel has sought special consideration for olives in at least three of the past four years in the general system of preferences for tariff. Each time, after hearings, the Administration has denied their request. Now it seems to us that they are merely trying the other doors to the White House since the one marked GSP seems closed.

We are a country of over two hundred million people. We have about 32,000 bearing olive acres. Spain has slightly less than a million bearing acres. Italy has a like amount. And there are many bearing acres in Greece and Morocco and Mexico. And in Israel--this heroic, struggling, aggressive, brave country of slightly over three million people--there are about 35,000 bearing acres of olives waiting to be sold tariff-free in the U.S.

We are concerned that an incentive now to Israel on olives will become a threat to us on olives. And we believe that it is a small step from tariff-free Israeli olives to tariff-free Moroccan olives and tariff-free Spanish olives. There is no doubt in our minds that such action could only result in no olives for California producers.

We can't do anything about the foreign exchange rates except hope that you, your congressional counterparts, and this Administration do something about them. We can't do anything about highly subsidized foreign producers whose governments offer export incentives in the form of low-interest loans, or capital project rebates, except to hope that our government will at least keep the rules of the competition fair and commensurate for the players.

We can't do anything about environmental controls which forbid California growers to use certain sprays but allow imports to have used them. And we can't do much about foreign opportunists who see this enormously successful machine-like buyer called the American consumer and want to rush in under our labor costs, under our capital expenses and outside of the controls and expenses of our marketing order to cannibalize our industry. But hearings such as this give me the chance to do at least one of the things Americans are envied for: I can complain loudly to the highest levels of my government and still go home safely tonight.

Thank you very much.

SUMMARY

1. No need for additional product exists. Present and expected inventories will be surplus to sales demand.
2. Israeli olives now sell far below domestic olives and other imported olives, obviating the need for tariff relief.
3. Our industry is very import-sensitive. Foreign imports merely take away from the domestic market; they do not add to it.
4. Items offered are not new, unique or different than those now available.
5. Foreign producers have environmental control and processing advantages over domestic suppliers. Competition from these sources is unfair.
6. Domestic producers contribute through a marketing order to a merchandising fund for the purpose of increasing consumption. Foreign producers take advantage of this without participation. They only cannibalize the available market.

STATEMENT OF DAVID L. ZOLLINGER, EXECUTIVE VICE PRESIDENT, CALIFORNIA TOMATO GROWERS ASSOCIATION, INC., STOCKTON, CA

Senator DANFORTH. Mr. Zollinger.

Mr. ZOLLINGER. I'm David Zollinger, and I'm the executive vice president and chief negotiator of the California Tomato Growers Association. I'm also the chairman of the California Ad Hoc Committee on Tomato Imports.

I'm appearing before you today on behalf of 537 California tomato growers, and 15 California processing entities of tomatoes and tomato products. The industry at large is deeply concerned with the proposed United States-Israeli free trade area, and its potential effect on the U.S. tomato processing industry.

Essentially the United States does not export processed tomatoes or tomato products other than to Canada. The effect which we are discussing is the impact on our domestic and Canadian markets, which we have built over the past 20 years.

It is apparent that the present duty rates have not served as a barrier to exports to the United States by Israel. The country is currently able to grow, pack, ship, pay duty, and sell for a profit at prices that in many instances are less than the U.S. industry's cost.

Eighty-five percent of Israeli tomatoes processed are exported now. Israel has dominated the import market of tomato sauce with 86.5 percent of total tomato sauce in 1982 imports. Information compiled by Dr. Lee Garoyan, who is a professor at the University of California, Davis, indicates that a 1984 on-sight study of Israeli processing tomato industry states, that if a free trade were to come to pass between the United States and Israel, the Israeli industry would expand from 330,000 metric tons of raw product to 450,000 to 500,000 metric tons in 1 year.

It is very feasible for 750,000 metric tons to be produced in just a few years. In ag products in 1982, Israel exported to the United States $36 million in ag products. They imported $6 million. Of the $36 million, 50 percent of that was tomatoes.

Total returns for processing tomato business contribute directly to the economies in 19 States, benefiting thousands of families and many other areas which provide related services to the tomato industry. Using the conservative multiplier of a total of four times the raw product value, processing tomatoes generated $1.5 billion to the U.S. industry in 1983.

Dr. Garoyan concludes his report with a statement:

> If the free trade area proposal is signed, the affect will be a subsidy to the Israeli tomato grower by the U.S. Government. The U.S. grower and processors do not receive Government subidy.

We ask for an exclusion for tomatoes from this free trade area pact by statute.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Mr. David L. Zollinger follows:]

STATEMENT TO THE SENATE COMMITTEE ON FINANCE

February 6, 1984

EXCLUSION OF PROCESSED TOMATOES AND TOMATO PRODUCTS FROM THE UNITED STATES-ISRAEL FREE TRADE AREA

My name is David L. Zollinger, and I am appearing before you on behalf of the 537 California growers and the 15 California processing entities of tomatoes and tomato products.

The industry at large is deeply concerned with the proposed U.S.-Israel free trade area and its potential effect on the United States toamto processing industry. Essentially, the United States does not export processed tomatoes or tomato products, other than to Canada. The effect which we are discussing is the impact on our domestic and Canadian markets which we have built laboriously over the past 20 years.

It is apparent that the present duty rates have not served as a barrier to exports to the United States by Israel. The country is currently able to grow, pack, ship, pay duty and sell for a profit, at prices that in many instances are less than the U.S. industry's cost. As an example, one tomato canner located in Pennsylvania reports his cost on #10 crushed tomatoes delivered to New York is $12.679, compared to the same item from Israel and delivered to New York selling for $12.60.

Israel ranked third among foreign suppliers of canned tomatoes in 1982, after Italy and Spain, accounting for 14.8 percent of total 1982 imports. Israel ranked fourth among foreign suppliers of tomato paste in 1982 after Taiwan, Mexico and Portugal. Israel accounted for 12.65% of total 1982 imports of tomato paste, shipping more paste than Italy or Spain. Israel dominated the import market for tomato sauce, with 86.5% of total 1982 imports.

Information compiled by Dr. Lee Garoyan in a 1984 on-site study of the Israeli processing tomato industry states,"If a free trade area were to come to pass between the United States and Israel, the Israeli industry would expand from 330,000 metric tons of raw product to 450 to 500,000 metric tons in one year. It is very feasible for 750,000 metric tons to be produced in just a few years."

The present level of imports of tomatoes and tomato products is constricting the normal growth of our domestic industry. Our total U.S. market has stood at the 7 million processed ton level for the past five years. Six million tons of this market are produced and processed in California, which is capable of producing 10 to 12 million tons of processing tomatoes with its present land and equipment, and 8 million tons could be processed in current California facilities. More than 7 million tons are being sold in our domestic market, but our United States industry, composed of both growers and canners, is not reaping the benefits of the sales growth. Processed tomato imports in 1981-83 averaged the equivalent of 529,000 tons of raw tomatoes per year, 8 percent of U.S. consumption, equivalent to the production from 20,000 acres.

United States growers are suffering from the economic impact resulting in part from the growth of imports. The grower value of

3-3-3 zollinger

the 1982 crop of tomatoes for processing was estimated by the U.S. Department of Agriculture at $522.4 million; the 1983 value estimated by USDA is $475.1 million. California's grower returns fell from $421 million in 1982, to $386 million in 1983.

The total returns from the processing tomato business contribute directly to the economies in 19 states, benefiting thousands of families, and in many other areas which provide related services to the tomato industry. Using the conservative multiplier of total value of 4 times the raw product value, processing tomatoes generated $1.5 billion to the U.S. economy in 1983.

Dr. Garoyan concludes his report with the statement, "If the free trade pact is signed, the effect will be a subsidy to the Israel tomato grower by the U.S. government." The U.S. growers and processors do not receive government subsidies.

It is essential for the economic well being of tomato growers and processors that the current MFN rates of duty be maintained on the items being considered. The California Tomato Growers Association urgently requests Congress to exclude the three tomato products from the proposed Free Trade Area Agreement by statute.

CALIFORNIA TOMATO GROWERS
ASSOCIATION, INC.
P.O. Box 7398
Stockton, California 95207
209/478-1761

STATEMENT TO THE SENATE COMMITTEE ON FINANCE

February 6, 1984

EXCLUSION OF PROCESSED TOMATOES AND TOMATO PRODUCTS
FROM THE UNITED STATES-ISRAEL FREE TRADE AREA

The California Tomato Growers Association submits this summary of the written statement urging that processed tomatoes and tomato products be excluded from the proposed United States-Israel Free Trade Area. Our concern relates to the following products:

> TSUS Item No. 141.65, Tomato Paste and Sauce, on which the MFN rate of duty is 13.6%;
>
> TSUS Item No. 141.66, Tomatoes otherwise prepared or preserved, on which the MFN rate of duty is 14.7%; and
>
> TSUS Item No. 140.74, Tomatoes, dried, desicated, or dehydrated, reduced to flour on which the MFN rate of duty is 13%.

That the current MFN rates of duty are not an impediment to tomato producers imports is substantiated by the fact that Israel ranks third among foreign suppliers of canned tomatoes, (14.8% of total 1982 imports) fourth among foreign suppliers of tomato paste, (12.65% of total 1982 imports) and first among foreign suppliers of tomato sauce, (86.5% of total 1982 imports). Further, Israel's share of the imports market has grown substantially in both tomato paste and prepared products since 1980, from 1.2% of total imports of tomato paste in 1980, to 12.6% in 1983, and from 10.4% of prepared products in 1980, to 26.1% in 1983.

The business of growing and processing tomatoes in the United States is a huge enterprise directly benefiting thousands of families, contributing directly to the economies in 19 states where processing tomatoes are grown, and to many other related industries in additional areas of the United States which are engaged in supplying both growers and processors with goods and services such as farm equipment, food processing equipment, containers, fiber and hauling.

USDA has estimated the value of the 1983 crop of tomatoes for processing at $475.1 million. California growers were paid $386 million for processing tomatoes in 1983, which represented a reduction of $35 million from the 1982 figure.

STATEMENT TO THE SENATE COMMITTEE ON FINANCE

February 6, 1984

EXCLUSION OF PROCESSED TOMATOES AND TOMATO PRODUCTS
FROM THE UNITED STATES-ISRAEL FREE TRADE AREA

SUBMITTED BY DAVID L. ZOLLINGER
Executive Vice President
California Tomato Growers Association

The United States processing tomato industry at large is deeply concerned with the proposed U.S.-Israel free trade area and its potential effect on the United States tomato processing industry. Essentially, the United States does not export processed tomatoes or tomato products, other than to Canada. The effect which we are discussing is the impact on our own domestic and Canadian markets which have been built laboriously over the past 20 years.

It is obvious that the present MFN duty rates on TSUS Item No. 141.65, Tomato Paste and Sauce, on which the duty is 13.6%; TSUS Item No. 141.66, Tomatoes otherwise prepared or preserved, on which the MFN rate of duty is 14.7%; and TSUS Item No. 140.74, Tomatoes, dried, desiccated, or dehydrated, reduced to flour, on which the MFN rate of duty is 13%, have not served as a barrier to exports to the United States by Israel. The country is currently able to grow, pack, ship, pay duty and sell for a profit at prices that in many instances are less than the U.S. industry's cost. As an example, Furman Canning Company, which is located in Pennsylvania, reports that Israel is delivering #10 crushed tomatoes to its customers at $12.60 delivered. Furman Canning

Company's actual cost on #10 crushed tomatoes delivered to New York is $12.679. Present import duty on this item at .147% on cost FB Israel amounts to $1.41, which would bring the item to $11.19 if the import duty were removed, $1.489 below the Furman Canning cost.

Israel ranked third among foreign suppliers of canned tomatoes in 1982, after Italy and Spain, accounting for 14.8 percent of total 1982 imports. Israel ranked fourth among foreign suppliers of tomato paste in 1982 after Taiwan, Mexico and Portugal. Israel accounted for 12.65% of total 1982 imports of tomato paste, shipping more paste than Italy or Spain. Israel dominated the import market for tomato sauce with 86.85% of total 1982 imports. According to the most recent reporting period by Foreign Agricultural Service from July 1, 1983 to November 30, 1983, Israel accounted for 67 percent of the total value of all sauce imported during the period, moved to first in canned tomatoes, with 33 percent of the value, and was fourth in imports of tomato paste, with 8 percent of the total value.

Imports of these products over the past five years and Israeli percentage of total volume imported, as reported by the Department of Commerce, are shown in the following chart.

TOMATO PASTE (lbs.)

Year	Israel	Total	%
1983	16,698,729	160,742,004	12.6
1982	25,048,974	198,029,353	12.6
1981	10,954,188	65,202,175	16.8
1980	314,834	25,465,289	1.2
1979	298,998	42,054,052	7.1
1978	239,030	50,990,645	4.7

TOMATO SAUCE

Year	Israel	Total	%
1983	16,476,625	236,226,127	69.7
1982	18,954,172	21,824,299	86.8
1981	8,008,791	9,116,339	87.9
1980	1,299,742	1,651,098	78.7
1979	2,474,353	2,793,422	88.6
1978	634,237	7,116,183	89.2
	PREPARED, NOT PASTE/SAUCE		
1983	48,772,442	186,708,619	26.1
1982	24,713,804	167,017,976	14.8
1981	14,355,621	97,227,954	14.8
1980	4,148,889	39,880,425	10.4
1979	5,497,885	45,566,276	12.1
1978	7,451,389	74,164,976	10.0

Statistical analysis of the total Israeli agricultural import -export relationship for 1982 and the first 11 months of 1983 reveals the following figures.

	U.S. Agricultural Exports to Israel	U.S. Agricultural Imports from Israel
1982 calendar year..........	$6.3 million	$36.1 million
1983, 11 months, Jan.-Nov...	$7.3 million	$34.5 million

Of the total imports from Israel, tomato products accounted for $18,571,000 or more than half.

Dr. Lee Garoyan, University of California economist, was commissioned by an ad hoc committee of California growers and processors to conduct an on-site study of the Israeli processing tomato industry. In his preliminary report Dr. Garoyan states, "If the U.S. government grants a trade-free pact, the effect will be a subsidy of the Israel industry by the U.S. taxpayer. I'm convinced area and production of tomatoes will expand faster as a result, and the output will be shipped to the U.S. in competition with California production. The history of perishable and horticultural crops in Israel has been that once a crop becomes favorable (profitable), Israel's industry expands rapidly and retrenches only when the crop becomes unprofitable, or when producers in other countries, through their governments (or EEC) get voluntary constraints accepted by the Israel powers through their government. The Israel government works very closely with its agricultural industries."

Dr. Garoyan's report continues, "Israel's processed tomato production is largely for U.S. markets, about 85% of its output of concentrate, whole, and crushed peeled tomatoes are sold to major companies in the United States.

---"The Israeli processing sector has facility utilization advantages over California processors. Processors work citrus (oranges and grapefruit) from December-May in the forms of concentrate, single strength juice, and fruit segments. From late June-mid October, they process tomatoes and other vegetables. Thus facilities are used about nine to ten months.

"Labor rates in canneries are also much lower in Israel. Many of the hourly workers are 'Arab', who are paid $1.00/hour for preparation and inspection line work, while a typical mechanic may receive $320 per month.

---"All processors combine to negotiate advantageous ocean rates that are lower than published tariffs. It is clear the industry can do well at the current 36 cent price level F.O.B., since many are expanding tomato capacity.

---"The percent of the tomato crop grown for processing utilized for various products has changed over time. The Israeli industry appears to be very sensitive to changes in market demand and responds quickly. For example, processors continue to shift toward diced and crushed canned tomatoes, while the total percentage of the crop under the canned category also has increased.

---"Much hope is given to working out a trade free agreement with the U.S. Given the latter, Israel would probably expand production to the limit of present production capability, i.e. to 450,000-500,000 m.t., very quickly. Given a trade free status, I believe new capacity would result, and plants not presently in tomatoes would enter. Conceivably, production could approach 750,000 m.t. raw product within several years."

The present level of imports of tomatoes and tomato products is constricting the normal growth of our domestic industry. Processed tomato imports in 1981-83 averaged the equivalent of 529,000 tons of raw tomatoes per year, 8 percent of U.S. consumption, equivalent to the production from 20,000 acres. Our total U.S. market has stood at the 7 million processed ton level for the past five years. Six million tons of this market are produced and processed in California, yet California is capable of producing 10 to 12 million tons of processing tomatoes with its present land and equipment, and 8 million tons could be processed in current California facilities. More than 7 million tons are being sold in our domestic market, but our United States industry, composed of both growers and canners, is not reaping the benefits of the sales growth.

William F. Allewelt, president of Tri/Valley Growers, the largest processing cooperative in California and largest private label packer of tomatoes and tomato products, in a speech delivered at a January, 1984 meeting of the Western Agricultural Economics Council on problems and issues in agricultural marketing, stated in part:

"Domestic market growth of processed tomatoes in the U.S. continued to expand until the middle '70s , when annual consumption stabilized at a rate slightly above the equivalent of 7 million tons of raw product. California's growers benefited from this latter growth, as well as from a displacement of imports, because of the productivity edge gained with their advanced technologies for growing and harvesting tomatoes.

"For the remainder of the '70s, domestic sources heavily dominated U.S. supplies with imports relatively stabilized at a modest share equivalent to about 200,000 tons of raw product annually. However, imports more than tripled this prior rate in the 1981/82 marketing year and currently are entering the country at volumes that can exceed the equivalent of 1 million tons annually.

"This enormous increase of import competition by no means is stimulated this time by a supply shortfall of domestic production. It is clearly responsive to home government incentives and to the price premium in the inflated exchange rate of the U.S. dollar, which in turn has been largely constructed since 1979 by the tug-of-war of our fiscal and monetary policies.

"Under these import pressures, the income loss to U.S. tomato producers has been enormous. In 1979, California's price to the grower averaged near $56.50 per ton, in 1983 about $3.00 less. With acreage yields about the same in both years, this drop in unit price equates to more than an $18 million decline in 1983 gross income. Adjusting for inflation over the 5 year intervening period, the real drop in grower income last year was close to $20 per ton, or more than $120 million totally.

"Given the strategic policy orientations of the U.S. to the array of foreign suppliers, it is evident that continued attrition of California's tomato production base and of its farm and community income can be prevented only by political and diplomatic intervention not by conventional marketing skills."

The total returns from the processing tomato business contribute directly to the economies of 19 states where processing tomatoes are commercially produced, benefiting thousands of individuals and families. As an example, Mr. Allewelt reports that the processing industry payroll for California's cannery workers exceeds $20 million weekly during the seasonal processing peak. Additional areas of the United States are engaged in supplying both growers and processors with goods and services such as farm equipment, food processing equipment, containers, fiber, warehousing and distribution. Using the value multiplier beyond the farm gate of $4 expended for labor, materials and services required to convert raw product to finished products, for each $1 of gross farm income, in 1983, processing tomatoes generated $1.5 billion to the economy of the state.

An exclusion from the United States-Israel free trade area for processed tomatoes and tomato products is vital to the future of the United States processing industry, as well as the allied industries that service the processing industry. The competitive vitality of our tomato processing industry and equity within our own markets must be maintained. Tomatoes, California's largest processing commodity, must not be allowed to suffer the fate of many other canned commodities formerly produced in the state and now produced only in foreign areas.

Senator DANFORTH. We are going to have to recess just for a few minutes. I think Senator Dole will be here very shortly. But there's a vote now on the floor of the Senate, and it has about 3 more minutes to go so I'm going to have to leave.

The CHAIRMAN. I'm here now, Mr. Satterford.

STATEMENT OF ROBERT SATTERFORD, REPRESENTING THE AMERICAN DEHYDRATED ONION AND GARLIC ASSOCIATION, SAN FRANCISCO, CA

Mr. SATTERFORD. Thank you, Mr. Chairman.

I'm Robert Satterford, counsel for Basic Vegetable Products, which is a member of the American Dehydrated Onion and Garlic Association, and I appear today in behalf of the association.

The association consists of the four leading U.S. onion and garlic dehydrators. This is a small, highly specialized industry with facilities concentrated in California and Nevada, in rural areas where our presence is critical to the local economies of those areas.

The association strongly opposes inclusion of dehydrated onion and garlic products in a free trade area agreement with Israel. The reasons are set forth in the written statement previously submitted to the record.

And, additionally, the association is concerned about the infusion of competing foreign dehydrated onion and garlic products into a domestic market which is stabilized in size, and promises to remain flat for the foreseeable future.

We are also concerned with the possible loss of our export market in Western Europe when Spain and Portugal join the EEC within the next 2 years. That market is worth about $20 million to the industry now.

If and when that happens, Israel, which has substantial business in that area, would likely suffer a significant shrinkage of its market and could be expected, given an opportunity to compete favorably under a free trade area agreement with the United States, to market its products aggressively in this country.

Thus, to establish Israel as a free trade area without exempting dehydrated onion and garlic products, which are dutiable items now, could have the effect of bringing strong foreign competition into a no-growth domestic market in the United States. This would have materially adverse effects on our processing industry, the farmers who grow onions and garlic for dehydration, and the local economies of the areas where these are located.

The association, therefore, recommends that to avoid causing serious injury to this relatively small agricultural industry that dehydrated onion and garlic products be excluded from any free trade area agreement.

And I might, Mr. Chairman, take specific exception to the suggestion made earlier by Congressman Gephardt that we can take out all the exemptions and work out problems on an ad hoc basis as they occur. The onion and garlic business is a commodity related business. It is very volatile. Competitive edges and increments are very small. And by the time the Government got through studying the problem, irreparable damage could be done to the American industry.

Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Robert Satterford for the American Dehydrated Onion and Garlic Association follows:]

STATEMENT OF THE AMERICAN DEHYDRATED ONION & GARLIC ASSOCIATION

Introduction

This statement is being submitted on behalf of the American Dehydrated Onion and Garlic Association (ADOGA) in response to the United States Senate Finance Committee's scheduled public hearings with regard to the Administration's proposed free-trade area policy for the pending trade agreement with Israel. ADOGA member firms strongly oppose any U.S. tariff reduction to zero for their products:

TSUS 140.40	Dehydrated Onions
TSUS 140.30	Dehydrated Garlic
TSUS 140.65	Onion Flour
TSUS 140.60	Garlic Flour

Purpose of the Association

The American Dehydrated Onion & Garlic Association is comprised of the four leading U.S. manufacturing companies which specialize in the production of dehydrated onions and dehydrated garlic products. Member firms operate six plants, located in relatively small rural communities, one in Nevada, the others in central California. There is one dehydrator with a single plant in California that is not associated with ADOGA.

The Association was created in 1956 as a nonprofit voluntary organization with headquarters in San Francisco. Its primary purpose was to establish and maintain standards of quality, unify the nomenclature and increase product consumption. Over the years considerable sums have been invested in research areas including improvement in raw product varieties for dehydration, in cultivation practices and packaging.

ADOGA's principal objective has continued to be to improve the quality of the dehydrated product among member firms and to promote product consumption. The consumer has benefitted from the consistent high standards of quality domestic products offered by ADOGA member firms.

Description of the Industry

This is a relatively small agricultural industry but it has significant economic impact in the rural areas where it is concentrated in central California and Nevada. The majority of ADOGA's farmer-suppliers of raw product, from 80 to 90 percent under contract, are in California. According to the U.S. Department of Agriculture, in recent years about 23,000 to 30,000 acres of onions for processing have been planted and harvested with an annual farm value of up to $56 million; with garlic, about 15,000 acres, having an annual farm value of about $30 million. In 1980 (the latest available year) ADOGA members produced 123.2 million pounds of dehydrated onion products and 43.4 million pounds of dehydrated garlic products. ADOGA member firms employ annually somewhat over 3,000 persons in the production of dehydrated onions and about 1,400 in dehydrated garlic operations. Seasonality in employment has been virtually eliminated.

About 80 percent of the industry's dehydrated output is sold to industrial users: namely, food processors and the food service industry, where the products are used as seasonings or food flavorings. About twenty percent of the output reaches the retail consumer, usually packaged and distributed by spice manufacturers.

Unfair Competition with Imports and Importance of the U.S. Tariffs

ADOGA member firms find it virtually impossible to compete with imports from low-wage, low-cost developing countries and from non-market countries such as Mainland China, which fix product prices to suit their own purposes without regard to cost. The competition is unfair.

The U.S. tariff schedules have helped the growth of this industry over the years by reducing the price gap between domestic and foreign products. There are four U.S. tariff lines applicable to ADOGA's output:

Garlic, dried, desiccated or dehydrated TSUS 140.30, 35% duty

Onions, dried, desiccated or dehydrated TSUS 140.40, MTN-Staged reduction in duty from 35% to 25% by January 1, 1987

Garlic Flour TSUS 140.60, 35% duty

Onion Flour TSUS 140.65, 35% duty

The U.S. tariff reduction on dehydrated onions was a concession won by Israel and Egypt during the Tokyo Round of negotiations.

Following harmonization with the Brussels Nomenclature in 1985, the flour items will be combined with their respective related principals. This will have the effect of reducing the duty on onion flour to 25% by January 1, 1987.

Trade with Israel

Foreign trade with Israel in dehydrated onions and dehydrated garlic has been minimal in recent years. Israel has the capability and the facilities for developing and increasing her output particularly of dehydrated onions. Details of her production and total exports are not available but the European Community (EC) reports that imports in 1982 of dehydrated onions totalled 22,665,000 kilograms of which Israel supplied 191,000 kg. valued at $361,000 ecu's.

Israel fears the loss of the EC fruit and vegetable market within the next two years when Spain and Portugal are expected to join the EC group of 10 nations. Exporters from the United States also expect to lose sales to the EC for the same reason and are attempting to develop new markets in Asia and Latin America to replace the declining areas. Shifting her EC sales to the U.S. will merely add to U.S. problems.

Israel's proposed free trade to the EC by 1987 will have virtually no effect on the U.S. dehydrated onion and garlic trade since Israel rarely makes such purchases from the U.S. Israel has ample supplies to meet her domestic demand.

Impact of Free Trade Area on U.S. Exports

Elimination of Israeli tariffs on dehydrated onions and dehydrated garlic would have little impact on U.S. trade since this would not create any demand for ADOGA's products. Israel has ample domestic supplies and exports her own products.

Impact of Free-Trade Area on U.S. Imports

U.S. imports from Israel, particularly of dehydrated onions, may be expected to rise precipitously. The imported products minus the tariff markup will be able easily to undersell the relatively higher priced domestic products. The quality of the Israeli product compares favorably with the domestic product and will succeed in capturing a significant share of the U.S. market.

There Will be More Free-Trade Areas in the Future

ADOGA member firms foresee the free-trade area policy spreading to other countries, areas with far greater production of dehydrated onions and dehydrated garlic than by Israel. Many of these countries have low wages and low costs of production. U.S. industry cannot compete with such foreign imports. The continuing strength of the U.S. dollar contributes to the attraction of the U.S. market to imports even without tariff reductions. All of which makes the future for this relatively small, specialized agricultural industry look bleak if the Administration pursues its present course. ADOGA firms have ample capacity to meet domestic needs and have surplus to export. It is a strange policy to invite imports to cause injury to U.S. domestic industry, not only to processors but to their employees, farmer-suppliers and to the small towns where the plants operate.

Conclusions

Dehydrated onions and dehydrated garlic products are extremely import-sensitive. The introduction of a duty-free area would offer some benefits to Israel's agriculture but could have a devasting effect on this relatively small U.S. agricultural industry. ADOGA member firms therefore respectfully request the U.S. Senate Finance Committee to exclude these products from the free-trade area agreement with Israel.

The CHAIRMAN. Mr. Zollinger?

Mr. ZOLLINGER. Yes.

The CHAIRMAN. I didn't hear your statement, but I have been advised that you had expressed the fear that Israeli capacity would expand to 500,000 metric tons in the short run and up to 750,000 metric tons in several years if duties were eliminated. What would this increase be at the percent of national consumption?

Mr. ZOLLINGER. National consumption right now is about 7 million tons. So that would equate to about 10 percent. Currently, we import about 8 percent of national consumption right now.

The problem is we have a—we just completed a study by Dr. Lee Garoyan from the University of California at Davis. In 1984—it was just completed. And it shows that the Israeli industry has the potential to expand dramatically because they are highly technologically advanced, and actually they are pulling out other crops such as citrus and supplementing tomatoes in their place.

Mr. Satterford, I guess along the same lines—maybe it's covered in your statement—what is the level of domestic consumption of your products? And, second, what is the level of import penetration?

Mr. SATTERFORD. The level of import penetration from Israel specifically is not great at this time. The amounts that have been imported to date have been very small so we don't see that as a current issue. But if the protections that are available to us now are reduced or eliminated with respect to Israel or with respect to any other country which would have similar relief, we foresee an aggressive effort to move into the United States' market from those countries. And there are about 12 countries in addition to Israel which are in this business so the threat is significant.

The CHAIRMAN. On the products that you have talked about—olives and tomatoes and onions and garlic—what export subsidies do these Israeli products benefit from? Are there Israeli export subsidies in these areas that you are concerned about?

Mr. ZOLLINGER. Well, in the case of tomatoes during the 1981-82 seasons, Israel had a subsidy. None during 1983, and coming into this year, 1984 year, they are not talking about a subsidy per se.

Mr. SATTERFORD. In the case of onion and garlic, Senator, we don't have any evidence of a subsidy, but the product produced over there is a product of very high quality which would be competitive here. And we know that they can make it at a lesser cost.

The CHAIRMAN. I would say, as I have said to other witnesses, that we may have some written questions because we do need to make a complete record. We may submit questions in writing. Ambassador Brock has indicated that he will rely heavily on the record of this hearing. So if it's satisfactory to you, we may have some further questions.

Thank you very much.

I guess we can excuse Mr. Zollinger and Mr. Satterford.

The CHAIRMAN. Mr. Nehmer, have you had a chance?

Mr. NEHMER. No.

The CHAIRMAN. We have also on this panel Mr. Karmel and Mr. Stephen Koplan who is a frequent visitor to this committee. Mr. Koplan, I didn't see you on the list there.

Mr. KOPLAN. I'm on a later list, Mr. Chairman. It seems our letter got lost in the mail, but arrived Friday.

The CHAIRMAN. We've got to do something about the Postal Service, right?

Mr. KOPLAN. Yes.

The CHAIRMAN. All right.

STATEMENT OF STANLEY NEHMER, WASHINGTON, DC, REPRESENTING THE AMERICAN FIBER, TEXTILE, APPAREL COALITION

Mr. NEHMER. Mr. Chairman, my name is Stanley Nehmer. I'm appearing today on behalf of the 21 organizations which are members of the American Fiber, Textile, Apparel Coalition. A list of those organizations is attached to my written testimony. I would ask that the written statement be included in the record.

We certainly appreciate the opportunity to appear here today to present our views. What we are saying, in summary, is essentially two things.

First, we oppose bilateral free trade areas. The concept started recently with the Caribbean Basin Initiative. Today we are discussing Israel. We know that studies are underway within the executive branch to extend the concept to other areas. The ASEAN countries, countries of southeast Asia, have asked to receive similar treatment to that which the Caribbean Basin countries receive. And today Ambassador Brock testified that the negotiating authority which the administration will seek will not be limited to Israel; it will not be country specific; and it would also include tariff cutting authority, something which Congress has not seen fit to extend in the last 2 years.

Bilateralism in our trade relationships is a very significant departure from the course of U.S. trade policy in the past. The pros and cons of such a major shift in our trade policy from multilateralism to bilateralism should be studied, discussed and weighed very carefully.

Ambassador Brock has spoken so many times of the need to support our multilateral trading system. Today he spoke in support of bilateralism. The result is that our international trade policy becomes politicized.

Our second objection rests upon our concern and our fear of the adverse impact of the United States-Israel free trade area on the textile and apparel industry of the United States. For over two decades the movement of textiles and apparel between countries has been carried out under the auspices of an international arrangement of one form or another. This arrangement provides for orderly trade, creates a climate of increased certainty for which importing countries can better adjust to the impact of imports from the low-wage exporting countries.

In these 20 years, international trade in textiles and apparel has grown tremendously. One might say that the system has worked too well and has provided excessive import growth from the point of view of the industries of the importing countries. In 1983, textile and apparel imports into the United States increased by 25 percent.

The textile and apparel trade deficit in 1983 was approximately $10 billion, approximately one-seventh of the national trade deficit. These industries have lost approximately 300,000 jobs due largely to imports over the last several years.

The free trade arrangement with Israel or any other country could only worsen the import problem which the textile and apparel industries are facing. An example of the kind of problem created by a free trade arrangement is the opportunity which such an arrangement provides for people to circumvent quotas, and obtain access to the U.S. market illegally.

Finally, Mr. Chairman, Congress has spoken and established important precedent in the textile apparel area in recognition of the import sensitivity of textiles and apparel. Congress has granted special treatment for these products in other preferential trade arrangements such as the Generalized System of Preferences and more recently the Caribbean Basin Initiative.

Similar treatment has been provided for certain leather products. Therefore, Mr. Chairman, we believe that the creation of a free trade arrangement with Israel undermines congressional intent and policy. The fact that the country involved is Israel makes it no more acceptable to the textile and apparel industry.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Stanley Nehmer follows:]

TESTIMONY OF STANLEY NEHMER
ON BEHALF OF THE AMERICAN FIBER/TEXTILE/APPAREL COALITION
BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE
ON A PROPOSAL
TO CREATE A FREE TRADE AREA WITH THE STATE OF ISRAEL
FEBRUARY 6, 1984

Mr. Chairman, members of the Committee, I would like to thank you for the opportunity to appear before your committee. I am appearing on behalf of the member organizations of the American Fiber/Textile/Apparel Coalition. The members of the Coalition are listed in my written statement.

The American Fiber/Textile/Apparel Coalition is a national coalition of labor and management organizations in the textile and apparel industry in the United States. Members of the group are located throughout the nation and produce most of the textile and apparel items made in this country.

On behalf of the Coalition, we wish to register our opposition to the notion of bilateral free trade areas. First, we believe that the attempt to create such a free trade arrangement with Israel could set a dangerous precedent for the proliferation of similar arrangements with other countries. Next, we believe that in any such arrangement there will be serious problems regarding the enforcement of the necessary rules to provide for orderly movement of goods between the participants. Finally, we believe that to embark on a course of bilateralism in our trading relationships is a very significant departure from the course which U.S. trade policy has taken in the past and requires considerable study.

We have every reason to believe, moreover, that this is not an isolated, one time endeavor by this Administration. We understand that studies are underway within the Administration to look at similar arrangements with other countries. Clearly there is reason to believe that a major shift in our trade policy is taking place or is being contemplated. We believe that, until all of the advantages and disadvantages are fully and openly discussed and weighed very carefully, there should be no attempt made to establish such a free trade arrangement such as is being contemplated with the State of Israel.

Although it may be desirable to pursue a policy of bilateralism, the administration has offered no rationale or analysis in proposing this particular arrangement which would support such a shift from our traditional multilateral approach to international trade. Furthermore, there has been no opportunity for a full discussion of a bilateral approach versus a multilateral approach. In general, what are the advantages and disadvantages in embarking on such a course of action? We believe that there are important questions involving the effect of a bilateral approach on our relationships with the countries which are members of the General Agreement on Tariffs and Trade, with our major trading partners, and with neighboring countries. These are all elements which must be explored in analyzing whether or not to pursue a bilateral approach in trade policy.

We believe that there are particular problems for textiles and apparel in such an arrangement. For over two decades movement of textiles and apparel between countries has been carried out under the auspices of an international arrangement of one form or another. This arrangement provides for orderly trade and creates a climate of increased certainty through which importing countries can better adjust to the impact of imports from the low wage exporting countries. In these twenty years, international trade in textiles and apparel has grown tremendously. The quota arrangements and provisions for new-to-market suppliers of these products have conferred many advantages on the low wage exporting countries. One might say that it has worked too well and has provided excessive import growth from the point of view of the industries of the importing countries. In 1983 textile and apparel imports into the United States increased by 25 percent over the previous year. That increase amounted to 1.4 billion square yard equivalents which, to put this quantity in perspective, would provide over 6 yards of fabric for every person in the U.S. today. The often-heard criticisms that the government's textile program and the quota arrangements are too restrictiveis clearly nonsense in the face of such growth. The domestic textile and apparel industry did achieve some growth in 1983 but that growth was only a fraction of the growth represented by imports and, until a government program permits the growth of imports to be slowed to the growth of this market, this industry will be facing very serious problems.

A free trade arrangement with Israel or any other country could only worsen the import problem which this industry is facing. An example of the kind of problem created by a free trade arrangement is the opportunity which such an arrangement provides for people to circumvent quotas and obtain access to the U.S. market illegally. A free trade arrangement extends the Customs territory of the United States to the borders which the partner country shares with the rest of the world. But the U.S. borders are extended without any of the controls which are provided by the U.S. Customs Service. It would be practically impossible to monitor the movement of goods across the borders of any country with which we have such a free trade arrangement with any assurance that those goods would in fact be properly identified as to country of origin. When such an opportunity exists for goods to enter into the commerce of the United States through the free trade area, thereby avoiding the duties or quotas which would apply if the goods were imported directly, we believe that that opportunity will be taken. The existing restrictions on U.S. imports of textiles and apparel provide ample incentive to those who would transship, falsify documents or pursue other means to fraudulently identify products in order to escape quotas. This activity would only be promoted by the creation of free trade arrangements.

Finally, Mr. Chairman, the Congress has spoken and established important precedents in the textile/apparel area. In recognition of the import sensitivity of textiles and apparel, Congress has granted special treatment for these products in other preferential trade arrangements such as the Generalized System of Preferences and, most recently, the Caribbean Basin Initiative. Therefore, Mr. Chairman, we believe that the creation of a free trade arrangement with Israel undermines Congressional intent.

Thank you Mr. Chairman.

MEMBER ORGANIZATIONS OF AFTAC

Amalgamated Clothing & Textile Workers Union
American Apparel Manufacturers Association
American Textile Manufacturers Institute
American Yarn Spinners Association
Carpet & Rug Institute
Clothing Manufacturers Association of America
Industrial Fabrics Association International
International Ladies' Garment Workers Union
Knitted Textile Association
Luggage & Leather Goods Manufacturers of America
Man-made Fiber Producers Association
National Association of Hosiery Manufacturers
National Association of Uniform Manufacturers
National Cotton Council of America
National Knitwear Manufacturers Association
National Knitwear & Sportswear Association
National Wool Growers Association
Neckwear Association of America
Northern Textile Association
Textile Distributors Association
Work Glove Manufacturers Association

STATEMENT OF KENNETH E. KARMEL, GENERAL MANAGER, BROMINE CHEMICAL DIVISION, ETHYL CORP., RICHMOND, VA., REPRESENTING THE U.S. BROMINE ALLIANCE

The CHAIRMAN. Mr. Karmel.

Mr. KARMEL. Thank you, Mr. Chairman.

We have submitted a written testimony for the record. And in this case we do believe subsidies are involved and I think we have documented that in the written record. I won't repeat that here.

There is only a small market for bromine compounds in Israel so the mutual elimination of tariffs is very much a one-way street. Although not well known, the Israelis are powerful in international bromine markets. They already control 62 percent of the world markets outside the United States. This has been made possible by a very unique raw material position they enjoy, but also by government ownership, government sponsorship and government subsidies. The final key has been the fact that they face no significant tariffs in the major world markets outside the United States.

Everywhere the Israelis have achieved preferred tariff elimination, they have subsequently controlled the market. The same, we feel, would be true here.

The U.S. producers currently have a technological edge, but we have been hard pressed to find new and profitable uses, for bromine production has been phased out by the mandated removal of lead from gasoline. That's been the major market for bromine in the United States.

As a result, U.S. bromine production has been flat for 5 years. We've competed successfully, held our own, if you will, against the Israelis despite our facing 10-percent duties everywhere we market. The balance, we feel, is a delicate one. Even with the duty structure that we now have, we expect significant Israeli penetration of U.S. markets over the next few years. Duty elimination at this time would lead to severe and unwarranted hardship on the U.S. bromine industry. Hundreds of jobs and millions of dollars are involved. And we urge you to exclude bromine chemicals from the agreement.

Senator DANFORTH. Thank you, Mr. Karmel.

[The prepared statement of Mr. Kenneth E. Karmel follows:]

SUBMITTED TO
UNITED STATES SENATE
COMMITTEE ON FINANCE

STATEMENT TO EXPRESS GRAVE CONCERN ABOUT A PROPOSAL
FOR A FREE TRADE AREA (FTA) WITH ISRAEL.

Statement submitted by the U.S. Bromine Alliance. This Alliance currently includes three of the four U.S. companies that comprise the domestic bromine producing industry. The three companies forming the U.S. Bromine Alliance are:

ETHYL CORPORATION
330 South Fourth Street
Richmond, Virginia 23217

GREAT LAKES CHEMICAL CORPORATION
Highway 52 Northwest
West Lafayette, Indiana 47906

DOW CHEMICAL, U.S.A.
2020 Dow Center
Midland, Michigan 48640

Contact Representatives for these companies are:

ETHYL CORPORATION

Mr. Lawrence E. Blanchard, Jr.
Vice Chairman

Mr. Kenneth E. Karmel
General Manager, Bromine Chemicals

Mr. Max Turnipseed
Manager, International Trade Affairs

Telephone - (804)788-5675

DOW CHEMICAL, U.S.A.

Mr. Thomas I. Betts
Director of Government and Public Affairs

Telephone - (517)636-9273

GREAT LAKES CHEMICAL CORPORATION

Mr. Emerson Kampen
President & Chief Executive Officer

Mr. Robert T. Jeffares
Vice President - Finance
Chief Financial Officer

Ms. Hedi Kinnard
Manager, International Trade Affairs

Telephone - (312)463-2511

SUMMARY OF POSITION ON PROPOSED FREE TRADE AREA (FTA) AGREEMENT WITH ISRAEL

Members of the U.S. Bromine Alliance (Alliance) strongly oppose a FTA agreement with Israel that would include bromine chemicals. The Alliance considers the bromine chemicals (as further defined in EXHIBIT C) to be sensitive items of trade that should be excluded from any FTA agreement that may be bilaterally negotiated with Israel. Inclusion of bromine chemicals in the proposed FTA will cause severe adverse economic consequences to the domestic bromine industry. Overall benefits that may be achieved by the proposed FTA will not offset the expected adverse effects relative to the domestic bromine industry, and unrestrained access to the Israeli market in this sector is of little or no economic value.

Opposition is not necessarily to the overall concept of a FTA with Israel, but to the specific sector of bromine chemicals being part of any such agreement. This opposition is strictly from a business viewpoint and prompted solely by economic considerations. The situation the U.S. bromine industry finds itself in, relative to Israel, is unique. Israel is the only major bromine producer other than the U.S. industry in the Free World.

Elaboration of this point along with background information and supporting data are outlined in this statement. Analysis and evaluation of this statement should clearly establish why the Alliance opposes the inclusion of bromine chemicals in a FTA agreement with Israel.

BROMINE INDUSTRY BACKGROUND

Bromine is a chemical element of the halogen family, a corrosive, chemically active, dense liquid. Since it is too reactive to be found as an element in nature, it is chemically produced from salt water sources including seawater, subterranean brines, seawater bitterns and the Dead Sea. Elemental bromine is the basic raw material used in the production of numerous other bromine chemicals used for end-use applications including gasoline additives, agricultural chemicals, flame retardants for plastics and textiles, pharmaceuticals, oil and gas well completion fluids, fire extinguishing agents, water sanitizers, catalysts and other industrial chemical intermediates. The U.S. industry (using subterranean brines) and the Israeli industry (using seawater bitterns) are the two major bromine producing industries in the free world.

According to the latest U.S. Bureau of Mines report dated December 30, 1983, the domestic applications using elemental bromine were estimated for 1983 to be:

Application(s)	% of Bromine Used
Ethylene dibromide (EDB) for gasoline additives	45
Various brominated compounds for flame retardants	21
Calcium, sodium and zinc bromide for oil & gas well completion fluids	15
Various bromine compounds for other agricultural and industrial chemicals	11
Methyl bromide for soil and space fumigation	8

The free world bromine industry is estimated to have produced 650 million pounds of bromine in 1983. Of this total, U.S. manufacturers (identified in EXHIBIT A, page 1) produced 380 million pounds and the Dead Sea Bromine Group of Israel produced 154 million pounds. The Israeli bromine industry is described in more detail on page 2 of EXHIBIT A and in EXHIBIT G. U.S. and Israeli production together represent about 82 percent of the free world production of bromine. In 1983, it is estimated that Israel supplied about 62 percent of the free world merchant market for bromine and bromine compounds outside the U.S. A further breakdown of the 1983 estimated world elemental bromine production and the free world consumption of bromine and bromine compounds is outlined in EXHIBIT B.

Annual domestic production of elemental bromine at the estimated 1983 level of 380 million pounds translates into about $122 million market value using an estimated 1983 average selling price of 32 cents per pound. Most elemental bromine, however, is used to produce upgraded bromine chemicals and compounds with average selling prices in a broad range from 25 cents per pound to over $1.50 per pound. It is estimated the total domestic market value for all elemental bromine and bromine compounds consumed in 1983 was in the range of $325 million.

Domestic bromine production is highly capital intensive. In addition to the typical plant facilities, domestic producers must invest millions of dollars in brine wells and equipment. Average costs associated with drilling and equipping one brine well in South Arkansas is about $1 million, a cost the Israeli bromine industry does not have with the Dead Sea as their source of brine. The total investments on a historical cost basis for the domestic bromine industry, including plants, property and brine well system, is estimated to exceed $300 million or about the equivalent to the 1983 market value of the consumed bromine products.

SPECIAL CONCERNS OF U.S. BROMINE PRODUCERS

U.S. Government actions over the past decade, particularly since 1976, has caused a direct and major impact on the U.S. bromine industry. The EPA regulations calling for the phasedown of lead-in-gasoline caused a major reduction in the demand for ethylene dibromide (EDB), a co-additive used with lead alkyls in the production of gasoline additives. Since 1976, the EDB demand for use in gasoline additives is down 50 percent. This translates to about 150 million pounds of EDB or in excess of $45 million in lost sales of EDB for gasoline additives. Historical U.S. bromine and EDB production data reflecting this significant reduction is outlined in EXHIBIT E.

In addition to the reduced EDB demand for gasoline additives, U.S. government actions in late 1983 have, in effect, banned the use of EDB as soil fumigants. These new regulations will result in an immediate decrease in EDB demand for these agricultural uses of another 20-25 million pounds or $6-7.5 million in 1984, and annually thereafter. The significantly reduced need for EDB in gasoline additives, and the suspension of EDB being used as soil fumigants, is essentially eliminating two major applications for EDB. The other major uses for bromine chemicals are in flame retardants and completion fluids used in the drilling of oil and gas wells. The U.S. bromine industry is primarily dependent upon these market applications to help offset the significant declines in EDB demand that have been caused by factors outside any control of the industry.

Another continuing concern of the domestic industry is the duty-free access the Israelis already have under the Generalized System of Preferences (GSP). The import data reflected on EXHIBIT C clearly indicates that flame retardant chemicals and methyl bromide are both growing imports even without GSP benefits. Assurance of duty-free access under a FTA agreement will open the U.S. market for these products in particular. Products the U.S. industry is counting on for growth areas to offset reductions in EDB demand.

Other governmental related concerns and burdens of the U.S. bromine industry that are not factors or cost considerations to the Israeli bromine industry include:

(1) Compliance with Toxic Substance Act

(2) Compliance with ever-tightening pollution control regulations

(3) Elimination of DISC tax benefits for U.S. exports

(4) Superfund taxation

(5) Regulations on methyl bromide, vinyl bromide and DBCP

(6) Significant capital investments have been made to meet stringent exposure regulations on EDB applicable to the manufacturing locations.

In addition to all of these factors, the U.S. bromine industry is faced with increasing Israeli imports of bromine chemicals into U.S. markets. Imports that have increased from $3 million in 1980 to an estimated $10 million in 1983. Reference the import statistics indicated on EXHIBIT C. On the export side, the domestic industry is competing with Israeli imports in Europe, Japan and other world markets at significant cost disadvantages, including duty-free entry, while the U.S. exports to those markets are subject to duties averaging over 10 percent. A description of some other cost advantages the Israelis have relative to the domestic industry are outlined in EXHIBIT G.

The U.S. bromine industry operated at less than 60 percent of capacity in 1983 and further EDB reductions in 1984 will not be offset by growth in flame retardant and completion fluid demands. The Israeli bromine production capacity has doubled in the past five years and their capacity utilization in 1983 was about 90 percent. The Israeli bromine industry is the only other major producer of bromine chemicals in the free world. As already indicated, they have over 60 percent of the free world merchant market demand for bromine chemicals outside the U.S., and in 1983 represented about 25 percent of the free world production of bromine chemicals.

DISTINCT ADVANTAGES OF THE ISRAELI BROMINE INDUSTRY

The increasing Israeli production capacity for bromine chemicals, the duty-free markets already available to them, (including current GSP benefits) and some of the additional cost burdens the U.S. bromine industry must compete against (all previously outlined in the preceding section about U.S. concerns) represent just some of the adverse factors the U.S. bromine industry faces relative to the Israelis. Some other distinct advantages the Israelis have over its U.S. competitors include:

(1) Cheaper raw material source. Reference the description of the Israeli bromine production process outlined in EXHIBIT G.

(2) Government ownership.

(3) Government assistance through tax rebates, grants, preferential financing terms, regional development aid and other forms of assistance more specifically described in EXHIBIT E.

(4) Partial reliance on research and development efforts as well as investments of the U.S. bromine industry in new product research and applications particularly in the flame retardant and well completion fluids product areas. This allows the Israelis to penetrate the U.S. market on a price basis without regard to having to recover any prior investments in research and development costs.

(5) Political and monetary considerations sometimes overriding profit incentives.

(6) Use of government owned shipping lines for transportation of bromine compounds to their major world markets.

SUMMARY OF ECONOMIC CONSEQUENCES AND REASONS FOR OPPOSING U.S. - ISRAEL FTA WHICH WOULD INCLUDE THE U.S. BROMINE INDUSTRY

If the Israeli bromine industry gains unrestricted duty-free access to the U.S. market, it is anticipated the domestic bromine industry will be severely affected by substantial increases of imports from Israel. It is estimated the import levels indicated in EXHIBIT C would increase from the $10 million level in 1983 to levels in excess of $30 million by the end of 1985.

While Israeli imports increase, certain U.S. markets are decreasing. The estimated use of EDB for gasoline additives has decreased from 65 percent to around 40 percent in 1983 over the past six years and this downward trend will continue. The only other major use for EDB (20-25 million pounds per year) is in soil and space fumigation. This use also has been banned by the government in late 1983. These actions alone will cause significant decreases in bromine production needs in 1984 and the future.

The other major uses for brominated compounds are in flame retardants and for completion fluids. The U.S. industry is primarily depending upon market growth in these areas to offset the declines in EDB. If the growth in areas other than EDB is taken by increasing imports from Israel, then the entire U.S. bromine industry will be severely affected.

The Dead Sea Bromine Group began aggressive moves to penetrate world markets for bromine, brominated compounds and potash in the mid-1970's. Since then, they have added substantial production facilities for these products and continue to plan for more. During 1983, they announced expansion plans to increase their bromine compounds output to 200 million pounds before the end of 1984 and the completion of an additional 1 million-pound-per-year sodium bromate and potassium bromate electrolysis plant at Ramat Hovav, Israel. It is also important to note their aggressive position in the world potash market.

Potash facilities and production are relevant in analyzing the bromine industry because bromine is a by-product of the potash recovery process used by the Dead Sea Works, Ltd., a sister company of Dead Sea Bromine. Both of these companies are subsidiaries of the state-owned company named Israel Chemicals. Of interest is the fact that Israeli potash production and exports increase while U.S. potash producers are shutting down operations and both U.S. and Canadian potash producers are indicating some major concerns over their continuing opportunities to compete for the U.S. potash demand relative to the Israelis.

American companies are already at a severe disadvantage in sales of brominated compounds relative to Israel in the European and Japanese markets which are the largest markets other than the U.S. Imports of bromine chemicals from the U.S. into the EC are subject to duties that average about 10 percent, whereas the same imports from Israel have been duty-free since 1977. The EC-Israeli arrangement, in effect, allows Israel to market their products within the EC as though it were their domestic market. Prior to the EC-Israel FTA in 1977, an American company had nearly all of the market for tetrabromobisphenol A (TBBPA) in the European Community. TBBPA is the world's largest volume flame retardant. When duty-free access became available to the Israelis, the dominant market share held by the American company began to decrease. Today, the Israelis have in excess of 50 percent of the EC market for TBBPA and most other bromine chemicals. This experience in the EC can easily be translated into what is likely to happen in the U.S. market with duty-free access for all bromine chemicals being available to Israel.

35-438 O - 84 - 11

The Israelis presently have duty-free access to about 40 percent of the world market for bromine and bromine derivatives. The elimination of U. S. duties on all these products will increase the Israelis unrestricted duty-free access to about 90 percent of all world markets. In contrast, U.S. companies will not have duty-free access to any world market except the domestic market. Having duty-free access to the Israeli bromine chemicals market clearly does not provide any export opportunities to the U.S. bromine industry.

The U.S. bromine industry will be severely affected by a U.S.-Israel FTA that would include bromine chemicals. Bromine capacity in the U.S. is presently about 650 million pounds and over 550 million pounds of this capacity is located in two counties in the southern part of the State of Arkansas. The Arkansas counties of Union and Columbia are relatively rural areas which primarily depend upon employment in timber, oil and gas, bromine and light industries. Employment levels in all of these areas except bromine have decreased over the past several years, so the bromine industry is critical to the economic well-being of Union and Columbia counties and the companies in this industry. Substantial increases in Israeli bromine products will have severe adverse effects. Reference EXHIBIT H for the Resolution of the South Arkansas Development Council.

The bromine industry currently provides more than 4,000 direct and indirect jobs in the state of Arkansas. Sales lost to Israeli imports will clearly cause reduced production levels and result in fewer jobs being available. In addition to the adverse employment impact, the companies with investments in plants and facilities will experience adverse economic effects as well. The total estimated investments by the four companies having bromine facilities in south Arkansas exceed $300 million.

It is difficult to quantify the total adverse effects of a U.S. - Israel FTA that would cover the bromine industry, but it is clear that all the factors related to the estimated $20 million increase in Israeli imports under the proposed FTA would translate into hundreds of jobs and millions of dollars being in jeopardy. To the extent that duty-free bromine chemical imports would increase, they would cause an equal loss for the U.S. bromine industry.

The U.S. chemical industry employs directly an average of 20 personnel in production, packaging, transportation, marketing, product and process development, quality control and administration, for each $1 million of sales. The estimated $20 million increase in bromine imports from Israel translates to some 400 jobs being directly in jeopardy. More than two-thirds of these jobs are concentrated in Union and Columbia counties of south Arkansas. In rough terms, therefore, for each $1 million of bromine chemical imports that replace equal U.S. sales, the result would be the loss of 20 American jobs, primarily in Arkansas. In addition to lost jobs, U.S. producers have significant investments in existing production facilities that could be idled to the extent of increased imports. The companies and the American economy would suffer the loss of an economic return on these investments.

Admittedly, the impact of lost employment and the reduction of any economic return on investments in two Arkansas counties may not be statistically significant for the American economy as a whole, but it would be very significant for the concentrated areas affected. Similarly, the initial estimated economic impact on the domestic industry from a $20 million increase of bromine chemical imports from Israel does not seem too significant in overall trade with Israel or the U.S. balance of payments, but to the Alliance members it is serious! Current import levels of $10 million plus an additional $20 million would be about 13 percent of Great Lakes Chemical Corporation's total annual sales and near 60 percent of Ethyl Corporation's bromine chemicals business.

Serious contraction of the domestic bromine chemicals market, caused by increased Israeli imports, will inhibit continuing capital investment that is imperative if an industry is to maintain and enhance high levels of efficiency, growth and technological development. Some growth, in step with the American economy, in existing end-use applications will occur, but not sufficient to maintain the adequate output levels from U.S. producers if additional proposed incentives (unrestrained duty-free access) are given to the Israeli bromine industry. This will allow them to more actively and, from the perspective of the Alliance, unfairly compete with U.S. producers for the domestic bromine chemicals market. Every displaced pound of a domestically produced bromine chemical with an Israeli import has, and will continue to have, an adverse affect on the U.S. bromine industry.

The Alliance submits that circumstances today are no different than on three earlier occasions when petitions from the Israelis seeking additional GSP benefits for bromine chemicals were denied. The proposed FTA would be an even broader and more permanent arrangement than earlier sought GSP benefits, and will clearly have much more far reaching adverse economic consequences for the U.S. bromine industry. The Alliance respectfully requests that bromine chemicals, as previously defined in this statement, be excluded from any bilaterally negotiated Free Trade Agreement agreement with Israel that may be submitted for Congressional action.

Respectfully submitted,

U.S. BROMINE ALLIANCE

February 3, 1984

By: ______________________
Lawrence E. Blanchard, Jr.
Emerson Kampen
Robert T. Jeffares
Kenneth E. Karmel
Hedi Kinnard
Max Turnipseed
Thomas I. Betts

U.S. BROMINE ALLIANCE
611 Madison Office Building
1155 15th Street, N.W.
Washington, D.C. 20005

EXHIBIT A

IDENTIFICATION OF THE U.S. BROMINE INDUSTRY

The U.S. manufacturers and marketers of some or all of the bromine products listed on EXHIBIT C include:

Company Location	Bromine Products Plant Location(s)
GREAT LAKES CHEMICAL CORPORATION Highway 52 Northwest P.O. Box 2200 West Lafayette, IN 47906	El Dorado, Arkansas
ETHYL CORPORATION 330 South Fourth Street P.O. Box 2189 Richmond, VA 23217	Magnolia, Arkansas Sayreville, New Jersey
DOW CHEMICAL, USA 2020 Dow Center Midland, MI 48640	Magnolia, Arkansas Ludington, Michigan Midland, Michigan
*ARKANSAS CHEMICALS, INC. Route 6, Box 98 El Dorado, AR 71730	El Dorado, Arkansas
MORTON-THIOKOL, INC. Ventron Division 150 Andover Street Danvers, MA 01923	Danvers, Massachusetts

*Jointly owned by Great Lakes Chemical Corporation and PPG Industries.

The domestic bromine industry is primarily concentrated in the two states of Arkansas and Michigan. Over 85 percent of U.S. produced bromine comes from Union and Columbia counties of Arkansas. Elemental bromine is then used as the primary raw material to produce all other bromine chemicals and brominated compounds.

MT:1-30-84

EXHIBIT A

IDENTIFICATION OF THE ISRAELI BROMINE INDUSTRY

The Israeli manufacturers and marketers of bromine products listed on EXHIBIT D include:

MEMBERS OF THE DEAD SEA BROMINE GROUP

* DEAD SEA BROMINE COMPANY LTD.
BROMINE-COMPOUNDS LTD.
Makleff House, P.O. Box 180
Beer-Sheva, ISRAEL 84101

EUROBROM B.V.
P.O. Box 85615, 35 Mauritskade
2508 CH The Hague, HOLLAND

BROOMCHEMIE B.V.
P.O. Box 318, Frankrijkweg
Zevenaarhaven
Terneuzen, THE NETHERLANDS

BROMINE AND CHEMICALS LTD.
6 Arlington Street
St. James, London SW1A Ire, ENGLAND

BROMOKEN (FAR EAST) LTD.
Dai-Ichi Toei Bldg.
4-2, Muromachi, Nihonbashi
Chuo Ky, Tokyo 103 JAPAN

AMERIBROM, INC.
1230 Broadway
New York, NY 10001

* Subsidiary company that is part of the state-owned ISRAEL CHEMICALS.

The Israeli bromine industry is based on getting elemental bromine as a by-product from the potash recovery system used by the DEAD SEA WORKS LTD, a sister company to DEAD SEA BROMINE COMPANY LTD. Reference EXHIBIT G for a further description of the Israeli bromine production process.

EXHIBIT B

Estimated 1983
Elemental Bromine Production

	Millions of Pounds	Percent of Free World
World Total	800	
U.S.S.R.	150	
Free World	650	100
U.S.	380	58
Israel	154	24

Estimated 1983
Consumption of Elemental Bromine and Bromine Compounds

	Millions of Pounds
U.S. Markets	340
Free World, other than U.S.	310
Free World, other than U.S., Merchant Market, excluding captive use	240

Major Suppliers of Bromine and Bromine Compounds to Fill Demand in the Free World Other Than U.S.

Country Location of Manufacturer	Million of Pounds	Percent of Total Demand	Percent of Merchant Market
Israel	149	49	62
U.S.	50	16	21
U.K. (captive use for gasoline additives)	50	16	0
France (2/3 captive use for gasoline additives)	30	10	4
Japan	26	8	11
All Other	5	1	2

MT:1-30-84
Source: U.S. Dept. of the Interior
Mineral Industry Surveys dated 12/30/83

U.S Bromine Industry Sector Defined by TSUSA Item Numbers
Tariff Schedule of the United States Annotated (TSUSA)

Scheduled 1987 MTN Tariff Rate	1983 MTN Tariff Rate	Present TSUSA Item Number	Proposed Converted TSUSA Number	Description of the Bromine Item(s) Included in Classification	(1) U.S. Imports from Israel (as reported in item number) 1980 Mlbs	1980 M$	1981 Mlbs	1981 M$	1982 Mlbs	1982 M$	11-Months-YTD 1983 Mlbs	11-Months-YTD 1983 M$
9.1%	16%	402.80	2903.69.5000	Pentabromoethylbenzene (CAS #85-22-3)	-	-	-	-	-	-	6	25
				Tribromocumene (CAS # - None)								
7.2%	11%	403.51	2907.XX.XXXX	Other	-	-	-	-	-	-	-	1
0.7¢/lb + 19.4%	1.2¢/lb + 19.4%	403.56	2908.10.5000	Tetrabromobisphenol A (CAS #79-94-7)	717	390	2,559	1,372	1,616	870	1,464	792
13.9%	13.5%	403.59 *	2908.XX.XXXX	Other	-	-	-	-	-	-	2	21
20 %	0.3¢/lb + 22 %	403.64 *	2909.30.5000	Decabromodiphenyl oxide (CAS #1163-19-5)	-	-	-	-	-	-	26	27
			2909.30.5000	Octabromodiphenyl oxide (CAS #32536-52-0)								
				1,2-Bis-Pentabromophenoxyethane (CAS #61262-53-1)								
13.9%	13.9%	403.66 *	2909.XX.XXXX	Other	-	-	-	-	-	-	-	4
20 %	21.6%	404.36	2917.39.5000	Tetrabromophthalic Anhydride (CAS #632-79-1))	-	-	-	-	-	-	-	-
15 %	18 %	405.52 *	2925.19.1000	Ethylenebistetrabromophthalimide	-	-	-	-	-	-	-	-
13.9%	13.9%	407.07 *	2903.59.1500	Dibromoethyldibromocyclohexane (CAS #3322-93-8)		-	-	-	-	-	-	4
2¢/lb	3.5¢/lb	415.05	2801.30.2000	Bromine	-	-	-	-	-	-	-	-
4.2%	5.1%-G	416.4540		Hydrobromic acid	658	181	1,307	320	1,104	326	1,133	322
3.1%	3.6%-G	417.4440	2827.59.0000	Ammonium bromide	282	184	678	436	1,599	989	1,294	763
Free	2.9%-G	418.32	2827.59.0000	Calcium bromide	-	-	-	-	-	-	1,722	900
1.5¢/lb	1.7¢/lb-G	420.02	2827.51.2000	Potassium bromide	460	311	91	63	151	106	293	206
3.1%	3.6%-G	420.3605	2829.90.5000	Potassium bromate	-	-	106	92	189	185	255	231
3¢/lb	5.5¢/lb-G	420.82	2827.51.1000	Sodium bromide	246	159	-	-	516	345	2,724	1,023
3.7%	4.4%-G	421.6280	2829.90.	Sodium bromate	1,061	868	1 8	823	1,353	1,277	3,063	2,331

* - TSUSA Item Numbers for possible imports in these categories was 403.60XX and 408.60 in 1980.
Identifiable bromine chemical imports not nearly as easy to determine from public data in these TSUSA Item Numbers.

0361T
MT:1-31-84

EXHIBIT C

U.S Bromine Industry Sector Defined by TSUSA Item Numbers
Tariff Schedule of the United States Annotated (TSUSA)

Scheduled 1987 MTN Tariff Rate	1983 MTN Tariff Rate	Present TSUSA Item Number	Proposed Converted TSUSA Number	Description of the Bromine Item(s) Included in Classification	(1)U.S. Imports from Israel (as reported in item number) 1980 Mlbs	1980 M$	1981 Mlbs	1981 M$	1982 Mlbs	1982 M$	11-Months-YTD 1983 Mlbs	11-Months-YTD 1983 M$
3.7%	4.4%-G	422.78	2827.59.0000	Zinc bromide	-	-	-	-	-	-	-	-
3.7%	4.4%-G	425.24	2925.19.5000	Ethylenebisbromonorbornane	265	401	176	283	176	258	-	-
4.2%	5.1%	425.9940		Monobromoacetic acid	-	-	113	119	288	354	347	478
0.7¢/lb + 3.9%	0.9¢/lb + 4.8%	429.28	2903.30.0000	Ethylene dibromide	861	165	644	139	-	-	-	-
3.7%	4.4% G	429.4830		Bromotrifluoromethane	-	-	-	-	-	-	-	-
				Chlorobromodifluoromethane								
3.7%	4.4%-G	429.4860	2903.30.0000	Methyl bromide	2,111	698	2,126	994	1,615	831	2,811	1,471
			2903.59.5000	Hexabromocyclododecane								
				Vinyl bromide								
				Methylene dibromide								
				Acetylene tetrabromide								
				Ethyl bromide								
				Bromochloromethane								
				Alkyl bromides								
3.7%	4.4% G	429.9590	Various	Dibromoneopentyl Glycol	-	-	-	18	-	13	-	-
3.7% N	4.6%	430.2040	Various	Other	-	-	-	-	-	-	38	39
3.7% N	4.4% G	432.25	Various	Other	-	-	-	-	-	-	221	282
				TOTAL GSP IMPORTS - M$		2,802		3,029		4,330		7,529
				TOTAL DUTIABLE IMPORTS - M$		545		1,630		1,224		1,391
				TOTAL IMPORTS - M$		3,347		4,659		5,554		8,920
				PERCENT INCREASE OVER 1980				39.2		65.9		166.5

G - Eligible item to receive GSP benefits, i.e. duty free from Israel.
N - But not less than the highest rate applicable to any component material.
(1) - Import data source - FT246/Annual 1980, 1981 & 1982; IM-146/IM-145X, 11-months year-to-date - U.S. Department of Commerce.

0361T
MT:1-31-84

DEAD SEA BROMINE GROUP

PRIMARY PRODUCTS

The Dead Sea Bromine Group specialises in world-wide shipment of liquid elemental bromine in bulk.

Bromine (bulk or bottled)
Hydrobromic acid (HBr) 48% and 62%
Ethylene dibromide (EDB)

AGRICULTURAL SOIL & SPACE FUMIGANTS

Field-tested compounds and formulations for soil fumigation; resulting in control of annual and perennial weeds, soil nematodes and soil-borne diseases and synergistic effects on certain soil-borne diseases when mixed with chloropicrin. For space fumigation of warehouses, silos, shipholds, poultryhouse litter...for use in greenhouses, pre-plant soil fumigation, before replanting in orchards, citrus groves and vineyards...

Methyl bromide
Methyl bromide/chloropicrin mixtures
EDB (ethylene dibromide)
EDB/chloropicrin mixtures
EDB formulations

SLIMICIDES, BIOCIDES

Used in the paper industry for elimination of slimes, and for water treatment and disinfection of swimming pools.

Elemental bromine for swimming pool disinfection
Monobromoacetic acid (MBAA)
bis-Bromoacetoxy butene (BBAB)
MBAA/butenediol mixtures
MBAA/benzyl alcohol mixtures

INTERMEDIATES

Tetrabromoethane (Acetylene Tetrabromide)
Acetyl bromide
Methylene bromide
1-Bromo-2-chloroethane
1-Bromo-3-chloropropane (Trimethylene chlorobromide)
Chlorobromethane

Alkyl bromides (C_1-C_{18})
Methyl bromide (C_1)
Ethyl bromide (C_2)
N-Propyl bromide (C_3)
Iso-propyl bromide (iso-C_3)
N-Butyl bromide (n-C_4)
Isobutyl bromide (iso-C_4)
Amyl bromide (C_5)
Hexyl bromide (C_6)
Cyclohexyl bromide (C_6)
Heptyl bromide (C_7)
Octyl bromide (C_8)
Decyl bromide (C_{10})
Dodecyl bromide (C_{12})
(Lauryl bromide)
Tetradecyl bromide
(Myristyl bromide) (C_{14})
Hexadecyl bromide (C_{16})
(Cetyl bromide)
Octadecyl bromide (C_{18})
(Stearyl bromide)

α-Bromocarboxylic Acids & Derivatives
Monobromoacetic acid (MBAA)
Bromoacetyl bromide
Monobromoacetic acid esters
α-Bromopropionic acid
α-Bromopropionyl bromide
α-Bromopropionic acid esters
α-Bromobutyric acid
α-Bromobutyryl bromide
α-Bromobutyric acid esters

Benzenoids — Brominated Aromatics
Halobenzenes
Bromophenols
Bromoanilines
Bromoacetophenones
Bromopyridines
Bromothiophenes
Bromonaphthols

INORGANICS

Chemicals for pharmaceuticals, synthetic dyes, photography, baking, brewing, cosmetics and hairdressing, oil-drilling...

Aluminum bromide
Ammonium bromide
Calcium bromide
Potassium bromide
Sodium bromide
Potassium bromate
Sodium bromate

FLAME RETARDANTS

The Dead Sea Bromine Group offers several derivatives of the basic flame retardant products listed, as well as other proprietary materials for:

Thermoplastic Systems — including styrenics, polyolefines, engineering thermoplastics, vinyls, acrylics
Thermosetting Systems — including UPE, phenolic, epoxy, PUR, UF
Textiles, Paper and Wood — including chipboard, hardboard, plywood

A. Reactive Intermediates
Brominated phenols
Dibromo-neopentyl glycol
Tetrabromobisphenol A
Various derivatives

B. Additives
Ammonium bromide
Decabromodiphenyl ether
Dibromo-neopentyl glycol
Tetrabromobisphenol A
Tetrabromoxylene
Various derivatives

In addition to the products listed, new compounds and derivatives are being tested — new applications for bromine being developed.

The Dead Sea Bromine Group offers custom bromination services, including that of flame retardant compounds. Enquiries are invited concerning special requirements in all fields.

EXHIBIT D

EXHIBIT E

U.S. BROMINE AND EDB PRODUCTION

HISTORICAL DATA[1]

Year	In Millions of Pounds: Bromine Production	EDB Production	EDB as a Percent of Bromine Production
1976	460	299	65
1977	434	280	65
1978	447	259	58
1979	497	289	58
1980	378	213	56
1981	377	157	42
1982	401	180[2]	45[2]
1983(p)	380	171[2]	45[2]

(1) U.S. Department of the Interior, Bureau of Mines.

(2) Industry sources think these percentages are probably less than 40 percent in both years, even though they represent the percentages used in the Bureau of Mines data.

(p) Preliminary estimate based on nine months 1983 data.

MT:1-31-84

EXHIBIT F

DESCRIPTION OF ISRAELI GOVERNMENT ASSISTANCE
THOUGHT TO BE AVAILABLE TO ISRAELI BROMINE INDUSTRY

1. The remission of indirect taxes on exported items. These taxes are refunded either by drawback or rebates.
   a. Custom duties - Recovery of import duties from export of goods.
   b. Purchase taxes - Rebate of purchase taxes on goods that are converted for export.
   c. Compulsory duties - Recovery of these duties which are imposed on imported raw materials which go into making exported products.
   d. Rebate of value added taxes are refunded on exported goods
   e. Rebate of property and inventory taxes upon exported goods and equipment used to manufacture exported goods.
   f. Travel taxes are rebated for approved exporters.
   g. Plus other indirect taxes related to exports.

2. The Government of Israel helps to finance transportation costs for materials which move through the Port of Eilat.

3. The Government of Israel provides direct grants to exporters if their expenditures for exports exceed 4% of export income.

4. The Government of Israel provides financing for exporters:
   a. Loans to finance imported raw materials.
   b. Loans to finance working capital for exported goods.
   c. Loans are made from Israeli Government to exporters with invoices used as collateral.
   d. Industrial firms which export at least 20% of their output are eligible for favorable credit terms.

5. The Government-owned Foreign Trade Risks Insurance Corporation offers exporters insurance coverage for the risks inherent in foreign trade.

KCW/MT:1-31-84

EXHIBIT F

6. The Investment Incentive Program of the Government of Israel:

   a. Provides cash grants and low cost loans to approved enterprises.

   b. Will pay up to 80% of R&D expenditures for Israeli companies.

   c. Will provide grants to approved investors which export.

   d. A company approved for investment incentives may be exempt from income taxes for up to 5 years.

7. Training grants to assist in the training of employees.

8. Export promotion subsidies of one-half the promotion costs up to 8 percent of export income.

9. Subsidized ocean freight transportation.

EXHIBIT G

DESCRIPTION OF ISRAELI BROMINE PRODUCTION AND
COST ADVANTAGES RELATIVE TO U.S. BROMINE INDUSTRY

The Dead Sea Bromine Group has an unlimited supply of bromide-containing brine from the Dead Sea. By-product bitterns from potash manufacturing facilities located on the Dead Sea provide the supply brine for bromine production. Large investments in brine supply and disposal wells and pipelines are not needed for production from the potash operations at the Dead Sea. Production by domestic producers in South Arkansas requires one supply and one disposal well for each 10 million pounds per year of bromine produced. Each supply well requires an investment in excess of $1 million and has an average life of about 10 to 15 years. The investment for each disposal well is less than for supply wells.

The concentration of bromide in the Dead Sea potash-bitterns is about 12,000 ppm, whereas the concentration of bromides in deep supply wells in south Arkansas ranges from 2,000 to 5,000 ppm (maximum). As a result of these concentration differences, the Israelis have an advantage in raw materials, chlorine and utility (electricity) utilizations.

Brines produced in Arkansas require the payment of severance taxes ($2 per 1,000 barrels) and capital equipment is subjected to the payment of property taxes.

Bromine produced in the United States is subject to superfund taxes of $4.45 per ton and is manufactured from chlorine which pays a superfund tax of $2.70 per ton of chlorine. Material produced in Israel and sold in the U.S. does not have to pay these taxes.

Israel's Dead Sea Bromine Group also enjoys the advantage of government ownership and certain special assistance programs further described in EXHIBIT F.
KCW/MT:1-31-84

EXHIBIT H

South Arkansas Development Council
201 NORTH JACKSON – P. O. BOX 1271
EL DORADO, ARKANSAS 71730
PHONE 863-6113

SOUTH ARKANSAS DEVELOPMENT COUNCIL

RESOLUTION

BE IT RESOLVED THAT the South Arkansas Development Council strongly opposes the removal of import duties on bromine and bromine coupounds from Israel into the United States. Removal of these import duties is now threatened by a move to create a Free Trade Area between the United States and Israel.

While it is apparent that there is now only a small portion of total imports from Israel into the United States that are not already duty free (1.0 million dollars of 1.2 million dollars are now exempt), the impact of this small amount on the economy of Arkansas would be devastating. The large natural economic advantages possessed by the state-owned Israel Bromine Industry are further leveraged by various subsidies provided by their government.

Arkansas produces 85 percent of the United States bromine supply. This industry presently provides approximately 1,200 direct and 3,000 indirect jobs in our state.

In the best interests of the citizens in the State of Arkansas and in the United States, we, the South Arkansas Development Council, urge the strongest efforts in retaining the import duties on bromine and bromine compounds.

Secretary-Treasurer

Date: January 10, 1984

Senator DANFORTH. There is a statement of Senator Pryor which will be inserted in the record.

[The statement follows:]

STATEMENT BY SENATOR DAVID PRYOR

Mr. Chairman, the hearing today deals with a subject of great importance to the development of trade relations with Israel and, quite possibly, other nations which will appeal later for similar considerations. Our actions on this matter will also have a strong, direct effect on the future of some domestic producers of the goods that will be affected. Decisions by this administration and this Congress on an Israeli Free Trade Area will profoundly affect the future of producers and consumers in both countries, the tone of relations between the two countries, and the economic situation of communities here and abroad. It is a very important responsibility.

I support efforts by the United States and Israel to improve trade relations that serve our mutual interests. This country has many common interests with Israel, and our economic ties should reflect our strong friendship; moreover, I believe that trade should receive more attention from our diplomats, and I have frequently urged our diplomatic officials to spend more time and efforts discussing the products which our agricultural community supplies to world markets.

While I hope we can find a way to remove trade barriers and assist Israel's economy, I believe we have a duty to examine the domestic effects of any new trade relations. I am, in particular, quite concerned about how unlimited, duty-free access to American markets could affect domestic producers of bromine. That industry's situation is unique, and this committee should give special attention to any changes in trade agreements which might reduce jobs and threaten the future of this troubled industry.

When the bromine question has been examined in the past in the context of GSP benefits, the postion of domestic bromine producers was quite convincing and was upheld by the International Trade Commission on all three occasions. I believe the case is as strong, or stronger, today.

The domesic bromine market has declined in recent years due in substantial part ot governmental restrictions on the use of certain products, specifically EDB. As a result, the domestic industry is operating at 58 percent of capacity and faces serious problems even withut new duty-free competition. By contrast, the Israeli industry is operating at 90 percent of capacity. There is also little opportunity to acquire new export markets for domestic bromine, due to duties faced by American producers, from which their competitors are sometimes exempt.

The potential adverse economic effects on the domestic bromine industry are not merely speculative. In two counties in South Arkansas, where 85 percent of the domestic bromine capacity is found, over 4,000 direct or indirect jobs may disappear. To invite new, duty-free imports of bromine products is to assure increased unemployment and severe economic conditions in that region.

I believe that a trade agreement between the United States and Israel could provide positive benefits, and I support efforts to that end. At the same time, I believe that certain product exceptions should be maintained and that this committee ought to examine those areas very carefully incoming weeks.

Because of the importance of the bromine issue, I am submitting some specific questions to be answered for the record.

U.S. BROMINE ALLIANCE,
MADISON OFFICE BUILDING,
Washington, DC.

Hon. DAVID H. PRYOR,
U.S. Senator,
Russell Senate Office Building, Washington, DC.

DEAR SENATOR PRYOR: You sent me a letter soon after my appearance before the Committee on Finance and requested answers to a number of questions related to the proposed Free Trade Agreement (FTA) between the United States and Israel.

Our response to your questions on behalf of the United States Bromine Alliance is attached. We agree that this additional information will help to further clarify and emphasize the impact an FTC will have on Arkansas and the United States.

Your support and the aggressive actions you have taken on this matter are greatly appreciated. If I can provide any additional assistance, please let me know.

Sincerely,

KENNETH E. KARMEL,
General Manager,
Bromine Chemicals Division, Ethyl Corp.

QUESTIONS SUBMITTED BY SENATOR PRYOR AND U.S. BROMINE ALLIANCE RESPONSE

Question 1. Please state for the record the specific effect the EDB phasedown in gasoline has had on your industry thus far and what will be the effect in the future? Do you have any dollar figure available?

Answer. Approximately 295 million pounds of ethylene dibromide (EDB) were sold and used in the U.S. in 1974. Currently we estimate that 154 million pounds of EDB were produced in the U.S. in 1983. This 141 million pounds per year reduction corresponds to a current annual loss in sales revenue of about $45 million per year for the bromine industry. A 141 million pounds/yr decrease in EDB demand reduces elemental bromine production by about 120 million pounds per year.

EDB was banned for essentially all agricultural uses in late 1983. This ban will reduce EDB production by about 25 million pounds per year for 1984 and beyond. This will mean an immediate loss of about $8 million per year for the bromine industry.

EDB demand will continue to decline at 5 to 10 percent per year if current phasedown regulations on lead-antiknock fluids continues. There have been leaks from within the EPA that a proposal to eliminate leaded gasoline in the U.S. might occur as early as 1987. If such a proposal should be forthcoming, then another governmental blow will have been dealt to EDB. The impact from such a proposal will result in immediate reduction of 15 to 20 million pounds per year of EDB and a loss of $4.5 to 6 million.

Question 2. If the FTA were approved, how many of the bromine compounds you produce would be most severely affected? Why?

Answer. Directly or indirectly, the majority of bromine compounds would be affected by an FTA with Israel. The most vulnerable products by far are flame retardant compounds, particularly tetrabromobisphenol A and decabromodiphenyl oxide. A few weeks ago, Dead Sea Bromine announced that it would build a large new facility with a capacity of 10 million pounds per year to manufacture decabromodiphenyl oxide. For the U.S. bromine industry, the flame retardant area is one in which there is an opportunity to offset losses caused by decreasing EDB production.

The other major area of vulnerability involves heavy fluids, above all, calcium bromide and sodium bromide. According to a recent Chemical Week article, the Dead Sea Bromine Group is considering a new 44 million pound calcium bromide facility which would mean a very major increase of existing production capacity throughout the world.

Question 3. Why is the possibility of a $20 million increase in bromine imports critical to the U.S. bromine industry?

Answer. The Alliance has estimated that imports from Israel would be increased by $20 million by the end of 1985 if they obtained duty-free access to the U.S. market in 1984. This amount represents a most conservative estimate of inroads they might make in this industry. We have submitted data that show that bromine chemical imports from Israel grew from about $3 million in 1980 to about $10 million in 1983. This amounts to a 39-percent compound growth rate with duty imposed on some products. Elimination of all duties will certainly accelerate this growth. Without duty restrictions we would expect the Dead Sea Bromine Group to capture at least 25 percent of the U.S. market if we look beyond 1985. A 25 percent share of the market in 1983 (estimated to be $300 million) would exceed $75 million. This share for the Israelis and the demise of EDB will insure that the U.S. is left with a domestic industry in significant decline.

Question 4. Traditionally, the U.S. has been committed to free trade. Why does your industry want to continue duties on bromine coming from Israel?

Answer. The Alliance supports the concept of free trade and has emphasized that we are only requesting that bromine chemicals be excluded from the agreement. The reasons for this request are not because of philosophical disagreement with free trade, but because this specific domestic industry is vulnerable and will be severely impacted. Our industry has been seriously affected by government-related regulations and is in no position to defend itself from a government-owned company already enjoying other government-imposed advantages (Example: Duty-Free imports into Europe and Japan).

Briefly, the domestic industry has seen its largest volume product, EDB, scheduled for extinction by government regulations, and the industry overall is currently operating at only 58 percent of capacity. Other government burdens on the domestic industry, but not a cost factor for Israeli imports, will compound our problems. The Israeli industry currently has duty-free access to the markets outside the U.S., while U.S. industry products face duties of 10 percent to 20 percent in those same markets. Other concerns have been expressed, but we are especially worried about competition from a foreign government-owned company that may be motivated by the need to generate hard currency instead of profit incentives.

Question 5. Is it correct that over 80 percent of current imports from Israel receive duty-free treatment already? If so, why does your alliance express such a grave concern over the loss of tariff protection?

First: Even though a large percentage of bromine products are at present duty-free for Israel under GSP, the important flame retardants area still enjoys much-needed tariff protection.

Second: The Generalized System of Preferences (GSP) confers current advantages on Israel. However, this may not be available in the future because of either the expiration of GSP in early 1985 or the graduation of Israel from the system due to Israel's status as a very advanced developing country.

Third: Even though the percentage of overall imports which would become duty-free as a result of the Free Trade Area proposal with Israel may appear small, every additional pound of bromine compounds entering the U.S. market will aggravate an already precarious situation.

Question 6. What is the bromine situation in other markets in the world, say the EEC and Japan? Do Israeli shipments into those places pay duties, and how does this compare to our shipments?

Answer. Europe is the largest market and Japan is second largest market for bromine chemicals outside the U.S. There are small amounts of domestic production of these products in both markets; however, both are net importers. Israel has a FTA with the European Common Market and is faced with no duties on bromine, bromine derivatives, and most other products. Israel's bromine products are imported into Japan duty-free through preferental duty treatment similar to GSP. Products from the U.S. are subject to import duties in both these important market areas. The duties average about 10 percent, but are as high as 20 percent on some important products. Certainly in large part due to this favored treatment, Israel has captured over 60 percent of the non-U.S. markets.

Question 7. Will the bromine industry have any offsetting benefits from a FTA with Israel?

Answer. No. The consumption of bromine products in Israel is very small, and there are no other related product markets in Israel that would benefit Alliance members if duties were eliminated.

Question 8. Do we currently ship any bromine or bromine products to Israel? If we could what kind of duty or other protective barrier would our bromine face?

Answer. In gathering Journal of Commerce data for a one-year period (June 1982 through May 1983) we have found that approximately 600,000 pounds of bromine products were exported to Israel from the U.S. Duties on imports into Israel for several bromine products are listed on the schedule attached. Further U.S. Governmental export statistics compiled by Schedule B numbers are being obtained and will be submitted to you under separate cover.

Question 9. Have there been previous attempts to get all bromine from Israel into this country duty-free? When were these attempts made and what were the results?

Answer. In 1974, at the request of the U.S. bromine industry, elemental bromine was exempted from the Multilateral Trade Negotiations under GATT's (Generalized Agreement on Tariffs and Trade) Tokyo Round.

In 1974-75, the Dead Sea Bromine Group's petition to have EDB included in the list of articles subject to duty-free treatment within the Generalized System of Preferences (GSP) was denied by the Administration as a result of the bromine producers' opposition to this petition.

In 1976, the Trade Policy Staff Committee (TPSC) of the Office of the Special Representative for Trade Negotiations proposed, by its own motion, to provide duty-free treatment to imports of tetrabromobisphenol-A, parabromophenol, dibromophenols, tribromophenols, tetrabromoxylenes, and bromobenzene. The U.S. bromine industry opposed this action and testified before the TPSC. In early 1977, U.S. Trade Representation decided that these bromine compounds should remain dutiable.

In 1981, Ameribrom of Israel petitioned for duty-free status on tetrabromobisphenol-A. The bromine industry again opposed this action and testified at hearings of the U.S. International Trade Committee and TPSC. The petition was denied in early 1982.

In 1981, the TPSC considered GSP benefits for Tariff Schedule of the U.S. (TSUS) No. 402.80, a broad basket category containing, among others, a series of bromine compounds. As a result of submissions by the bromine industry opposing this action, this tariff category did not become eligible for GSP benefits.

PARTIAL LISTING OF CERTAIN BROMINE AND RELATED CHEMICALS CLASSIFIED BY ISRAELI TARIFF NUMBER/HEADING

Heading	Description (including items of interest)	Applicable Israeli tariff rates	
		General imports	EEC imports
28.01	Halogens, bromine:		
28.01.1000	Chlorine (percent)	8	7
28.01.9900	Other—including Elemental Bromine	Free	Free
28.30	Chlorides, bromides:		
28.30.1000	Calcium chloride (percent)	10	7.8
28.30.2000	Calcium bromide (percent)	10	8.7
	Potassium bromide		
	Sodium bromide		
	Ammonium bromide		
	Zinc bromide		
28.32	Chlorates, bromates:		
28.32.1000	Chlorates (percent)	12	12
28.32.9900	Other, including sodium and potassium bromates	Free	Free
29.02	Halogenated, derivatives of hydrocarbons; saturated acyclics:		
29.02.1020	Dibromo-chloro-propane (percent)	12	12
29.02.1030	Ethylene dibromide (percent)	12	12
29.02.1040	Methyl bromide (percent)	12	12
29.02.1050	Bromo fluorides (percent)	2	2
29.02.1090	Other	Free	Free
29.07	Halogenated derivatives of phenols or phenol alcohols:		
29.07.1090	Other, including Tetrabromobisphenol A	Free	Free
29.08	Ethers and halogenated derivatives; including: Decabromodiphenyl Oxide, Octabromodiphenyl Oxide.	Free	Free
29.09	Epoxides, with three or four member ring and halogenated, derivatives	Free	Free
29.15	Polycarboxylic acids and their anhydrides, including derivatives:		
29.15.1000	Esters of phthalic or adipic acids, including: Tetrabromophthalic Anhydride (percent)	12	8.9

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Senator DANFORTH. Mr. Koplan.

Mr. KOPLAN. Thank you, Mr. Chairman. I will summarize my statement.

The AFL-CIO appreciates this opportunity to present our views and our opposition to the administration's proposal to establish a free trade area with Israel. This proposal is a matter of grave concern to the AFL-CIO and our affiliate unions.

We believe that the establishment of a free trade area with Israel or with any country for that matter simply places an additional burden on American workers who are already paying the price with unemployment and lost earnings for trade and economic policies that have resulted in decreasing exports and an ever-rising flood of imports. In addition, a bilateral agreement of this kind flies in the face of the carefully negotiated, theoretically balanced, and congressionally approved tariff cuts agreed to in the Tokyo round and currently being put in place.

We urge Congress to withhold the authority to conclude such an agreement and maintain the minimal protections and safeguards currently in law.

Exemptions for import-sensitive products such as those contained in the recently enacted Caribbean Basin Initiative or the Generalized System of Preferences would not be permitted in the Israeli free trade area. Nor would the minimal safeguards contained in GSP.

As this committee knows, the AFL-CIO has historically been one of the most vocal supporters of Israel in the United States. Our opposition to this proposed agreement in no way suggests a lessening of our commitment. Rejection of this agreement is not anti-Israeli. It's rather a positive expression of concern over the health of U.S. industry and the employment of American workers.

At a time when the United States is experiencing a huge merchandise trade deficit with a rapidly increasing volume of imports, additional reduction of U.S. tariff and other protections just does not make sense. It is our firm belief that the Israeli free trade area proposal is not in the interest of the United States, and can only contribute to the further decline of the U.S. industrial structure by increasing imports from Israel.

Our concern over this potential agreement is two-fold. First is the issue of precedent. If agreement can be reached and Congress approves, it would be the first such free trade arrangement in U.S. history. Its establishment would make future requests from other countries for free trade areas much more difficult to refuse.

This morning we heard Senator Symms comment on South Korea, and Ambassador Brock commented on discussions with Egypt.

Second, there are numerous potential problems that are specific to such an agreement between the United States and Israel. As I am sure this committee knows, Israel already enjoys privileged access to the U.S. market through its participation in the GSP Program. The AFL-CIO has presented its views many times in the past. We've expressed concern over the inadequacy of GSP provisions designed to provide minimal protection to import-sensitive industries, and made suggestions just last week to strengthen those safeguards.

The establishment of a free trade area would eliminate the little protection import-sensitive industries currently have under GSP. In fact, it is our understanding that this is one of the principal reasons the Israeli Government is seeking such an agreement. They are apparently concerned that the preferential access granted to them is too limited and inhibits their exports to the United States in a wide variety of products.

Industries that might be affected through the elimination of duties include sophisticated medical equipment and engine parts and aircraft parts, jewelry, glass, various types of machinery and electrical equipment, textiles and apparel, and footwear and leather products. Many of these industries have already been recognized by Congress as being import sensitive and are experiencing high levels of unemployment.

Completion of this agreement would only contribute to their difficulties.

The close relationship that we have had historically with Israel, emphasized earlier in our testimony, has made our opposition to a United States-Israeli free trade area particularly difficult. However, we strongly believe that such a proposal will not be to the mutual benefit of the two countries. A weakened, ineffectual United States is not going to be a helpful ally to Israel. Progress toward our common goals of freedom, democracy, and economic security will be better served by the reindustrialization of America.

Mr. Chairman, I am accompanied this afternoon by Mark Anderson, trade economist in our Department of Economic Research.

Thank you.

[The prepared statement of Mr. Stephen Koplan follows:]

84-03

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS BEFORE THE UNITED STATES SENATE, COMMITTEE ON FINANCE, ON THE PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

February 6, 1983

The AFL-CIO appreciates this opportunity to present our views in opposition to the Administration's proposal to establish a free-trade area with Israel. This proposal is a matter of grave concern to the AFL-CIO and our affiliate unions. We believe that the establishment of a free-trade area with Israel, or with any country for that matter, simply places an additional burden on American workers who are already paying the price with unemployment and lost earnings for trade and economic policies that have resulted in decreasing exports and an ever rising flood of imports. In addition, a bilateral agreement of this kind flies in the face of the carefully negotiated, theoretically balanced, and Congressionally approved tariff cuts agreed to in the Tokyo Round of the Multilateral Trade Negotiations and currently being put in place. We urge Congress to withhold the authority to conclude such an agreement and maintain the minimal protection and safeguards currently in law.

Free-trade areas such as the one being considered by the U.S. and Israel are a deviation from Most-Favored-Nation Treatment under the General Agreement on Tariffs and Trade (GATT), but are permitted as long as they are structured to meet certain criteria. Among other things, the agreement must cover **"substantially all trade"** between the parties and must be staged into effect within a reasonable length of time. Therefore, exemptions for import-sensitive products, such as those contained in the recently enacted Caribbean Basin Initiative or the Generalized System of Preferences (GSP) would not be permitted in an Israeli free-trade area. Nor would the minimal safeguards contained in GSP.

As this Committee knows, the AFL-CIO has historically been one of the most vocal supporters of Israel in the U.S. Our commitment to Israel goes far beyond our trade union links with Histadrut. The 1977 AFL-CIO Convention in Los Angeles put it in the following manner:

> "Our support of Israel is not a function of which party is in power at a particular moment, but rather is rooted in a deep respect for the extraordinary achievements of that small country, working through the democratic process, and in our conviction that the democratic road offers the best hope of progress and peace for all the countries of that region."

The 1983 Convention stated: "The AFL-CIO reaffirms its support for Israel, the only democratic state in the Middle East and a strategic ally."

Our opposition to this proposed agreement in no way suggests a lessening of our commitment. Rejection of this agreement is not anti-Israeli. It is rather a positive expression of concern over the health of U.S. industry and the employment of American workers.

At a time when the U.S. is experiencing a huge merchandise trade deficit with a rapidly increasing volume of imports, additional reduction of U.S. tariff and other protections just does not make sense. For 1983, the U.S. merchandise trade deficit reached $69.4 billion, almost 63 percent greater than the deficit experienced in 1982. During the last year, exports dropped by $11.2 billion, while imports increased by $15 billion. The Administration predicts deficits in excess of $100 billion for 1984. For manufacturing, the international position of the U.S. deteriorated even more dramatically. The traditional manufacturing trade surplus in the 1970's have now become deficits. The $10.5 billion deficit in 1982 increased to an astonishing $38.2 billion in 1983 and will be higher in 1984. This huge deficit has contributed significantly to the deterioration of America's industrial base and our continuing high levels of unemployment. In a study recently released by Data Resources, Inc., it was estimated that this trade imbalance will cost up to two million jobs this year.

It is our firm belief that the Israeli free-trade area proposal is not in the interest of the U.S. and can only contribute to the further decline of the U.S. industrial structure by increasing imports from Israel.

Our concern over this potential agreement is twofold. First is the issue of precedent. If agreement can be reached, and Congress approves, it would be the first such free trade arrangement in U.S. history. Its establishment would make future requests from other countries for free-trade areas much more difficult to refuse. The economic and political rationale given by the Administration for establishing a free-trade area with Israel will be cited as precedent by many other countries in the world. Is this initiative the start of the process where similar negotiations will soon commence with South Korea or the European Economic Community? The U.S. market is already the most open in the world and the elimination of the minimal protections now in place will only accelerate the downward spiral of the nation's industrial strength.

The October 1983 AFL-CIO Convention in a resolution on International Trade and Investment reiterated its strong opposition to further tariff cuts and opposed the granting of Presidential authority to negotiate such cuts.

Second, there are numerous potential problems that are specific to such an agreement between the U.S. and Israel. As I am sure this Committee knows, Israel already enjoys privileged access to the U.S. market through its participation in the GSP program. The AFL-CIO has presented its views many times in the past. We have expressed concern over the inadequacy of GSP provisions designed to provide minimal protection to import-sensitive industries and made suggestions to strengthen those safeguards. The establishment of a free-trade area would eliminate the little protection import-sensitive industries currently have under GSP. In fact, it is our understanding this is one of the principal reasons the Israeli government is seeking such an agreement. They are apparently concerned that the preferential access granted them is too limited and inhibits their exports to the U.S. in a wide variety of products. Industries that might be affected through the elimination of duties include: Sophisticated medical equipment, and engine parts and aircraft parts, jewelry, glass, various types of machinery and electrical equipment, textiles and apparel, and footwear and leather products. Many of these industries have already been recognized by Congress as being import sensitive and are experiencing high levels of unemployment. Completion of this agreement would only contribute to their difficulties.

We are told, however, that this agreement would be mutually beneficial in that it would also ensure access to the Israeli market for U.S. exports. We believe that duty-free access to the $8 billion Israeli market in no way matches the benefit of unfettered access to the $3 trillion U.S. market. Announced measures of the Israeli Finance Ministry to address their balance of payments problems by increasing exports and reducing imports makes expectations of larger U.S. exports unrealistic at best. Further, it is difficult to understand how acknowledged Israeli governmental practices of industrial targeting, subsidization and state-owned enterprises fit in the concept of a free-trade area. While these policies are a proper and justifiable expression of Israel's domestic political and economic concerns, there is no reason for the U.S. to believe that trade will take place between the two countries on the model of Adam Smith.

It should also be remembered despite the poor state of the Israeli economy, official unemployment there is only about 5 percent as compared to 8 percent in the U.S.

The close relationship that we have historically had with Israel, emphasized earlier in our testimony, has made our opposition to a U.S.-Israeli free-trade area particularly difficult. However, we strongly believe that such a proposal will not be to the mutual benefit of the two countries. A weakened, ineffectual United States is not going to be a helpful ally to Israel. Progress toward our common goals of freedom, democracy, and economic security will be better served by the reindustrialization of America.

Senator DANFORTH. Mr. Nehmer, it's my understanding that Israel is not a low wage country.

Mr. NEHMER. Senator, in the areas that we are talking about—textiles, apparel—their wages are lower than those in the United States or approximately the same.

Senator DANFORTH. Or approximately the same?

Mr. NEHMER. That's right. In the leather products area, they are actually lower than ours.

Senator DANFORTH. Significantly lower?

Mr. NEHMER. Significantly lower. Yes. We can provide you with that information.

Senator DANFORTH. We would like to have that information.

[The information from Mr. Nehmer follows:]

AMERICAN FIBER, TEXTILE, APPAREL COALITION,
Washington, DC, February 9, 1984.

Hon. ROBERT DOLE,
Chairman, Senate Committee on Finance,
Dirksen Office Building, Washington, DC.

DEAR MR. CHAIRMAN: This is in further response to two questions posed by Senator Danforth to Stanley Nehmer, who represented the American Fiber, Textile, Apparel Coalition, at the Finance Committee's hearing on the Israel free-trade area on February 6, 1984.

The first question was to identify the specific textile and apparel items that Israel exports to the United States.

It was suggested to Mr. Nehmer that Israel shipped only a limited number of textile and apparel categories to the United States, and that these were in the high fashion area. Contrary to this impression, in 1983, Israel was a major supplier (as defined by the Commerce Department) to the United States of: Men's and boys wool sweaters; Man-made fiber hosiery; Miscellaneous man-made fiber apparel; and Continuous non-cellulosic yarn.

In 1983, the U.S. imported 21.8 million square yard equivalents in textiles and apparel from Israel, an increase of 165 percent over 1982. These consisted of more than 40 different categories, as follows:

Cotton; Hosiery, Coats, Dresses, Playsuits, Knit and woven shirts, Sweaters, Trousers, Dressing gowns, Underwear, Miscellaneous apparel, Sheets, Pillowcases, Towels, Bedspreads and quilts, and Other cotton manufactures.

Wool: Yarn and tops, Woolen and worsted fabric, Tapestry and upholstery, Other fabrics, Women's coats, Knit shirts and blouses, Sweaters, Skirts, Women's suits, Women's trousers, Miscellaneous apparel, Floor coverings, and Miscellaneous wool manufactures.

Man-made fiber: Yarn, Fabric, Hosiery, Men's and women's coats, Dresses, Playsuits, Women's knit skirts, Women's suits, Woven shirts, Skirts, Women's sweaters, Trousers, Dressing gowns, Miscellaneous apparel, Floor coverings, and Miscellaneous manufactures.

In response to the second question concerning comparative wage rates in the United States and Israel in the apparel sector, Mr. Nehmer answered that he thought the Israeli wage rate was about half the U.S. rate. His estimate was based on Bureau of Labor Statistics (BLS) unpublished data for calendar year 1981 (compiled by BLS in April 1983). According to these data, the hourly labor cost (wages plus fringes) of Israeli workers in the apparel sector was actually less than half the U.S. rate ($2.27 vs. $6.22), as was similarly the case with leather and leather products ($2.69 vs. $6.44).

In order to examine more current data, we reviewed Israel's Central Bureau of Statistics' Monthly Bulletin of Statistics and Supplements, which reports average monthly earnings of workers in various sectors of the Israeli economy. In May 1983, the earnings of workers (wages plus some, but not all, fringes) in the clothing sector of Israel were 20,700 shekels per month, or $478 per month in U.S. dollars. Average weekly earnings (not including fringes) in the U.S. apparel industry in May 1983 were $192.41, or approximately $833 per month (assuming 4⅓ weeks per month). Thus, as recent as eight months ago, Israeli workers earnings in the apparel industry were only slightly more than half the U.S. wage rate.

Sincerely,

W. RAY SHOCKLEY, *Chairman.*

Senator DANFORTH. In the textiles would you say significantly lower?

Mr. NEHMER. Yes; lower—no more than what they are in the United States. Certainly not as low as we find in the Far East. Nothing like this.

Senator DANFORTH. Right, I mean this is not the classic case of a country which just has rock bottom wages and is running sweat shops and so on.

Mr. NEHMER. Not like the $.16 an hour in the Peoples Republic of China. But when the person is drowning and treading water trying to stay afloat, if you push his head down a little bit further, it isn't going to help him in his ability to survive. That's what we are saying here.

I should point out that there have been some products from Israel which have been very important in the textile, apparel, leather products areas. There was a whole escape clause case in which Israel leather apparel played a key role.

I think that one of the testimonies today points out an important area that Israel is in. That's fashion apparel and other types of apparel.

Senator DANFORTH. Is it generally high fashion?

Mr. NEHMER. Generally. But I remember negotiating the first bilateral textile agreement with Israel when I was in the State Department. Much of that was not fashion apparel at that time. Now since then they certainly have developed.

I am advised that in textiles and apparel the average wage in Israel is roughly half that of the United States so my first inclination was correct.

Senator DANFORTH. What areas of textile do they export to the United States? Is it across the board or is it specific areas?

Mr. NEHMER. I don't believe it is across the board. I believe it is in the apparel area.

Senator DANFORTH. I'm told one of the leading areas is high fashion swimwear.

Mr. NEHMER. Yes; I have seen that in the testimony. I believe that is correct. Yes. We've seen that advertised.

Senator DANFORTH. Would that be a significant threat to the United States—high fashion swimwear?

Mr. NEHMER. The U.S. apparel industry is a large producer of swimwear, yes, fashion swimwear.

I think, Senator, it's not the adverse impact alone. It's the question of trade policy that we see the United States embarking on here. First CBI, now Israel, and now we hear that Ambassador Brock, the administration, will be asking for legislation which is not country specific. Israel has great experience in the textile and apparel area. Israel can expand their exports to us. The U.S. tariffs on textiles and apparel are well above the average for all tariffs, somewhere on the order of about 25 percent. You go from 25 percent to zero, you've got quite a shock.

Senator DANFORTH. Thank you very much, gentlemen.

There is another vote now on the floor of the Senate, and I'm sure Senator Dole will be back in just a couple of minutes for the next panel.

[Whereupon, at 4:36 p.m., the hearing was recessed.]

AFTER RECESS

The CHAIRMAN. This is sort of a yo-yo operation here. We've got votes going on so if you can help us by summarizing your statement, it will be appreciated. I will make it clear that the entire statement will be made a part of this record—all statements for this panel and those of the following panel.

STATEMENT OF W. GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Mr. TUSSEY. Well, thank you very much, Mr. Chairman.

First of all, I would like to say that the Farm Bureau seeks an exemption from the proposal for horticultural commodities and products. I will set about trying to give some of our reasons.

First of all, we think that this is an economic arrangement or a swap that strongly favors Israel. Under this arrangement Israel would be getting duty-free access to a market of 234 million people, with a gross national product of over $3,000 billion. And in return the United States would be granted duty-free access to a market of about 4 million, with a gross national product of about $21 billion.

Also I would like to say—it has been discussed here today whether there was some subsidies on some of the agricultural products. In 1980, the International Trade Commission did find that Israeli roses into the United States were being subsidized. Today, there is a 22 percent ad valorem duty on roses imported from Israel to countervail the subsidies that were found to be on those rose imports. And some of our growers wonder if there aren't other products that might also be subsidized coming in from Israel. We know of the rose case because the rose people won that case, and there is a countervailing duty against it.

So we feel that U.S. agriculture should not be asked to accept additional possibilities of subsidized competition because we are already receiving severe competition from subsidized products from the European Community into third country markets and from Brazil.

Another important point is that Israel is not a signatory to the GATT subsidy code. Thus, U.S. producers do not now have to prove injury regarding dutiable subsidized Israeli imports. The rose people did not have to prove injury because Israel is not a member of the GATT subsidy code.

However, if these duties are removed as proposed then the injury test would apply, and our producers would have to pursue injury tests at a very large cost. Many producers could not afford such a cost.

So we think that Israel already has advantages under the GSP program for duty-free treatment. Nearly 60 percent of Israeli agricultural exports to the United States are eligible for GSP status. Therefore, it's for these reasons and one other that I would like to mention that we oppose the proposal.

As Mr. Nehmer pointed out, this is a departure from the multilateral trade negotiating process toward more bilateral arrangements. We would favor the multilateral approach and we were pleased when a week or so ago Ambassador Brock announced that they would seek multilateral trade negotiations, I believe, beginning in 1986.

We appreciate this opportunity, Senator.

The CHAIRMAN. Thank you.

Glenn, I think your statement indicates that we export about 6.3 million worth of ag products to Israel. We are advised that it's much higher—maybe there's a difference in description.

Mr. TUSSEY. Yes. I think we picked up the wrong figure there. We will supply another figure.

The CHAIRMAN. Right. I think the USDA indicates it is 297 million in exports. Soybeans, 100 million; sorghum, 55; corn, 50; wheat, 61. And we import 51 million. We might check that.

Mr. TUSSEY. Yes, we will check that. I think the figure we picked up is for horticultural products going to Israel instead of total agricultural products.

The CHAIRMAN. That's probably what it is.

Mr. TUSSEY. Yes.

[The prepared statement from Mr. W. Glenn Tussey and the additional information follow:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, PRESENTED BY W. GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION

Farm Bureau appreciates the opportunity to comment on the Administration's proposal to establish a free-trade area with Israel.

First of all, Mr. Chairman, it seems we should take a look at what is being swapped for what. Some numbers on potential customers for both parties to the proposed agreement and the relative size of existing trade benefits to each will give an idea as to which party would be getting the best deal from this agreement.

The Israelis would be getting duty-free access to a market of 234 million people with a gross national product of over $3,310 billion. In return, the U.S. would be granted duty-free access to a market of about 4 million people with a gross national product of about $21 billion.

The present trade balance for horticultural products between the U.S. and Israel is overwhelming in favor of Israel.

In 1982, the U.S. exported $6.3 million worth of horticultural products to Israel. We received from Israel $36.1 million worth of such products.

In 1983, from January through November, the imbalance in horticultural products continued. We exported $7.3 million to Israel and imported $34.5 million.

Mr. Chairman, if a free-trade area is formed between the U.S. and Israel to eliminate duties and non-tariff barriers on substantially all trade between the two countries, it seems that far more trade benefits would accrue to Israel than to the U.S., especially in the area of horticultural trade.

Another concern of the U.S. farmers is the fact that some Israeli horticultural products are the beneficiary of subsidies as was found by our Government in a finding against Israeli roses in 1980. The offsetting countervailing duty on roses imported from Israel is currently about 22 percent ad valorem.

U.S. farmers and ranchers are already faced with subsidized competition from the European Community, Brazil and others. It seems unfair to broaden such subsidy possibilities at a time when resolutions to many existing subsidy problems has not been obtained by our Government in its negotiating efforts.

Israel is not currently a signatory to the GATT Subsidy Code. Consequently, on dutiable items imported from Israel, U.S. producers can get relief from subsidized commodities and products without proving injury to their industry. If Israel should be granted duty-free status without qualifications under the proposed free-trade area, an injury test would be required. The legal fees to pursue relief under injury test requirements are often more than farmers can afford. Thus, horticultural producers would find procedures for countering subsidized imports from Israel more difficult than is currently the case.

This free-trade area proposal could have a considerable adverse impact on U.S. growers of horticultural commodities and products which are competitive with the imports which would come in duty-free from Israel.

The impact could be extensive if the import volume increases substantially in the horticultural area. Citrus, flowers, avocados and tomato products are the most sensitive areas.

Growers fear that the Israelis may target the U.S. market and increase their volume to this country dramatically after receiving duty-free treatment under the U.S./Israeli Free-Trade Agreement. This prompts Farm Bureau to ask that horticultural commodities and products be exempted from the proposal.

Farm Bureau has consistently supported multilatreal trade negotiations, and we feel that another round of such negotiations would be more appropriate with trade benefits much more far reaching and widespread than would be bilateral arrangements such as the proposed free-trade area with Israel. U.S. agriculture supports measures for freer trade but only if there is a fair balance between the value of concessions and counter concessions.

Israel already gets substantial tariff breaks under the Generalized System of Preferences (GSP) Program as well as substantial U.S. foreign aid. We understand that 59 percent of the agricultural imports are eligible for GSP status. Israel, while enjoying substantial tariff advantage under GSP, can petition for additional duty-free exports to the U.S. as other developing countries do under the GSP rules. Therefore, it would seem that Israel should be accorded neither more nor less tariff advantage than is accorded our other friends who are equally anxious to develop their economies.

Mr. Chairman, we will appreciate consideration of our views as legislation is developed on this free-trade area proposal.

STATEMENT OF BOBBY F. McKOWN, EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL, LAKELAND, FL

The CHAIRMAN. Mr. McKown.

Mr. McKOWN. Yes. Thank you, Mr. Chairman.

The CHAIRMAN. Good to see you again.

Mr. McKOWN. Yes, sir. And thank you.

Mr. Chairman, Florida Citrus Mutual, as you know, is a voluntary cooperative trade association of more than 13,300 citrus growers in Florida. In addition, I have been asked to speak on behalf of the Florida Citrus Processors Association, and the State of Florida, Department of Citrus.

While Florida Citrus Mutual is not opposed in principle to the negotiation of a U.S.-Israel free trade area, we believe that citrus products, particularly frozen concentrated orange juice and grapefruit juice, should be excluded from the coverage of any such arrangement. The U.S. citrus industry is increasingly sensitive to imports of subsidized products from Brazil and has been required to contend with duty avoidance practices in recent years.

Our import sensitivity has been confirmed by the consistent denial of GSP eligibility and the citrus safeguard provisions in the CBI. Available import and export figures indicate that exports of FCOJ from Israel to the EC exceed its total available supply, including its imports from Brazil. It is apparent that duty-free treatment for such juice entering the United States will result in a transshipment of Brazilian products through the free trade area beneficiary. At the very least, strictly enforced country of origin certification requirements are necessary as set forth in the CBI with the other safeguards that were incorporated. We believe these provisions should be a bare minimum.

However, this will still result in diversion of Brazilian citrus into the Israel domestic and EC markets, with the bulk of domestic production being directed to the United States. The adverse price impact of these duty-free imports will be substantial.

FCM requests that frozen concentrated orange juice and grapefruit juice and other citrus products be excluded from the coverage of any free trade area arrangement.

I've summarized my statement that I filed with you, Mr. Chairman.

The CHAIRMAN. Thank you very much. We appreciate it.

[The prepared statement of Mr. Bobby F. McKown follows:]

STATEMENT OF BOBBY F. McKOWN
EXECUTIVE VICE PRESIDENT
FLORIDA CITRUS MUTUAL
Before the
COMMITTEE ON FINANCE

February 6, 1984

Mr. Chairman, my name is Bobby F. McKown and I am the Executive Vice President of Florida Citrus Mutual, of Lakeland, Florida. FCM is a voluntary cooperative trade association whose membership consists of more than 13,300 active Florida citrus growers. There are an estimated 16,000 citrus growers in Florida, representing almost 30 percent of the 80,000 plus people directly employed in the Florida citrus industry in jobs ranging from harvesting to research.

FCM is aware of the proposals by the Administration to enter into a U.S.-Israel free trade agreement. We are opposed to the inclusion of any citrus products, frozen concentrated orange juice (FCOJ), or frozen concentrated grapefuit juice (FCGJ) in such an agreement, if it is negotiated. Our position is not intended to disrupt or adversely affect relations in any manner between our two countries, but is based on the realities of the marketplace and the conditions of worldwide trade in citrus products. In recent years, increased imports of FCOJ have materially and negatively affected the Florida and, indeed, the entire U.S. citrus industry. There is currently in effect a countervailing duty investigation suspension agreement between the United States and Brazil, whereby Brazilian export taxes are assessed in order to offset the benefits of Brazilian government subsidies to FCOJ processors. In addition to subsidized supplies, we have also been forced to contend in recent times with various tariff-avoidance schemes. Our industry is not subsidized by the Federal or State Governments, and foreign subsidization or unfair duty advantages place extreme competitive pressures on the U.S. industry. Over the past four years, imports of FCOJ have increased by as much as 300 percent, and import prices have a suppressive impact which now dictate the market in many parts of the United States. Any proposal which would add to the growing import volumes of both frozen concentrated citrus juices and single strength citrus juices would seriously damage U.S. growers.

If Israel were permitted to ship FCOJ and FCGJ free of duty to the United States, it is clear that FCOJ, produced domestically in that country, would be blended with FCOJ from Brazil for shipment to the United States. The availability of this almost limitless supply, duty free, would further erode the chances for U.S. growers and processors to maintain price levels necessary for a reasonable return. Our conclusion that such activity would occur is not merely an idle suggestion. The attached Table 1 demonstrates that Brazilian exports of FCOJ to Israel are substantial, and that in 1981, Israeli imports of FCOJ from Brazil exceeded four million gallons (at 42 degrees Brix), or more than 12,000 metric tons. However, when the total availability of FCOJ in Israel is computed, by adding its domestic supply with its Brazilian imports, the resulting amount equals far less than the volume of its exports of FCOJ to Western Europe. While Israel has a developing citrus industry, it clearly does not produce the amount of citrus products reportedly shipped by it to the European Communities and other Western European countries. A substantial amount of Brazilian juice is apparently imported into Israel to enable it to maintain its export shipments to the Common Market. While our exports to the EC are subject to MFN duty rates, Israel presently has a free trade agreement with the EC which permits it to export to Europe at highly preferential duty rates. If such treatment were granted for U.S. imports from Israel, further transshipment of the Brazilian product would have to be anticipated.

FCM does not oppose programs of the U.S. which are intended to assist in the development of the industries of our trading partners. Of course, we are exporters of citrus products. We have recognized the importance of and supported such recent programs as the Caribbean Basin Initiative and the renewal of the Generalized System of Preferences program, where such programs include appropriate safeguards for the highly import-sensitive citrus industry. The present U.S. tariff structure as it relates to citrus products has functioned well to permit adequate quantities of imported FCOJ supplies when necessary. However, the delicate pricing and tariff structure which has developed over the years would be seriously disrupted if the U.S. market were open to large quantities of transshipped duty-free citrus imports. The Office of the U.S. Trade Representative and the Trade Policy Staff Committee have consistently recognized the probable effect of increased citrus imports in denying numerous petitions for GSP treatment of citrus products in the past, since ours is an import-sensitive industry within the context of the GSP.

Accordingly, while FCM supports the overall government-to-government program, it is important that citrus fruit and citrus products, particularly FCOJ and FCGJ, be excluded from the coverage of any such agreement. Such an exclusion would conform to longstanding U.S. policy not to grant concessions or unilateral advantages to countries already subject to remedial action under the U.S. trade statutes (such as the current subsidy offset export tax on Brazilian FCOJ). If, as the evidence we have seen establishes, Israel imports a significant volume of FCOJ in order to maintain its own export volume, it is logical to conclude that any shipments to the U.S. under a duty-free arrangement would include blended FCOJ from the country which is subject to remedial action, Brazil.

Furthermore, we do not feel that the problem could adequately be addressed through country of origin certification requirements. The recently enacted Caribbean Basin Initiative provides that an article may not become a product of the beneficiary countries through simple manipulation or mere dilution with water so that the product is not "substantially transformed" in the beneficiary country. At the very least, a similar certification requirement, strictly enforced, would be necessary in the contemplated Free Trade Area arrangement. However, we feel that even with such a requirement, market disruption in the U.S. would be likely. Such an approach would permit a free trade area beneficiary country with an established citrus industry to substitute imported Brazilian FCOJ in its domestic and third country export markets, thus making available substantially all of its domestically-produced juice for duty-free shipment to the United States. The consequences of such a diversion would further distort pricing in an already extremely price-sensitive U.S. market.

Therefore, while FCM supports in principle the proposed free treatment area agreement, we respectfully request that frozen concentrated orange juice, frozen concentrated grapefruit juice, and citrus products be excluded from the coverage of any negotiated agreement, consistent with all previous findings of sensitivity of the domestic citrus industry.

We will be pleased to provide any additional information and data which the Committee may find helpful.

TABLE 1

BRAZILIAN EXPORTS OF FCOJ TO ISRAEL

	Gallons (42° Brix)	Metric Tons
1974	379,300	1,100
1975	3,073,500	8,914
1976	5,001,300	14,505
1977	1,945,400	5,642
1978	3,210,800	9,312
1979	3,552,800	10,304
1980	2,673,900	7,755
1981	4,190,000	12,152
1982	1,803,900	5,231.9 (estimated)

Source: Florida Citrus Mutual Economics Division (1/17/84)

TABLE 2

FCOJ AVAILABILITY IN ISRAEL

Year	Production	Israeli Imports from Brazil	Total Availability
	--------------(Metric	Tons)--------------	
1979	16,700	10,300	27,000
1980	21,200	7,800	29,000
1981	14,700	12,200	26,900
1982	39,100	5,900	45,000
Ave.79-82	22,925	9,050	31,975

Source: U.S. Dept. of Agriculture, Foreign Agricultural Service

TABLE 3

ISRAEL: EXPORTS OF FCOJ

Year	To EC	To other Western Europe*/	Total
	--------------(Metric	Tons)--------------	
1979	68,900	5,600	74,500
1980	66,700	4,400	71,100
1981	70,300	4,500	74,800
1982	77,800	5,000	82,800
Ave. 79-82	70,925	4,875	75,800

*/ Includes Norway, Finland, Sweden, Austria and Switzerland

Source: U.S. Dept. of Agriculture, Foreign Agricultural Service

STATEMENT OF EUGENE L. STEWART, STEWART & STEWART, WASHINGTON, DC, REPRESENTING ROSES, INC.

The CHAIRMAN. Mr. Stewart.

Mr. STEWART. Thank you, Mr. Chairman.

On behalf of Roses, Inc. we are privileged and pleased to appear before you and Senator Danforth today. To show our concern, I'm accompanied by the president of Roses, Incorporated, a rose grower, Mr. Len Busch; Mr. Chip Wright, who is chairman of the import action committee, a rose grower; Mr. Jim Krone, the executive vice president.

We wish to summarize our testimony briefly with three essential facts and then technical recommendations based upon the Israeli-EC arrangement as a precedent for what we recommend.

As the gentlemen from the Farm Bureau indicated, the Commerce Department has determined that Israel has subsidized the production and export of roses and on past importations a countervailing duty rate of 27.9 percent is being imposed.

Our first recommendation is that in any bill that you report authorizing negotiations you require that the agreement include a provision that existing countervailing duty and antidumping orders remain valid and in effect with respect to commerce from Israel.

Second, roses were determined by the President, with the advice of the STR and a finding by the International Trade Commission, to be import sensitive and duty-free treatment under the GSP was denied to roses from all developing countries, including Israel.

Therefore, roses are established to be import sensitive. And recently the ITC in a preliminary antidumping injury determination found a reasonable indication of injury to roses by imports from Colombia.

Our second recommendation, therefore, is that any bill that you report require the trade agreement to include either a provision excluding roses from duty-free treatment under any agreement as import sensitive, or that a specific quota we established equal to imports in the most recent year, 1983, so that duty free treatment would apply only to that quantity and after that quantity the regular duty would take hold.

There is a comparable provision in the EEC-Israeli provision. And in our text of our statement we have cited chapter and verse in that respect.

The third recommendation or reference that we give to you is that we call to your attention that in the Canadian-U.S. Automotive Products Trade Agreement the House Committee reports specifically pointed out that either country was free to invoke Article III, part two of GATT, the antidumping and countervailing duty provisions, should unfair competition occur within the framework of the free trade agreement. We, therefore, recommend that the bill, any bill, reported by you require the trade agreement make applicable the provisions of U.S. law with respect to antidumping duties, countervailing duties, Section 337, complaints against other unfair methods of competition, the escape clause and Section 301 of the Trade Act of 1974.

And we point out that in the Israeli-EEC agreement there is a specific provision for the normal safeguard provisions to apply to imports in either direction.

That completes my time, Mr. Chairman. Thank you for the privilege of presenting our testimony.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Eugene L. Stewart on behalf of Roses Incorporated follows:]

Summary of the
Testimony on Behalf of Roses Incorporated
before the Committee on Finance, U. S. Senate
re Proposal for Free-Trade Area with Israel
February 6, 1984

(1) fresh cut roses are import sensitive to duty-free imports;

(2) the domestic rose growers are faced with unfair competition from subsidized imports of roses from Israel and Colombia; and

(3) there is a reasonable indication that the domestic rose growing industry is being materially injured and is threatened with material injury by reason of the importation of roses from Colombia at less than fair value.

On the basis of the precedent offered by the Agreement between the European Economic Community and the State of Israel, and the Canadian-U.S. Automotive Products Trade Agreement, the Committee should include in any bill which it reports authorizing the establishment of a free trade area between the United States and Israel provisions which -

.. exclude fresh cut roses from the duty-free treatment otherwise provided for by the legislation; or

.. alternatively, place quantitative limitations on the volume of fresh cut roses which may be imported duty-free from Israel equal to the total imports from Israel in 1983;

.. preserve the existing countervailing duty order and duty assessments on fresh cut roses from Israel; and

.. make all imports from Israel subject to the existing U.S. domestic law provisions for escape clause, anti-dumping duty, countervailing duty, Sec. 337 and Sec. 301 relief.

Testimony on Behalf of Roses Incorporated before the Committee on Finance, U. S. Senate re Proposal for Free-Trade Area with Israel February 6, 1984

Mr. Chairman and members of the Committee:

This testimony is presented on behalf of Roses Incorporated, the trade association representing the domestic rose growers. While we are presenting our views through a single spokesman today, our witness group includes Leonard S. Busch, owner of Len Busch Roses, Plymouth, Minnesota, President of Roses Incorporated; Christopher "Chip" Wright, President of N. H. Wright, Inc., Cranbury, New Jersey, Chairman of the Import Action Committee of Roses Incorporated; James C. Krone, Executive Vice President of Roses Incorporated, Haslett, Michigan; and Eugene L. Stewart, Esq., Special Counsel to Roses Incorporated, Washington, D. C.

We have 179 members operating commercial rose greenhouses, located in 32 States: Alabama, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Utah, Virginia, Washington, Wisconsin and Wyoming.

In 1983 the members of Roses Incorporated produced and shipped to the U. S. market an estimated 373.3 million rose blooms, with a farm gate value of $100.6 million. These greenhouses are predominantly family-owned, small businesses. In 1983 they represent a capital investment of about $67 million, and employ a work force of about 3,500 persons.

The domestic commercial greenhouses producing roses have been, and are being, increasingly affected, adversely, by surging imports of fresh cut roses. By 1983, foreign roses had captured 25% of the U.S. market, up from 8% in 1980!

U. S. Imports for Consumption of Fresh Cut Roses by Principal Sources, 1980-1983

Period	Colombia	Israel	Netherlands	Other	Total
	Quantity (million blooms)				
1980	29.9	5.0	1.4	2.2	38.5
1981	52.9	6.2	3.2	5.2	67.5
1982	75.4	5.3	5.2	8.3	94.1
1983	98.7	4.3	7.2	15.9	126.1
	Value (thousands of dollars)				
1980	5,471	371	386	385	6,613
1981	11,078	320	833	869	13,100
1982	16,049	295	1,158	1,338	18,840
1983	26,000	441	1,719	2,565	30,725
	Average unit value (cents per bloom)				
1980	18	7	28	18	17
1981	21	5	26	17	19
1982	21	6	22	16	20
1983	26	10	24	16	24

Source: USITC Publication 1450, November 1983, Table 9; Bureau of the Census, IM 145.

Israel is not the largest, but it is one of the principal sources of fresh cut roses imported into the United States. In Israel, the production of fresh cut flowers, including roses, for export is heavily subsidized. Countervailing duties have been assessed at the rate of 27.94% ad valorem to offset the net benefit of subsidies bestowed upon Israeli rose growers and exporters under ten programs: the Encouragement of Capital Investment Law; Government-Guaranteed Minimum Price program; preferential short-term financing; government funding of the exclusive exporter of fresh cut flowers, AGREXCO; cash payments to growers for greenhouses; cash payments to fresh cut flower packing houses; cash payments from the Export Promotion Fund; fuel grants to rose growers; long term loans granted to AGREXCO; and a capital fund granted AGREXCO. Federal Register, Vol. 49, No. 4, January 6, 1984, pages 924, 925.

In addition, roses from Israel are severely undervalued for customs purposes. Notice in the above table the low unit value of Israeli roses compared with imported roses from all other sources. This undervaluation results from the Government owned and subsidized exclusive export organization, AGREXCO, transferring fresh cut roses to its wholly owned U.S.

affiliate at nominal prices instead of prices which reasonably reflect the fair value of the imported roses. As a result of this 58% undervaluation, the 8% ad valorem rate for ordinary customs duties is reduced effectively to 3.4%, while the countervailing duty rate is reduced effectively to 11.7%.

Heretofore, roses from Israel and other developing countries have been determined to be not entitled to duty-free treatment under the Generalized System of Preferences because of the import sensitive status of the domestic product. Federal Register, Vol. 46, No. 102, May 18, 1981, pp. 28779, 28780 (Case No. 78-24).

Moreover, roses and other fresh cut flowers from Colombia, the predominant supplier of imported roses to the U.S. market as shown by the above table, have again been found to be subsidized by the Colombian government. Previously, the Treasury Department found in 1974 that exports of fresh cut flowers to the U.S. from Colombia received subsidies equal to 10.4% of their ad valorem value from the Colombian government. In that case, as in the recent Commerce Department investigation, the administering authority accepted an agreement from the Colombians to divert the subsidies from direct to indirect support of exports of roses instead of imposing countervailing duties to offset the unfair advantage of the government subsidies. Federal Register, Vol. 39, page 26922. Recently, following an affirmative preliminary determination that the net subsidy conferred on exports of Colombian roses and other cut flowers to the United States was equal to 5% of the export value, Federal Register, Vol. 47, No. 215, Nov. 5, 1982, page 50314 et seq., the Department of Commerce entered into an agreement with the Colombian exporters suspending the countervailing duty proceeding and the collection of subsidy-neutralizing countervailing duties in exchange for promises that they would renounce these subsidies. Federal Register, Vol. 48, No. 12, Jan. 18, 1983, p. 2158 et seq.

In addition, the Commerce Department has recently initiated an antidumping duty investigation of fresh cut roses from Colombia. Federal Register, Vol. 48, No. 208, pp. 49530 et seq. The preliminary determination is due on March 9, 1983. Meanwhile, the International Trade Commission has determined that there is a reasonble indication that an industry in the United States is materially injured, or is threatened with material injury, by reason of the imports from Colombia of fresh cut roses that are the subject of the antidumping duty investigation. USITC Publication 1450, November 1983.

Finally, the domestic rose growers are now threatened anew by the blanket duty-free treatment which has just been extended to imports of fresh cut roses from the Caribbean countries under the Caribbean Basin Initiative. Fresh cut roses are exported to the United States from Guatemala, Costa Rica, Panama, Jamaica, and the Dominican Republic. In 1983 a total of 7.2 million roses were imported from these Caribbean countries, each of whom has been designated by the President as eligible for duty-free treatment of their exports to the United States. Proclamation 5133, November 30, 1983; Proclamation 5142, December 29, 1983. For comparison, a total of only 3.4 million blooms were imported from these countries in 1981. Thus, on a dutiable basis, imports from the Caribbean producers now entitled to duty-free treatment have increased by 112% in just two years time. The irony of the duty-free treatment now extended to these countries is manifested by the fact that it was at the request of the Dominican Republic and Panama that the USTR and the ITC considered and on their advice the President ruled against duty-free treatment for fresh cut roses under the Generalized System of Preferences because of the import sensitivity of roses and the probable adverse economic effect of duty-free imports on the domestic producers. Federal

Register, Vol. 46, No. 102, May 28, 1981, pp. 28779, 28780.

The point of this background information is simply this:

(1) fresh cut roses are import sensitive to duty-free imports;

(2) the domestic rose growers are faced with unfair competition from subsidized imports of roses from Israel and Colombia; and

(3) there is a reasonable indication that the domestic rose growing industry is being materially injured and is threatened with material injury by reason of the importation of roses from Colombia at less than fair value.

Under these circumstances, Roses Incorporated requests that the Committee include the following provisions in any bill which it reports which would authorize the establishment of a free-trade area with Israel:

A. Fresh cut roses are import sensitive products which should be excluded from the duty-free treatment; or, at least, subject to a quantitative limitation of 4.3 million

35-438 O - 84 - 14

blooms prorated equally by calendar quarter, entry to be conditioned upon validated certificate of origin [Israel has a close working relationship with the flower auction at Aalsmeer, Netherlands with the common use of export terminal facilities which could result in the use of the Israeli duty free privilege as a gateway for diversion of dutiable roses from other countries through the Netherlands]. Precedent: the EEC 1975 Trade and Cooperation Agreement with Israel. Art. 5 of Protocol 1 on the application of Art. 2(1) of the Agreement, EC OJ L136-10, 28.5.75.

B. All imports from Israel should be subject to the safeguard (escape clause) provision of Sec. 201 of the Trade Act of 1974, the unfair competition provisions of the Trade Agreements Act of 1979 (the countervailing duty and antidumping duty provisions, Title VII of the Tariff Act of 1930, as amended), Sec. 337 of the Tariff Act of 1930, as amended, and Chapter 1 of Title III of the Trade Act of 1974 as amended by Title IX of the Trade Agreements Act of 1979. Precedents: Article 12, 13, 14, 15, 16 and 25, Agreement between the European Economic Community and the State of Israel, OJ No. L 136/3, 28.5.-75; Secs. 301, 302, 503, Automotive Products Trade Act of 1965,

H. Rept. 537, 89th Cong. 1st Sess., p. 5: "The [Canadian-U.S. Automotive Products Trade Agreement] permits either Government to take action consistent with its obligations under part II of the General Agreements on Tariffs and Trade (GATT) (art. III). Part II of the GATT includes provisions permitting contracting parties to take antidumping [and countervailing duty] measures and escape clause actions."

Conclusion

On the basis of the precedent offered by the Agreement between the European Economic Community and the State of Israel, and the Canadian-U.S. Automotive Products Trade Agreement, and in the view of the import sensitivity of fresh cut roses, and the ongoing injury which the domestic producers are experiencing from unfairly traded and duty-free imports from Israel, Colombia, and other countries, the Committee should include in any bill which it reports authorizing the establishment of a free trade area between the United States and Israel provisions which -

.. exclude fresh cut roses from the duty-free treatment otherwise provided for by the legislation; or

.. alternatively, place quantitative limitations on the volume of fresh cut roses which may be imported duty-free from Israel equal to the total imports from Israel in 1983;

.. preserve the existing countervailing duty order and duty assessments on fresh cut roses from Israel; and

.. make all imports from Israel subject to the existing U.S. domestic law provisions for escape clause, antidumping duty, countervailing duty, Sec. 337 and Sec. 301 relief.

Respectfully submitted,

Roses Incorporated
by:

Leonard S. Busch, President

Christopher "Chip" Wright,
Chairman, Import Action Committee

James C. Krone, Executive Vice
President

Eugene L. Stewart, Special Counsel.

Washington, D.C.
February 3, 1984.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. No questions.

The CHAIRMAN. Well, again, I would say to this panel, as I have to others, that there may be some questions that we would want to submit in writing because you have raised a point I hadn't heard about, the EC agreement. There may be other things that develop. And we can check those figures, Glenn, and see if they are correct. We will probably be getting back to you with a few written questions.

Thank you.

The CHAIRMAN. Our final panel is Ms. Kaye, general counsel, Elscint; Mr. Lee Collins, Bank Hapoalim; Dr. Felix Zandman, president and chief executive officer, Vishey Intertechnology, representing the American-Israel Chamber of Commerce; and Harris R. Till, senior vice president of the United Midwest International Corp.

Again, we would hope that you could summarize your statements. The entire statements will be made a part of the record.

STATEMENT OF MS. LORI-NAN KAYE, GENERAL COUNSEL, ELSCINT, INC., BOSTON, MA

The CHAIRMAN. Ms. Kaye.

Ms. KAYE. Good afternoon Mr. Chairman and Senator Danforth. I am Lori-Nan Kaye, corporate secretary and general counsel of Elscint, Inc., the U.S. subsidiary of Elscint Limited, an Israeli company.

Elscint is a company which is entirely devoted to the high technology, medical diagnostic imaging equipment market. The stock of our parent company, Elscint Limited, is traded over-the-counter in the United States and many of our shareholders are American.

Elscint, Inc. is predominantly involved in the sales and service of the company's equipment, and, with the acquisition in late 1983 of certain assets of Xonics, Inc., our company begins 1984 with over 1,000 employees in the United States.

The manufacture of Elscint's ultrasound equipment occurs in our Boston, MA, headquarters, as does various research and development. Although 1983 figures have not yet been compiled, in 1982 Elscint, Inc. disbursed approximately $6.5 million to U.S. businesses for rent, utilities, communications and travel. As export agent for our parent company, which uses on average 50 percent American-made components in its products, we purchased, again in 1982, approximately $14 million in goods and supplies from American concerns.

Thus, Elscint has a strong concern with respect to trade between the United States and Israel from the dual perspectives of both a United States and an Israeli business. Although Elscint's imports now enjoy duty free importation under the GSP, inherent in the GSP is the uncertainty of whether the competitive need limits will be exceeded in any year, thereby losing benefits for the succeeding year. This uncertainty is great for Elscint since we are a high tech company, and a small import volume of our products could disqualify us from benefits.

The establishment of a free trade area between the United States and Israel would alleviate any uncertainty with respect to the importation of our products, and would encourage competition in the health care market in the United States.

To date, the GSP has been very helpful in furthering Elscint's efforts to bring affordable health care to U.S. consumers. A free trade area would be even more valuable.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. Lori-Nan Kaye follows:]

elscint inc.

930 commonwealth avenue
boston, massachusetts 02215

LORI-NAN KAYE
GENERAL COUNSEL

telephone (617) 739-6000
telex 95 1800
fax 617 277-0143

BEFORE THE
COMMITTEE ON FINANCE

UNITED STATES SENATE

ON THE PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

FEBRUARY 6, 1984

Members of the Committee:

My name is Lori-Nan Kaye. I am the Corporate Secretary and General Counsel to Elscint, Inc. in Boston, Massachusetts.

Elscint, Inc. is the U.S. subsidary of Elscint Ltd. of Israel, a manufacturer of medical diagnostic imaging equipment, such as CT scanners and gamma cameras.

I am submitting this written statement because Elscint, Inc. imports from Israel CT scanners and gamma cameras as well as other highly advanced medical diagnostic imaging equipment. These articles currently enter the United States duty-free under the GSP program. For reasons more fully explained below, this duty-free treatment has assisted Elscint in becoming more competitive in the United States which, as a result, has benefitted many Americans. The purpose of my statement is to urge you to continue this duty-free treatment on a more permanent basis through the establishment of a Free-Trade Area with Israel.

Elscint Ltd. is a corporation whose shares are publicly traded over-the-counter in the United States. At the end of

February 1983, approximately 8.5 million shares of Elscint ordinary F Series shares outstanding were held by American shareholders. Shares of Elscint Ltd. are valued at approximately $18.00 per share on the over-the-counter exchange.

Elscint, Inc., a wholly-owned subsidiary of Elscint Ltd., is a U.S. corporation with headquarters in Boston, Massachusetts. Elscint, Inc. and its subsidiary, Elscint Imaging, Inc. employ about 1,000 American citizens in the United States, with an annual remuneration (in 1983) of approximately $16 million. Elscint, Inc. is a U.S. manufacturer of ultrasound equipment which is produced in Boston. We also engage in research and development in the United States. In addition, Elscint, Inc. dispersed approximately $6.5 million in 1982 to U.S. businesses for rent, utility services, communications services and travel services. Finally, Elscint, Inc., as agent for Elscint Ltd. in Israel, is a very large purchaser from American suppliers. At least 50% of the component parts in Elscint's gamma cameras and CT scanners are U.S. made. In 1982 alone, Elscint, Inc. purchased approximately $14 million in goods and supplies from U.S. businesses. Thus, to the extent that duty-free treatment assists Elscint in becoming more competitive in the United States, many U.S. citizens and businesses profit.

In December of 1983, Elscint, Inc. acquired certain assets of the Xonics, Inc. relating to its x-ray product line. By this acquisition, and the formation of a wholly-owned subsidiary called Elscint Imaging, Inc., Elscint, Inc. added more than 400 persons to its payroll. It is expected that this growth will benefit many U.S. citizens and businesses through the x-ray product line, much of which will be manufactured in the U.S.

Now, without being too technical, I would like briefly to discuss some of the products Elscint manufactures. Computerized tomography (CT) scanners are complex x-ray devices operating in conjunction with a computer to provide images of the human body. In general, the scanners direct x-rays through the body which are then sensed by an array of radiation detectors. The radiation detectors receive the radiation which is passed through the patient and converted into electrical impulses. The electrical signals are digitized and fed into a computer system. The computer then takes the data and reconstructs a clinical image. The resulting image seen by the physician is a cross-section, or slice, of a particular portion of the body. CT technology is very beneficial to the physician and to the patient in that it often obviates the need for exploratory surgery in order to make or confirm a diagnosis. CT technology also is used in place of other invasive diagnostic techniques which could be more dangerous or painful for a patient. In addition, this technology can shorten hospital stays because scans can be done on an out-patient basis.

Gamma cameras, which have been used since the late 1960's, use gamma rays to produce a visual image on a cathode ray tube of internal tissue, usually an organ. The patient undergoing a gamma camera study is injected with a radioactive material which collects in the tissue being studied. The camera is then placed near the tissue area and receives the gamma rays emitted by the radioactive material.

The gamma camera contains (1) devices which control the viewing angle of the camera, (2) a scintillator crystal to convert the gamma rays discharged from the tissue into a light pulse, (3) an array of photo multipliers behind the scintillator crystal to change the light pulse to electrical form, and (4) an electronic system. The light pulses are converted to electrical form, and are then translated to spots on the picture tube. The entirety of such accumulated spots presents an image of the tissue area under investigation, from which a diagnosis can be made.

Elscint is a dynamic company which has devoted much time, effort, money and brain power to research and development. Both our CT scanners and gamma cameras contain design features that other manufacturers of similar products do not provide. Elscint's gamma camera has been acclaimed by experts as being several years ahead of the field. Our gamma camera has a very high count rate capability. This means that the computer can acquire much data in a short period of time and thus form the image of the organ very quickly--much more quickly than most other gamma cameras do. A clear, accurate image is produced in less time. This has a distinct benefit: in performing a quicker scan, it is possible more accurately to monitor fast moving organs, especially the heart. For this reason, our system is preferred for use in certain heart studies that require monitoring the passage of radioactive material through the heart.

As for Elscint's CT scanner, Elscint markets what we call a Satellex scanner system. The Satellex system consists of a "host" installation, containing the CT scanner gantry and the central computer, and a "remote" station, which has a CT scanner gantry that transmits data by telephone lines to the host station for processing. In other words, the host computer power is distributed between several gantries. The Satellex system is usually purchased jointly by several small medical institutions with limited resources and small patient bases. The total cost of a Satellex system to institutions is slightly less than the price of one of the single, top-of-the-line scanners offered by other CT scanner manufacturers.

The Satellex system has been very well received in the United States, in particular by customers in smaller rural areas. Without the Satellex system, it would be unlikely that these institutions could afford a CT scanner, and patients would be deprived of this valuable diagnostic tool.

Other Elscint products include ultrasound, mammography, conventional x-ray, and digital florography and digital subtraction angiography. Elscint is also in the process of pursuing Pre-Market Approval for its nuclear magnetic resonance scanner. In short, Elscint is a total diagnostic imaging company--one which not only offers all imaging modalities, but one whose single focus is the advancement of this important sector of the health care market.

Elscint technology assists in bringing diagnostic treatment to more patients at less cost. Obviously, one very important factor reducing costs has been the savings in import duties. Even though the duty on the imported products, which ranges from 2.3% to 4.4%, is in the low to medium range, the products imported by Elscint are very high-valued items--one CT scanner alone can cost up to $1,000,000. In the aggregate, the duty-free entry saves considerable sums, which savings are then pass on to health care consumers.

Under the existing GSP mechanism, it is difficult for Elscint to know whether or not it will exceed the competitive-need limits in any given year. This is because we, unlike most GSP eligible countries, manufacture high technology items. A relatively modest volume of those items is sufficient to disqualify us from GSP benefits. If a free-trade area were established with Israel, the present uncertainty would be removed.

As you are well aware, the cost of health care has become almost an unbearable financial burden for many. Elscint is very committed to finding ways to bring its valuable and sophisticated diagnostic equipment to the public at reasonable costs. To date, the GSP program has been of great assistance in furthering our efforts. A free-trade area would be even more valuable.

STATEMENT OF LEE COLLINS, VICE PRESIDENT, BANK HAPOALIM B.M., LOS ANGELES, CA

The CHAIRMAN. Mr. Collins.

Mr. COLLINS. Mr. Chairman, my name is Lee Collins. The free trade area will, to some degree, be a replacement of the GSP as far as Israel is concerned. The GSP has been a vital instrument for world economic stability and peace. The GSP, one, strengthens the economies of the LDC's through increased exports, and provides American industry with export markets for our own products.

Two, it reduces the LDCs' dependence on foreign aid, and helps shrink their huge deficits. Three, it moderates political unrest and instability abroad. Four, it provides some negotiating leverage in our diplomatic efforts abroad. And, five, it offers the American consumer a wider choice of less expensive goods; thereby, moderating inflation.

I am concerned that GSP benefits for Israel will be reduced or that the GSP itself will not be renewed. This would be detrimental to American exporters who ship some $2 billion worth of non-military goods to Israel. It would be extremely detrimental to Israel, our most reliable military ally in the Middle East, which is suffering from severe and unique financial burdens despite our foreign aid assistance. A strategic military asset such as Israel has been for the United States requires and deserves the reinforcement of economic support. Under an FTA, Israel would continue to receive the benefits now afforded it under the GSP, but without the continued concern that such benefits might be lost on a product-by-product basis.

The United States would also benefit substantially from an FTA. Currently, 90 percent of U.S. imports from Israel enter duty free, either under an FN basis or under the GSP. Whereas, only 55 percent to 60 percent of U.S. exports enter Israel duty free. An FTA would provide duty free access for U.S. exporters to a significant market of $8 billion consisting of high technology electronic equipment, computers, communication systems, metal working machinery and other civilian goods.

Israel's existing agreement with the EC gives the European exporter an edge over the U.S. exporter for this $8 billion market. The increased trade that would result from an FTA with Israel would strengthen both the economy of the United States and Israel. And, in particular, would help Israel become more self-sufficient and less dependent on aid. Thereby, reinforcing our foreign policy objective worldwide of trade; not aid.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Lee Collins follows:]

TESTIMONY OF
LEE COLLINS
VICE PRESIDENT
OF
BANK HAPOALIM, B.M.
6505 WILSHIRE BLVD.
LOS ANGELES, CALIFORNIA 90048

BEFORE THE
COMMITTEE ON FINANCE

UNITED STATES SENATE

ON THE PROPOSED FREE TRADE AREA
BETWEEN THE UNITED STATES AND ISRAEL

FEBRUARY 6, 1984

My name is Lee Collins. I am currently Vice President of Bank Hapoalim located in Los Angeles, California. Bank Hapoalim is an Israeli bank, licensed to do business in California and elsewhere in the United States.

I was formerly U.S. Commercial Attache at the American Embassy in Israel. Having been Commercial Attache, I can speak to the question of how a Free Trade Area (FTA) would benefit Israel since I have seen how Israel benefitted from the GSP. This I can do both as an American banker and as an on-the-spot observer of how duty free treatment benefits a developing country.

Since the FTA will, to a certain degree, be a replacement for the GSP as far as Israel is concerned, let me first comment on the GSP program in general.

I regard the GSP as a vital instrument for world economic stablility and peace. During the past two years the global recession forced several lesser developed countries into loan defaults, some banks have collapsed, and the international financial system was threatened.

Several American banks rescheduled and stretched out the loan repayments for these lesser developed countries - giving them a "breather" to get their economies moving again. But the ultimate solution for all countries in financial distress is to increase their exports so as to provide the earnings necessary to pay off their huge debts.

I believe the GSP played an important role during this global financial crisis. Without GSP help, some of these countries may not have held on as long as they did. This life-supporting role which GSP provided in the past years will be even more crucial in the years ahead as the world economy begins to recover from its worst battering in over 50 years.

The global recession shows some modest signs of recovery. It will take years before these struggling nations are sufficiently stregthened. Without the renewal of the GSP there is less hope. With renewal, there can be more optimisim. For these reasons, the United States should seriously consider renewing the GSP.

Since the committee recently held hearings relating directly to the GSP, let me here make only a brief summary:

1. There is a kind of "synergism" in GSP. It both strengthens the economies of the LDC's through increased exports and provides American industry with export markets for our own products. Thus it's a two way street.

2. The GSP reduces the LDC's dependence on foreign aid and helps shrink their huge deficits.
3. The GSP moderates political unrest and instability abroad which otherwise would turn the LDC's into a "ripe plum" for the Soviet Union. By contrast, a stable society is more likely to remain free and democratic, a major foreign policy goal of the United States.
4. The GSP provides some negotiating leverage in our diplomatic relations abroad. Economics and our own national security interests are clearly linked.
5. The GSP offers the American consumer a wider choice of less expensive goods, thereby moderating inflation.

It is my understanding that there is talk of not renewing the GSP or perhaps reducing the benefits available to certain countries. Frankly, I am concerned by this.

I am concerned because it would not benefit our own American exporters, who, for example, enjoy a large market penetration in Israel of about $2 billion worth of agricultural products, high technology instruments, and other manufactured goods (all non-military).

Israel's ability to purchase these goods from us is made possible in part by the GSP duty-free benefits on Israel's exports to the U.S. and would also be possible under an FTA.

Such benefits provide Israel with the export earnings and the wherewithal to buy from the U.S.

As a former U.S. Commercial Attache at the American Embassy in Israel, I observed both the agonizing economic distress of that tiny country and the strong strategic relationship between Israel and the United States in that region of the world.

I feel -- but for Israel -- as our most reliable military ally in the Middle East, the Russian Bear would be sipping the waters of the Persian Gulf today. Tiny Israel has thus far foreclosed the Russian threat to the very "jugular vein" of our Western allies -- Mideast Oil.

And what has been Israel's recompense? Unfortunately Israel has:

> A crushing military burden amounting to almost 40% of her GNP, the highest per capita military budget in the world!
>
> A balance of payments deficit of $4 billion, the highest debt per capita in the world! Almost half of this has to be borrowed abroad.
>
> A trade deficit in excess of $2.5 billion!
>
> Total debt-servicing ran approximately $3.5 billion in 1983!
>
> Almost 200% inflation!

A very precarious financial situation, indeed.

Despite these heavy burdens, Israel has made good progress, but she is not out of the woods yet, not by a long shot, and continued full support under the GSP or under an FTA is

35-438 O - 84 - 15

essential. All of the economic strains mentioned above put her in too delicate a position "to rock the boat" for several years to come. Israel is not sufficiently strong economically to "go it alone".

Reducing Israel's exports by reducing duty free benefits in any way would cost us dearly in our own exports to Israel. It would also weaken Israel's role as our strategic military ally "vis a vis" Russia's aspirations in the Middle East. In the absence of our own military presence in that turbulent area, our own Pentagon may well ask this question: How could the United States strategically position a battleship the size of Israel -- that would be laden with all of the military hardware we might need in a moment's notice?

A Strategic Military Asset (such as Israel has been for the U.S.) requires the reinforcement of economic support. It seems to me that it would be counter-productive to weaken our ally economically - and then expect our Military Alliance to remain strong.

In a recent statement, former Assistant Secretary of State Nicholas Veliotes, now U.S. Ambassador to Egypt, stated - "Support for Israel's security and economic well being is a basic firm principle of American Foreign Policy".

Therefore, I do not believe that Israel should be weakened economically because of failure to continue duty free benefits. Such a step would only undermine American exports to Israel. Currently, Israel is the third largest importer of U.S. products in the Middle East.

Another point worth noting is that, like other LDC's, Israel is struggling with an energy problem. When Israel withdrew from the Sinai, as a gesture of peace to Anwar Sadat, she returned the Abu Rhodesh oil fields, which had supplied 100% of her oil needs. Israel, in effect, traded these oil fields for a vague promise of peace, and got in return a $2 billion annual oil bill.

It is also my understanding that Israel was requested to offer concessions to the U.S. on our exports to Israel, in return for GSP benefits, and that this reciprocity was not required of other nations importing U.S. products. Nevertheless, we are exporting more to Israel than we are buying from her.

Despite our large foreign aid assistance, Israel's economic strains continue to increase. However, former Assistant Secretary of State Veliotes stated that most of the economic and military assistance for Israel actually remains in the United States to pay for military hardware and other goods and services.

I have dwelt, perhaps, too long on the GSP; however, literally all of what I have said would also pertain to a free trade area. Under a free trade area, Israel would contine to receive the benefits now afforded under the GSP but without the continued concern that such benefits might be lost on a product-by-product basis. Such security would be of extreme importance to Israel's exporters.

Of more importance, the U.S. could benefit substantially from a free trade agreement with Israel. Presently 90% of U.S. imports from Israel enter duty-free already, either under an MFN basis (55%) or under GSP (35%), whereas only 55% to 60% of U.S. exports enter Israel duty-free. Obviously, this imbalance could be rectified with an FTA with Israel.

Such an agreement would tend to moderate the concern often voiced in Congress that American exporters are unfairly treated. An FTA with Israel would address this issue and would provide a balanced reciprocity in trade relations. Furthermore, Israeli exports to the U.S. amount to less than one half of 1% of total U.S. imports worldwide.

An FTA with Israel would provide duty-free access for U.S. exporters to a significant market of $8 billion, consisting of high technology electronics equipment, computers, communication systems, and metal working machinery, etc. Israel's currently substantial purchases of this type of equipment could be further increased.

Moreover, Israel presently has in effect, the EC-Israel FTA (European Community-Israel free trade agreement) which provides duty-free access for most European industrial goods into this Israeli $8 billion import market. That puts the American exporter at a competitive disadvantage vis-a-vis the European exporter to Israel.

It would appear from a review of the Israel-EC agreement, that we would do well for our own American exporters to pattern a similar arrangement between Israel and the United States.

Such duty-free access to the third largest import market in the Middle East would provide long term economic benefits for the U.S. as well as strengthening our political and military relations. Such closer ties could enhance the Mid-East peace process.

The increased trade that would result from an FTA with Israel would strengthen both the economies of the United States and Israel, and in particular would help Israel become more self-sufficient and less dependent on aid. "Trade not aid" is a foreign policy objective of the U.S., and an FTA with Israel would be a step closer to that goal.

Most importantly, however, an FTA would be a two way street, with duty free trade flowing in both directions. This would eliminate the inequities of the GSP perceived by U.S. industry: U.S. industry would have the right to sell in Israel on the same terms that Israel sells in the U.S. This cannot but help to better strengthen relations between the two countries. And cannot but help to strengthen Israel's fragile economy -- which as I said earlier, can only benefit the U.S. in the long run.

I urge this Committee and Congress to carefully consider our own national interest in its evaluation of the GSP and the FTA proposal.

STATEMENT OF DR. FELIX ZANDMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, VISHAY INTERTECHNOLOGY, INC., MALVERN, PA, REPRESENTING THE AMERICAN-ISRAEL CHAMBER OF COMMERCE

The CHAIRMAN. Dr. Zandman.

Dr. ZANDMAN. Members of the committee, I am Dr. Felix Zandman, president and chief executive officer of Vishay Intertechnology of Malvern, PA, a U.S. company. We are an electronics manufacturer with plants in the United States, Israel and other countries. We are listed on the New York Stock Exchange.

I'm associate national chairman of the American-Israel Chamber of Commerce and Industry. I am also the chairman of the Committee of American Investors in Israel, which represents companies with industrial plants in that country.

Today I am testifying in support of the proposed free trade area on behalf of the American-Israel Chamber. With me is Sidney N. Weiss, special counsel to the Chamber on trade matters.

The Chamber is a U.S. nonpolitical and nonsectarian trade association consisting of hundreds of United States corporations. This organization is a recipient of the E Award of the President of the United States for an outstanding contribution to the export expansion program of the United States of America.

The Chamber supports the implementation of the free trade area because it would be of economic benefit to both countries. The United States will benefit in the following ways:

One, under the free trade area, all U.S. imports into the Israeli market would be duty free.

Two, establishment of a free trade area will help the U.S. products to compete more effectively with European products that will enjoy duty free treatment in Israel by 1989.

Three, through the free trade area with Israel, American products will be able to enter the European markets more easily, if there is value added in Israel.

Four, the implementation of this free trade area will also stimulate exchanges of technical know-how and research and development.

In conclusion, the free trade area will deepen an important commercial relationship, lower prices to the consumers of both countries, create jobs and opportunities in both countries.

I would like to add that our company, Vishay—our products which are exported to Israel must pay customs, duties, up to 30 percent, while our European competitors pay almost none or none. We are, therefore, penalized. If we have access to the Israeli markets custom free, our exports would increase. Also, our company's products in Israel, sophisticated electronic components developed in large part through originally Israeli R&D, imported into the United States and are sold to U.S. defense contractors. The savings resulting from the elimination of U.S. customs duties will be passed to our U.S. customers. Therefore, we request that Congress act favorably on this proposal.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Dr. Felix Zandman follows:]

TESTIMONY OF
AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.
500 FIFTH AVENUE
NEW YORK, NEW YORK 10110
(212) 354-6510

BY

DR. FELIX ZANDMAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
VISHAY INTERTECHNOLOGY, INC.
ASSOCIATE NATIONAL CHAIRMAN OF THE AMERICAN-ISRAEL
CHAMBER OF COMMERCE AND INDUSTRY, INC.

BEFORE

THE UNITED STATES SENATE FINANCE COMMITTEE HEARING ON
THE UNITED STATES-ISRAEL FREE TRADE AREA

FEBRUARY 6, 1984

Introduction

I am Dr. Felix Zandman, President and Chief Executive Officer of Vishay Intertechnology Inc. of Malvern, Pa., an electronics manufacturer with plants in the United States, Israel and other countries. I am Associate National Chairman of the American-Israel Chamber of Commerce and Industry, Inc. I am also the Chairman of The Committee of American Investors in Israel, which represents companies with industrial plants in that country.

Today, I am testifying in support of the proposed Free Trade Area on behalf of the American-Israel Chamber of Commerce and Industry, Inc. With me is Sidney N. Weiss, special counsel to the Chamber on trade matters. The Chamber is a United States non-political and non-sectarian trade association comprising hundreds of United States corporations. Our membership consists of some of the most important exporters of United States products to Israel, importers of Israeli products into the United States, and American investors in Israel. The organization is the recipient of the E Award of the President of the United States "For an Outstanding Contribution to the Export Expansion Program of the United States of America".

As a trade association concerned with trade between Israel and the United States, we have polled a number of our member firms as well as other firms doing business with Israel on the matter of establishing a Free Trade Area between the United States and Israel. We found the American business community doing business with Israel supports the establishment of the Free Trade Area. Several of these business people asked us to convey their position to you, which we will do later in this testimony.

In short, in the Chamber's view, the elimination of trade barriers contemplated by this proposal will have a salutary effect on the expansion of bilateral trade between the United States and Israel. We believe that Congress should give this proposal prompt and affirmative action.

I. BENEFITS OF THE FREE TRADE AREA TO ISRAEL AND THE UNITED STATES

The benefits of the Free Trade Area to each of the two countries would be significant, although not identical.

A. Benefits to the United States

The benefits to the United States from the implementation of the Free Trade Area are as follows:

First, the $8 billion yearly Israeli import market will be open to United States exports on a completely trade-barrier-free basis. Currently, United States products (and other countries' products) are subject to customs duties, which, especially in the consumer field, are quite high. In the Appendix to this testimony, we have set out a listing of the duties on products from the European Community and the United States together with the percentage of the market held by United States imports. With the elimination of all tariffs on products originating in the European Community by 1987, the United States will be in a clear disadvantage in the Israeli market without a Free Trade Area. With a Free Trade Area, the United States will unquestionably increase its market share.

We expect that elimination of Israeli customs duties will open the Israeli consumer goods' market to American products on the basis of quality and price, without distortions due to tariff and non-tariff barriers. The United States' success in selling American products in Israel in competition with European, local, and other products will assume global significance. The successful sale of United States products in Israel on a free trade basis will be conclusive proof to other countries, with much larger markets, of the feasibility to eliminate barriers and disincentives to the importations of United States products.

Second, the Free Trade Area will give the United States easier terms of entry into the European Common Market. Fortuitously, both the European Economic Community and the United States will have Free Trade Areas with Israel. Therefore United States products shipped to Israel, physically transformed and with added value, will be granted duty-free entry into the European Economic Community by virtue of the Israel-European Free Trade Area.

Of course, in certain respects, the same can be done even today if administrative steps are taken, involving drawbacks on customs duties paid in Israel for those raw materials from which exported goods are being manufactured. The Free Trade Area, however, will help eliminate burdensome paperwork and difficult-to-retrace pricing distortions.

Third, the existence of the United States and European Free Trade Areas with Israel will encourage much closer economic cooperation between the United States and Israel. It will serve as an incentive to the establishment of joint ventures in Israel to help market the products of United States high technology on a duty-free basis throughout Europe.

Fourth, the establishment of a Free Trade Area with Israel will generate additional funds for Israel from its increased exports to the United States. Traditionally, the Israeli economy prefers United States-made equipment and products. Therefore, in all probability, the funds generated from increased Israeli exports will be utilized for purchases from, and payments to, the United States.

B. Benefits to Israel

Israeli exports are unjustly disadvantaged in the world marketplace because of factors not related to the quality and efficiency of its products. These disadvantages would be reduced by the Free Trade Area. Israel currently has one of the highest per capita debts of any country. This is primarily the result of its expenditures on defense. To service and retire its debt, Israel must export a great part of its production. Because of the political situation in the Middle East, Israel's trade with its neighbors is negligible. Thus, together with its extraordinary military burden, Israel has to transport its exports thousands of miles.

Moreover, much of the exports from the world's developing countries rely on low cost labor. Israel is an exception to this rule. The quality of the Israeli worker, coupled with the fact that Israel is a deeply rooted democracy with a highly organized labor movement, results in Israeli products being known for their technological advancement, sophistication, and style, rather than low price. Consequently, Israeli products are often uncompetitive in countries imposing high or restrictive tariffs.

In recognition of these factors, and in accordance with its own interests, the European Economic Community has established a Free Trade Area with Israel. The European-Israel Free Trade Area provides that the zero tariff level will be reached by 1989 for almost all non-agricultural commodities and products.

At present, approximately 90% of Israeli exports to the United States are entered free of duty. Over one-third of those exports are entered under the Generalized System of Preferences (GSP). The GSP, while beneficial to Israel, contains certain drawbacks to Israel, which would be eliminated by the establishment of a Free Trade Area. The proposed Free Trade Area would have a number of advantages to Israel.

The first advantage to Israel of a Free Trade Area is certainty in regard to the status of its future exports to the United States. Under the present GSP system, a country, product, or "country-product pair" may be "graduated", that is, eliminated from GSP benefits if certain limits are reached. In 1983, for example, if a country accounted for more than $57.9 million of the imports of an article to the United States or over 50% of the value of total imports of that article, then its GSP benefits for that product would be eliminated. Under the Free Trade Area proposal, there would be no threat of elimination, once the qualifying products were identified. This would enable the market to make rational decisions on production, capacity and the like.

The second benefit for Israel of a Free Trade Area with the United States is expanded access to the United States market. Israeli articles will not be restricted to the GSP annual dollar limit. In addition, all products, whether currently dutiable, free of duty, or under GSP, would be free of duty under the Free Trade Area proposal.

The third advantage to Israel of a Free Trade Area with the United States is that access to the United States market would be on a free, open, and reciprocal basis, unencumbered by extraneous constraints. The Free Trade Area will be a concrete expression of the benefits to be realized from free trade. Each country's products will compete freely in the marketplace of the other. As a result, considerations such as per-capita GNP and other criteria not directly related to the subject would not be the determinants of one country's products ability to be successfully sold in the market of the other. Efficiency, quality and price would be the only determinants of the competitive advantage for a product of one country in the market of the other country.

C. The United States and Israel Have Common Commercial Interests Which Would Benefit from the Implementation of the Foreign Trade Area

In addition to each country's unique benefits to be derived from the Free Trade Area, the United States and Israel have common economic and commercial interests which would benefit from the implementation of the Free Trade Area.

First, both the United States and Israel are heavy investors in research and development and exporters of know-how. That means that the Free Trade Area will not result in the drain of one country's intellectual property to the other country's advantage. A more likely scenario is that both countries will cooperate in the joint development of new technologies whenever mutually desirable.

Moreover, the United States and Israel have a commonality of interests in protecting intellectual property. Both countries are alert to the fact that their exports of technological products to third country markets contain billions of dollars worth of intellectual property. Both countries are therefore extremely aware that these rights must be protected against theft, conterfeiting and infringment. The enforcement of intellectual property rights is vigorous in both countries because the protection of these rights ensures the future growth industries in both countries.

The second mutual benefit to both countries derives from the fact that both countries have active and independent labor movements linked to, and nurtured by, democratic institutions. American workers are justifiably wary of efforts to liberalize trade when it is at the expense of American jobs and American wages earned through a vibrant and democratic labor movement. In the case of Israel, its labor movement is among the most active in the world. The wages, benefits and social protection it has achieved can be claimed by very few nations in the world. Therefore, the establishment of the Free Trade Area will benefit the workers in both countries.

Finally, the United States-Israel Free Trade Area would be a continuing testimony to the concept that two countries can practice open and free trade among themselves while at the same time providing to their workers decent wages and working conditions and the most advanced social welfare and medical systems and facilities.

II. THE VIEWS EXPRESSED IN THIS TESTIMONY REPRESENT THE VIEWS OF THE MEMBERSHIP OF THE AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.

As I stated above, the American-Israel Chamber of Commerce and Industry, Inc. represents a broad sector of the American commercial community between Israel and the United states.

We polled a number of United States corporations in our membership in major product categories. All support the implementation of the Free Trade Area.

For example, Mr. Joseph Pinto, Vice President of White Westinghouse Inc., 930 Fort Duquesne Blvd., Pittsburgh, Pa. 15222, states, "We are for the establishment of a Free Trade Area between the United States and Israel. Our firm exports appliances to Israel. Any lowering of the customs duties covering the products we sell can only help us to increase our sales to Israel. It lowers the cost of our products to the Israeli consumer thereby broadening our customer base."

Mr. Larry Maltin, Vice President of Kulicke & Soffa Industries Inc., 507 Prudential Road, Horsham, Pa. 19044, states, "There is a strong mutual interest between the suppliers of American goods to Israel and the Israeli suppliers to the United States market. We know this well in light of our experience as investors in Israel's industry in the electronics field, an activity which is accompanied by the transfer of goods between the two countries.

"A Free Trade Area will prevent the creation of an economic disadvantage for exporters of American goods to Israel, a disadvantage which will take place when United States products become non-competitive on the Israeli market versus European products enjoying zero duty under the evolving agreement between Israel and the European Economic Community.

"We have noticed as well a strong interest in Israel to further develop trade relations with the United States, which at least partially would help offset a long-term reliance of Israel on the United States for military and economic support.

"As long as there is a United States national interest in maintaining its close relations with Israel, it is apparent to our company that we must strive to create optimum trading relations between the two countries. A Free Trade Area corresponds to this need."

Mr. Ernest G. Wohlwill, Vice President of ISC Transport, Ltd., International Trade Forwarders, 71-08 51st Avenue, Woodside, N.Y. 11377, states, "As international freight forwarders who specialize in trade with Israel, we believe that such legislation would be mutually profitable to both the United States and Israel.

"At present, United States exporters are competing at a distinct disadvangage, due not only to the strength of the United States currency, but also to the fact that Israel is now a member of the European Economic Community, thus permitting entry of goods from member countries without payment of duty, whereas similar goods, imported from the United States, are subject to high duty assessment. This increased cost to the Israeli importer, in many instances, will eliminate the United States exporter as a serious competitor.

"On the other hand, the rather limited quantities of specialized Israeli products, such as medical electronics, etc., imported into the United States will not present any serious threat to domestic manufacturers, as they represent a minute percentage of the demand in the United States market. Furthermore, many of the end products manufactured in Israel are made from raw materials and parts and components imported from the United States. Increased imports into the United States of Israeli products through elimination of duty tariffs would, therefore, create additional business for the United States exporter.

"We wholeheartedly support your contemplated action, and hope that your mission will be successful."

Mr. Seymour Trevas, President of Travers Tool Co. Inc., 25-26 50th St., Woodside, N.Y. 11377, states, "The establishment of a Free Trade Area between the United States and Israel will help our country export more to Israel.

"We are also interested in a Free Trade Area from the viewpoint of our activity as importers of tools, from Israel and from other countries.

"Presently, higher quality tools from Israel strive to compete with tools from low wage and low quality sources on the United States market. The availability of the Israeli tools on our market on a duty-free basis helps American industry purchase quality products at a reasonable price. That keeps the United States inflation from growing. Moreover, the availability of high quality tools at moderate prices helps our manufacturing facilities and our export potential."

Mr. Rudolf Rumeld, Senior Vice President of Solcoor Inc., 2 Park Avenue, New York, N.Y. 10016, states, "We are an importer and exporter specializing in trade between Israel and the United States. We believe that the establishment of a Free Trade Area between the United States and Israel will assist our exports from the United States to Israel. We are hindered greatly in expanding our exports by the inability of the United States products to compete with European products on the Israeli market. The relative disadvantage of the United States versus European products on the Israeli market is due to the lower tariffs already paid by the Europeans in Israel, as well as to the fact that European currencies are presently undervalued.

"Our interest, as well, is to develop imports from Israel to the United States, which needs products typical to Israel's industry. High quality imported products at moderate prices help us reduce inflation in the United States. Availability of technologically advanced Israeli raw materials and intermediate goods reinforces American industry and makes it more competitive in turn in international markets. The fact that the Israeli products will be imported duty free on an extended basis will simplify our paperwork related to importation under GSP, and will permit us to plan ahead in our marketing, introducing Israeli products to American end users."

Mr. W.L. Patrick, President of Atlantic Aviation, Post Office Box 15000, Wilminston, De. 198⁵0, a major importer of airplanes, states, "Without GSP or the Free Trade Area, Israeli aircraft, which are excellent mechanically, and extremely popular in the United States, would be totally uncompetitive."

Eddy Adler, Vice President of Atalanta Sharon Corporation, 17 Varick Street, New York, N.Y. 10013, a major importer and exporter of foods and food products, states, "Israel has problems in raising enough food for its population. We will export much more food products to Israel if there is a Free Trade Area with Israel."

Israel Wolsky, President of I.A.C., Inc., 212 Fifth Avenue, New York, N.Y., states, "Duty-free treatment on food products from Israel permits the American consuming public to purchase products which are otherwise unavailable in the United States. In addition, the money generated in Israel from United States exports will purchase increased amounts of United States products."

Finally, my company strongly supports the establishment of a Free Trade Area between the United States and Israel. Such an arrangement would greatly expand trade between the two countries and be beneficial to the economies of both countries.

Using Vishay as an example, we can foresee increased employment, production and sales at our various United States and Israel facilities as a result of the establishment of a Free Trade Area.

As exporters of sophisticated, American-made electronic components and equipment from the United States, Vishay sees in the Israeli market, with its constant need for state-of-the-art technology, a very promising customer. Currently Vishay's American-made products are forced to compete at a disadvantage with European-made products that enjoy preferential duty treatment into Israel. The elimination of this competitive disadvantage would allow American exporters of American-made products to compete more favorably with European exporters for the Israeli market. The Free Trade Area would also enable American-made goods to enjoy duty-free entry into the European markets with the addition of value in Israel.

As importers of electronic components made in Israel (from American-made raw materials), Vishay would be able to compete more favorably for the United States market with goods made in Europe and Japan. Additionally, because of the advanced technological capabilities of certain Israeli industries, Israel is the sole source of certain unique products imported by Vishay. The elimination of duties on these products would serve to help stimulate their sale by reducing their price to the customer.

Conclusion

The advantages of a Free Trade Area are numerous. In addition to deepening an important commecial relationship, a Free Trade Area will tend to lower prices and create jobs and new opportunities in both the United States and Israel without damaging United States interests.

Accordingly, we request that Congress should act favorably on this proposal.

APPENDIX

CUSTOMS DUTIES ON CERTAIN CONSUMER PRODUCTS

DESCRIPTION	RATE OF DUTY USA	(PERCENT) EEC	USA AS PERCENTAGE OF TOTAL IMPORTS
TRACTORS	20	20	21
PASSENGER CARS UP TO 1800 CC	25	25	0
PASSENGER CARS OVER 1800 CC	32.5	32.5	20
LIGHT TRANSPORT VEHICLES	25	25	1
CLOCKS	20	14.8	3
T.V.S	22	20	0
PAPER PAPERBOARD	28	22.5	13
FABRICS OF SYNTHETIC FIBERS	14.9	10.6	18
FELT FABRICS	22.5	13.1	4
BONDED FIBER FABRICS	22.5	15.7	24
FOOTWEAR, OUTER SOLE - LEATHER	20	20	2
GLASSWARE FOR TABLE, KITCHEN, ETC.	20	20	6
BOLTS, NUTS, SCREWS OF IRON	30	30	67
CIGARS	24	15	27
TOBACCO	20	12.5	28

All Customs Duties on the above products will be lifted completely on products originating from the European Economic Community by 1987.

STATEMENT OF HARRIS TILL, SENIOR VICE PRESIDENT, UNITED MIDWEST INTERNATIONAL CORP.

The CHAIRMAN. Mr. Till.

Mr. TILL. I should like to express on behalf of the United Midwest International Corp. our appreciation for this opportunity to present our views in support of the proposed legislation aimed at establishing freer trade relationships between the United States and Israel.

As background to the development of our corporate views, I should like to point out that United Midwest is an international trading company headquartered in Cincinnati, OH. We consider ourselves unique among trading companies. We were the first U.S. joint venture export trading company established pursuant to the Export Trading Company Act of 1982.

Our strategic business planning, export-import services, market and marketing research, linguistics, and shipping acumen is coupled with additional international technical expertise in areas of emerging high technology, engineering, and commercial process operations. We focus heavily on the exports of U.S. high technology and recognize significant mutual benefits that should be forthcoming pursuant to strengthened trade linkages between the United States and Israel; particularly, in the case of commercial implementation of high technology.

United Midwest strongly favors and supports legislation aimed at freer trade in general. We believe that tariff reductions will, in the long run, favor an improved position with respect to balance of payments, and should also stimulate new businesses as well as new product development.

We envisage that a freer trade agreement between the United States and Israel could logically generate international benefits paralleling those domestic benefits that have forthcome from our own domestic industrial revolution of many years past. Further, such a trade agreement could logically serve as a model for future agreements with other countries by demonstrating that trade barriers may serve selected and immediate short-term needs but over the long run these deterrents become destructive to economic growth and improved living standards.

Enhanced trade will be paramount to the survival of free societies worldwide. Propensities toward freer trade will minimize the need for protectionism. Thus, we at United Midwest firmly believe that trade is distinctly linked to economic growth. We are of the opinion that protectionistic pressures are likely to translate directly into legislative measures that could hinder the development of new markets and restrict one of the most important elements of equitable business transactions; that element being the process of negotiation.

Obviously, the academidistic posture of perfect free trade is quickly eroded by the realities of the real world. However, intellectual economic honestly should favor in the long run freer trade as the precursor of economic growth. The ensuing benefits are certain to eclipse those problems that prevail and appear to be insurmountable. Products will be manufactured more efficiently and made more readily available and more marketable.

Finally, enhanced purchasing power will stimulate the cycle. Also, the beneficial existence of the pressures of competition will cause services to be rendered more efficaciously.

We can certainly appreciate how fierce disagreements prevail among protectionist factions and free traders. However, we feel that this situation may not be as bad as might appear. It is logical to assume that both camps have the same ultimate objectives of economic growth and well-being. The controversy lies in developing accord as to the mechanism through which these objectives can be achieved.

In conclusion, United Midwest urges support of freer trade relations between the United States and Israel, and looks forward to having the opportunity to contribute to the establishment and successful implementation of such a trade agreement since it will generate mutual benefits for the United States as well as Israel.

Thank you.

[The prepared statement of Mr. Harris Till follows:]

UMIC

UNITED MIDWEST INTERNATIONAL CORP.
An International Trading Company

TESTIMONY FOR PRESENTATION BEFORE THE U.S. SENATE FINANCE COMMITTEE

RE: U.S./ISRAEL TRADE AGREEMENT HEARING FEBRUARY 6, 1984

* * * * * * * * * * * * *

Mr. Chairman,
Members of the Committee,
Ladies and Gentlemen.

I should like to express on behalf of United Midwest International Corporation (UMIC) our appreciation for this opportunity to present our views in support of legislation aimed at establishing a U.S./Israel Trade Agreement.

UMIC is an international trading company headquartered in Cincinnati, Ohio. We consider ourselves unique among trading companies. UMIC was the first U. S. joint venture export trading company established pursuant to the Export Trading Company Act of 1982, and links United Midwest Bancshares, Inc. of Cincinnati, Ohio with private capital sources that enjoy broad experience in international trade. United Midwest Bancshares, Inc. is the bank holding company parent of The Southern Ohio Bank; a $320 million institution having 14 branches. In addition, UMIC offers comprehensive international services via a complex of affiliated companies. Our strategic business planning, export/import, market/marketing research, linquistic and shipping acumen.... coupled with additional internal technical expertise in areas of emerging high technology, engineering and commercial process operations.... focus heavily on exports of U.S. high technology. We recognize significant mutual benefits that should be forthcoming pursuant to strangthened trade linkages between the U.S. and Israel; particularly in the case of commercial implementation of high technology.

As part of a service industry, UMIC complements basic and growth industries.... in a synergistic manner... by integrating export services, business consultation and technical consultation in a way that assists our clients to fashion products... for example... into the most marketable forms for particular geographical sectors. Thus, we provide a critically important conduit for achieving increased production, increased employment and ultimately a strengthened economy. Further, and in today's world, the speed of transportation coupled with the ease of communication create more accessible world markets and international business opportunities. However, these factors often create a diversity of business transactions that are new and perplexing to many. In these instances, our activities are geared toward minimizing the "mistique" of international business. In the case of U.S./Israel trade relations, we feel that our corporate activities could assist in stimulating economic benefits of increased production, higher income and greater purchasing power for both countries.

515 Main Street, Cincinnati, Ohio 45202 Telex No. 21-4709, 513-241-6666

UMIC strongly favors and supports legislation aimed at freer trade. We believe that tariff reductions will, in the long run, favor an improved position with respect to balance of payments, and should stimulate new businesses and new product developments. The envisaged agreement between the U.S. and Israel could logically generate international benefits paralleling domestic benefits that were generated by the U. S. industrial revolution. Further, such a trade agreement would logically serve as a model for future agreements with other countries by demonstrating that trade barriers... whether direct or indirect.... may serve selected and immediate short term needs, but over the long term these deterrents become destructive to economic growth and improved living standards. In this context one easily recognizes, for example, opportunities for government financing of inefficient industries and the devastating effects that can ensue.

Enhanced trade will be paramount to the survival of free societies, worldwide. Also, propensities toward freer trade will minimize the need for protectionism. Thus, we at UMIC, firmly believe that trade is distinctly linked to economic growth. By contrast, we are of the opinion that protectionistic pressure is likely to translate directly into legislative measures that could hinder the development of new markets and restrict one of the most important elements of equitable business transactions; that element being the process of negotiation.

Obviously, perfect free trade is an idealistic condition that is quickly eroded by realities of the real world, i.e. inconsistencies in labor rates, monetary rates of exchange and in many cases government subsidies by the exporting country. However, intellectual economic honesty will favor... for the long term... freer trade as the precursor of economic growth. The ensuing benefits are certain to eclipse those problems that prevail and appear to be insurmountable. Products will be manufactured more efficiently and made more readily available in the marketplace Finally,enhanced purchasing power will stimulate the cycle. Also, the beneficial existance of the pressures of competition will cause services to be rendered more efficaciously.

We can certainly appreciate how fierce disagreements prevail between protectionist factions and free traders. However, we feel that this situation may not be as bad as might appear. It is logical to assume that both camps have the same ultimate objectives of economic growth and well-being. The controversy lies in developing accord as to the mechanism through which these objectives can be achieved.

In conclusion, UMIC urges support of a U.S./Israel Trade Agreement. We look forward to having an opportunity to contribute to the establishment and successful implementation of a trade agreement between the United States and Israel that will generate mutual benefits for both economies and their peoples.

Thank you for your kind attention.

HARRIS R. TILL

The CHAIRMAN. I have no questions of the present panel of witnesses. Again, we may want to submit questions in writing. But you support the concept. We haven't seen the legislation ourselves so maybe after you have all had a chance to look at it, it may not be quite as attractive. But, hopefully, in drafting a bill Ambassador Brock will study the record. We will be working with his staff to try to put together something.

We appreciate very much your coming to Washington, and your willingness to testify. And your entire statements will be made a part of the record.

Thank you very much. That concludes the hearing for today.

[Whereupon, at 5:09 p.m., the hearing was concluded.]

[By order of the chairman the following communications are made a part of the hearing record.]

Heron, Burchette, Ruckert & Rothwell
Suite 420,
1200 New Hampshire Avenue, N.W.
Washington, D.C. 20036

(202) 775-9141
TWX 710-822-9270

February 6, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Re: Subcommitee on International Trade Hearing on The Proposal to Establish a Free-Trade Area with Israel

Dear Mr. DeArment:

Pursuant to Committee rules, enclosed please find 5 copies of a written statement for the record that is being submitted by the California Avocado Commission in connection with the February 6, 1984, hearing on the Administration's proposal to establish a free-trade area with Israel. If you have any questions about the enclosed, please contact us directly.

Sincerely,

Carolyn B. Gleason

Carolyn B. Gleason

CBG:bks
encl.

BEFORE THE UNITED STATES SENATE
COMMITTEE ON FINANCE

HEARING ON PROPOSED
FREE-TRADE AREA WITH ISRAEL

STATEMENT OF
THE CALIFORNIA AVOCADO COMMISSION

This statement is being submitted by the California Avocado Commission for the written record in connection with the February 6, 1984, hearing on the proposed free-trade area with Israel. The Commission is organized under the laws of the State of California and represents all California avocado growers. Our industry is gravely concerned about the Administration's proposed free-trade area and welcomes this opportunity to present our views.

Our domestic avocado market has suffered considerable economic strains since 1980. In the most recently completed crop year, November 1982 to October 1983, U.S. avocado production amounted to 214,000 metric tons. This was down from 244,000 metric tons in 1980/81. U.S. avocado exports have dropped from almost 9,000 metric tons in 1981/82 to 8,100 metric tons in 1982/83. Plantings, too, have leveled off.

These downward trends are occurring largely because of the unfavorable profit picture we are now facing. In the 1970's, returns to California growers roughly equaled 40 percent of the consumer price for avocados. Since 1980, returns have dropped dramatically to 25 percent of the consumer price. Thirty percent of the consumer price is needed simply to break even. Although the grower requires $.35 per pound for harvested fruit, he is now only earning $.25 per pound. These are operating losses that few growers can afford to sustain.

Because our industry is depressed, we can ill-afford to open our markets to foreign imports from any source. We are already suffering from the influx of duty-free avocados from the Caribbean Basin. Even greater adverse effects are expected if zero duty treatment is granted to Israel, where avocado production and exports are booming. In recent years, Israel has experienced massive plantings of new avocado groves, between 1,100 and 1,400 hectares per year, resulting in a steady increase in production. In 1981/82, Israeli avocado production amounted to 37,000 metric tons, 12 percent over the last pervious normal year, 1979/80. In 1982/83, production increased a further 40 percent to 52,000 metric tons. Production is expected to reach more than 90,000 metric tons by the end of the decade. These rising production levels are being encouraged by the Israeli government through subsidized production credits.

Israeli exports of avocados are being similarly encouraged by a vigorous government assistance program. In 1982/83, exports from Israel totaled 44,000 metric tons, compared with 32,000 tons the previous year.

Although Israel does not currently export avocados to the United States, its subsidized exports undercut U.S. sales in third country markets. In France, for example, a principal overseas outlet for both U.S. and Israeli avocados, imports from Israel totaled 26,000 metric tons in 1983. This was up from 13,400 metric tons in 1980. In the face of such competition, U.S. market penetration has been sharply limited. U.S. avocado exports to France in 1982/83 totaled only 2,063 metric tons, a level roughly equivalent to the quantity shipped to France the previous year.

If the U.S. duty on avocados, which is currently set at 6.5 cents per pound and scheduled to be staged to 6 cents per pound by 1987, is removed for Israeli imports, there is a potential for similar competition in the U.S. market. At a time when our home markets are severly depressed and our exports are suffering from aggressive, unfair Israeli marketing abroad, an elimination of this duty would be both economically devastating and inappropriate as a matter of policy. Since Israel does not import avocados, our losses will not be offset by trade liberalization in Israel.

Under these circumstances, we urge this Committee's assistance in assuring that avocados are not covered by the free-trade arrangement being developed with Israel. Your help is needed to prevent any further erosion of our domestic and world market position.

Respectfully submitted,

Ralph M. Pinkerton

Ralph M. Pinkerton, President
California Avocado Commission

Dated: February 6, 1984

SINCO, INC.

IMPORTERS

750 PLEASANT STREET
BELMONT, MASSACHUSETTS 02178
TEL 617 - 484-8212
TLX 92-1408 SNYDERINT BELM

February 2, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

This letter is written to support the establishment of a Free Trade Area (FTA) between the United States and Israel. The economic advantages to the United States would be to permit the American consumer to purchase Israeli produced products at lower prices, it would enable American manufacturers to sell their products in Israel at prices competitive to European exporters who currently enjoy an FTA status; moreover, it would permit American goods access to the European market through Israel. All this would expand American export trade at a time when it appears necessary to improve the American balance of payments.

In addition to the obvious economic advantages that such an arrangement would enhance, we believe the most important benefit would result politically from the support of this country's only democratic and major ally in the Middle East. The fruits of such a relationship would become obvious to other states in the region and would show them the huge political and economic benefits that alliances with the United States can bring to those countries. I believe it would further solidify the relationship between this country and Israel and would help Israel free itself of the tremendous burdens it now faces being the only democracy in that area.

We urge support of the establishment of a Free Trade Area with Israel.

Sincerely yours,

SINCO, INC.

David Snyder

DS:pmr

cc: Abraham Rosental

PEERLESS PAPER COMPANY

18250 Harwood Avenue • Homewood, Ill. 60430 • (312) 799-4600

January 31, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment:

I would like to urge the establishment of a Free Trade Area between the United States and Israel.

As an importer of poly bags from Israel, such a Trade Area with its inherent benefits would give us an additional impetus for more trade with the State of Israel.

Sincerely yours,

Henry G. Lorsch
Vice-President

I. ROKEACH & SONS, INC.

560 SYLVAN AVE · ENGLEWOOD CLIFFS, N. J. 07632 · (201) 568-7550

January 30, 1984

Roderick A. DeArment
Chief Counsel - Committee on Finance
Room SD-219, Dirksen Senate Office Bldg.
Washington, D.C. 20510

Subject: Establishment of a Free Trade Area (FTA) between the United States & Israel

Dear Sir:

I respectfully submit that as an importer and exporter to the State of Israel since 1960, I would find it very advantageous for our Company to have a Free Trade Area (FTA) established by the United States and Israel.

We have managed, in spite of many difficulties, to promote a steadily increasing volume of business with the State of Israel, both in importing products from the State of Israel, and in exporting products of our manufacture. We are convinced that a proper FTA zone would greatly facilitate our abilities to export products of our manufacture, and would undoubtedly assist in facilitating the importing of products from Israel. At this particular time, we are conducting business with the following Israeli companies:

Chemical Products Ltd.
Magdaniat Hadar Ltd.
Carmit Candy Products
Aviv Matzo Company
Man Food & Fish Conserves Industry
Miluout Processed Foods Company
Scopex International
National Breweries

and other companies.

In our opinion, the establishment of a Free Trade Area would enable us to compete very favorably with European exporters who, through the European Economic Market, enjoy special privileges in their trade with Israel. We also feel that the establishment of such a Free Trade Area will allow us to have duty-free access to European markets via Israel.

We also are convinced that the State of Israel can supply us with many products that would be well received in our market, and in turn, we feel that in our manufacture of specialty ethnic foods, we can find a very substantial market in the State of Israel.

We feel that implementation of this project will benefit all concerned, and urge that steps be taken as soon as possible to establish such a Free Trade Area.

We will be happy to supply you with any additional information you may require.

Respectfully yours,

I. ROKEACH & SONS, INC.

Monroe Nash

Monroe Nash
President

MN:sk

Oakley & Company
Financial Planning
405 North Second Street
Post Office Box 1947
Porterville, California 93257-1947
(209) 781-9262

January 26, 1984

The Honorable Robert Dole
United States Senate
Washington D.C.

Dear Senator Dole:

I understand your committee will soon be taking up the question of free trade with Isreal. I would like to give you my feelings on the subject.

Our importing of Isrealie citrus, olives and tomatoes will cause further economic hardship for the growers and farm workers of the San Joaquin Valley. I know first hand that there is very little profit in growing oranges and olives. Unless a farmer own his land mortgage free, he is very lucky if his income covers his expenses.

As a financial planner, I am well aware of the tax advantages for the grower. However, as a grower I am also aware that if a farm doesn't produce enough income to meet expenses, tax deductions are worthless. In a good year there is little enough profit, in a bad year we try to manage our losses. We can't afford this increased competition.

This area already has the highest unemployment in the state. This further competition will cause the failure of more farms, as well as increasing un employment of the farm workers.

Isreal needs our help. I suggest we help them in some way that doesn't single out a few industries to bear the brunt of that help.

Sincerely,

Jim Oakley

Jim Oakley

WILSON
FOOD BROKERS INC.

P.O. Box 2969 • Syracuse, New York 13220 • 1/315/455-7071

January 30, 1984

Senator Robert J. Dole
Chairman, Committee on Finance
Rm SD-219, Dirksen Senate Office Bldg.
Washington, D. C. 20510

Dear Senator Dole:

Regarding the hearing scheduled for February 6, 1984 pertaining to the establishment of a duty free status for import of products from Israel, I would respectfully request that you exclude all produce and agricultural products, specifically tomatoes.

As an organization whose primary function is the representation of American companies in the sales and distribution of canned vegetables, it dismays me to think that we are presently competing against Israeli tomato products, with them selling at prices below our cost, and to learn we are considering the removal of additional 13.6% to 14.7% in duties. The competitive impact on my business and that of my manufacturers would be devastating, to say the least. I ask your support in protecting one of this country's most important assets, our food manufacturing and distribution system.

Thank you for your consideration of the above. I look forward to continuing our company's support of President Reagan and the Republican party's policies.

Very truly yours,

WILSON FOOD BROKERS, INC.

R. Wilson, Jr.

Peter R. Wilson, Jr.
President

PRW/sf

BYRD FOODS, INCORPORATED

PARKSLEY, VIRGINIA 23421

HEARING DATE: February 6, 1984

SUBJECT: Proposal to Establish a Free-Trade Area with Israel

SUBMITTED BY: H. Ray Haynie, Vice President/Canning
Byrd Foods, Inc.
Parksley, Virginia

H Ray Haynie

PURPOSE: I stand before you for the sole purpose voicing my company's absolute opposition to any relaxation of duty that is presently imposed on imported Israeli goods. I am here to tell you that our company urges you to say NO to those who wish to establish a free-trade area with Israeli tomato products due to the following reasons:

MARKETS: 1) Removal of the U.S. duty on Israel imports would have a devastating affect on our company's ability to compete in our markets. Such imported goods are presently sold and delivered to the buyers warehouse in New York, Philadelphia, Baltimore, Norfolk and Richmond at a price less than our product cost f.o.b. factory. Any additional advantage given the importers would force our plant to close and 300 American taxpayers would lose their jobs in a county presently at 21.1% below the poverty income level.

REGULATIONS: 2) We find it difficult to compete with imported canned tomatoes and tomato products which are not subject to minimum wage laws and rather demanding regulations from OSHA, FDA and EPA. Our cost continue to increase while our market government allows foreign countries in our market place at a decided advantage.

Proposal to Establish a Free-Trade Area with Israel (Page 2)

INCREASE IN VOLUMN: 3) In 1981 Israel imported 6512 metric tons and in 1982 imported 11,210 tons of canned tomatoes which is a 58% increase. This amounts to approximately 636,774 cases of 6/10 canned tomatoes which are for the most part dumped in the East Coast port cities.

COMPETITION: 4) Just in the past year, we have seen some of our regional competitors shut their door because the current nature of this business is so competitive. For Congress to aid in the future demise of American Food processors by inviting foreign interests to sell their goods in the USA through tax inducements is in my eyes an appalling unadvisable act.

CONCLUSION: 5) We have applied to the office of Trade Adjustment Assistance to be certified as having been harmed by imported canned tomatoes and tomato product because of a decrease in sales in our markets due to imports. A proposal to drop U.S. duty on imports is in direct conflict to a program that Congress adopted as a back-up for assistance to companies harmed by imports. A World War II veteran built our company from ground up and thus far we have overcome low cost imports. However, I warn you that the removal of import tariffs is a very real threat to our ability to remain in business and I again urge you to say <u>no</u> to this proposal.

DEPENDABLE MARKETING AGENCY
P.O. Box 158, White Plains, N.Y. 10606 • PHONE: (914) 949-4690 • TELEX 996589

February 7, 1984

Mr. Roderick A. DeArment
Chief Cousel, Committee of Finance Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

RE: FTA U S A and Israel

Dear Sir:

We understand that you are considering a free trade area (FTA) between the U.S and Israel.

We are importers of pantyhose and such a FTA arrangement would be of great benefit to us and our customers. We urge you to favorably consider such an arrangement.

Very truly yours,
Irving Herz

National Milk Producers Federation
1840 Wilson Blvd., Arlington, VA 22201
703-243-6111

Patrick B. Healy
Chief Executive Officer

February 15, 1984

Honorable Robert Dole, Chairman
Committe on Finance
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The Committee on Finance recently reviewed a proposal with respect to the establishment of a United States - Israel free trade area. The National Milk Producers has considered the potential impact of such action on the domestic dairy industry and offers the following observations.

The concept underlying creation of free trade zones is to expedite the flow of goods and services between the nations or groups of nations involved. This normally would involve nations closely aligned geographically or those with complimentary trade patterns. To be mutually beneficial, the relative strengths of the economies involved should be fairly closely matched.

In this instance, it would appear that neither of these criteria is met.

The National Milk Producers Federation is opposed to the inclusion of dairy products in such a scheme.

Israel is not considered to be a prime milk-producing nation nor is the dairy industry there a major factor in agriculture. Specific data on the scope of the Israeli dairy industry is lacking. However when a request to grant Generalized System of Preference (GSP) status to several types of Israeli cheese was considered several years ago, investigation by the Foreign Agricultural Service of the U. S. Department of Agriculture determined that Israel was deficit in milk production and relied on imports to fill a portion of domestic needs.

Despite this deficit, Israel does hold several quotas established under Section 22 of the Agricultural Adjustment Act for the import of cheese into the United States. With the exception of 1983, most of the cheese covered by these quotas has been shipped each year.

Honorable Dole
February 15, 1984
Page 2

While the volumes are not large, it makes absolutely no sense for the United States to be undertaking actions that would effectively reduce the value of competitive imports at a time when domestic producers are in the process of making major adjustments. In recent weeks, U.S. dairy farmers have seen the price support level reduced by 50 cents per hundredweight. An additional 50 cents is being deducted from the price of all milk marketed as a means of funding the milk diversion program instituted on January 1, 1984.

These steps are being taken to reduce the supply of milk in this country. The success of the milk diversion program will determine whether or not dairy farmers will have futher price support reductions of up to $1.00 per hundredweight applied in April and July 1985.

Any actions that add to the supply of milk and dairy products in this market will displace domestic production and the displaced milk--rather, the product made from it--will be diverted to government holdings under the Dairy Price Support Program. Given the conditions of the present dairy program, the American dairy farmer would be the one ultimately paying for such largesse.

A further consideration in this respect must be addressed. With a few exceptions, the import of dairy into the United States is regulated under import restraints established pursuant to Section 22 of the Agricultural Adjustment Act. These limitations were the subject of substantial debate during the Tokyo Round of trade negotiations and a major expansion of the quotas resulted from those trade talks.

Removal of the application of Section 22 quotas on products of Israeli origin would open the door to greatly expanded imports of cheese products by the simple expedient of reprocessing highly subsidized cheese produced in the European Community or elsewhere and shipping it to the United States. Given the reprocessing could be bypassed and raw milk shipped to Israel for the direct production of such items.

The provisions of Section 22 are specific on the point that no trade agreement or other international agreement entered into shall be applied in a manner inconsistent with the requirements of that law. It would appear that this requiremnent, standing by itself, would require the ommission of dairy products from any free trade area plan.

Sincerely,

Patrick B. Healy, Chief Excutive Officer
NATIONAL MILK PRODUCERS FEDERATION

Harry Hughes
Governor
Joseph Curran, Jr.
Lt Governor

Wayne A. Cawley, Jr.
Secretary
Hugh E. Binks
Deputy Secretary

STATE OF MARYLAND
DEPARTMENT OF AGRICULTURE

February 17, 1984

Senate Finance Committee
219 Dirksen Building
First & Constitution
Washington, D.C. 20510

To The Senate Finance Committee:

I would like to submit the following as comments pertaining to the proposed "free trade area agreement" with Israel.

As Secretary of the Maryland Department of Agriculture, I generally agree that a free trade area with Israel would be beneficial to both that country and to American farmers. However, I believe any benefits to Maryland farmers, especially grain producers, will be more than offset by losses felt by our fruit and vegetable processing industry.

In recent years, Israeli government subsidized fruits and vegetables have penetrated markets in the Northeast corridor of the United States -- the same market area for Maryland products. Even with tariffs from 13.5 to 15% on products such as processed tomatoes these products are reaching the dock at Baltimore at a lower price than that of our own processors.

Consequently, I strongly urge the Senate Finance Committee to amend the proposed "free trade area agreement" to exclude all government subsidized products.

Thank you for your consideration.

Sincerely,

Wayne A. Cawley, Jr.

Wayne A. Cawley, Jr.
Secretary

WAC:ijb
cc: Maryland Congressional Delegation
Maurice Cannon
Dr. Frank Schales
David Faulkner
Warren McWilliams

TELEPHONE NUMBER (301) 841- 5880
50 HARRY S. TRUMAN PARKWAY, ANNAPOLIS, MARYLAND 21401

MARCOM EXCHANGE 265 FACSIMILE 841-5770 TELEX-No. 87856

GLENN COUNTY FARM BUREAU

902 Sixth Street
P. O. Box 969
ORLAND, CALIFORNIA 95963
Telephone (916) 865-9636

February 16, 1984

Mr. Roderick A De Arment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sirs.

Re: February 6, 1984 hearing on proposal to establish a free trade area with Israel

It is unfair to the producers of olives in our country, to cause the forseen increase in competition for sales of their product, due to the heavy production of olives in Israel, and in the fact that their government gives them assistance to help equalize their production with their costs.

The effect of the influx of this product could be disasterous to our producers and we request that you reconsider the decision on the duty free importation of olives from Israel.

Sincerely,

John Enos

John Enos, President
JE:dt
cc: Congressman Doug Bosco
Congressman Gene Chappie
Senator Pete Wilson

Route 3, Box 3330
Orland, CA 95963
(916) 865-3434
February 10, 1984

Mr. Roderick A. De Arment
Chief Counsel
Committee on Finance
Room SD 219
Dirksen Senate Office Building
Washington, D.C. 20510

Re: February 6, 1984 hearing on proposal to establish a **free trade area with Israel**

Dear Sirs:

I am an olive grower from Orland, California. I own and operate a family farm with my brothers and earn my income strictly from olives. We do much of the work ourselves to be cost effective and do not participate in government farm programs.

As a grower of an import sensitive crop, I am opposed to the proposal to drop all duties on olives from Israel. Our market is currently being bombarded with olives from Spain, and we are struggling to keep the domestic product in the forefront. The California olive industry has funded promotion programs to get what market we do have.

The duty on imported olives helps offset the assistance provided to foreign producers by their government and helps equalize their production with costs to the domestic grower. To remove this duty really promotes the importation of their product.... it is doubtful that we would be able to ship our product to Israel and remain competitive. Also, the climate in Israel is very conducive to olive growing, they are serious about production of this crop, and they have heavily utilized our research and technology.

Olives from Israel have been denied duty-free entrance through the Generalized System of Preferences on economic grounds and I urge that the real impact of this move once again be considered. Although compromises and concessions to friendly nations should be made whenever possible, giving away an industry and a hard earned market is too high of a price to pay.

Respectfully,

James E. Aguiar

James E. Aguiar

cc: Congressman Doug Bosco
Congressman Gene Chappie
Senator Pete Wilson

LAPCO

Lake Packing Co., Inc.
Box 200 Lottsburg, Virginia 22511
804-529-7392

February 13, 1984

Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

This statement concerns the negotiation of a free trade agreement between the U.S. and Israel: (Hearing held February 6, 1984, 2:30 p.m., in Room SD-215 of the Dirksen Senate Office Building.)

It is imperative that canned tomatoes and other tomato products be excluded from the United States-Israel Free Trade Agreement. Otherwise, it will be disasterous for us, as canners of tomatoes, and for other tomato processors in Virginia and elsewhere.

This country currently enforces a 14.7 per cent tariff on imported canned tomatoes and a 13.6 per cent tariff on imported tomato products. Agricultural exports to Israel in 1982 were $6.3 million. Imports were $36.1 million, with tomatoes and tomato products comprising $18.57 million of the total. Included are tables (Enclosure 1) showing Israel's penetration of the U.S. import market for processed tomatoes. In 1982 Israel supplied 15-16 per cent of the total canned tomato imports into this country and ranked as the third largest foreign supplier, after Italy and Spain, ahead of Taiwan and numerous other suppliers.

The U.S. foreign trade deficit was $69.41 billion in 1983. This was 62.5 per cent greater than the $42.7 billion deficit in 1982. U.S. tomato processors exported $34.1 million in canned tomatoes and tomato products in 1981 and $30.4

million in 1982. This represents a 10.7 per cent decrease in exports from 1981 to 1982. Figures are not yet available for 1983. (See Enclosure 2 for product breakdown.)

Great care was taken by the U.S. Government not to reduce the U.S. rates of duty on canned tomato products during the Tokyo round of tariff negotiations which ended in 1979. The decision not to lower the U.S. tariff on tomato products was based on advice from American government agencies and industry advisors. Only one change has taken place - Israel has become more competitive and more eager to export to the U.S. With population figures of Israel - 4 million, U.S. - 223 million, we Americans stand to be the losers. There is no reciprocity in this agreement. The U.S. is justified in asking for an exclusion of certain products from these duty-free arrangements.

Production in Israel rose 22 per cent in 1983. (See Enclosure 3.) This is one of many production increases. The effects of increased Israeli production and decreased tariffs will be disasterous on East Coast tomato processors. Imports landed in Norfolk, Baltimore and New York directly affect our prime marketing areas, resulting in lower prices on an already depressed market.

A strong U.S. dollar coupled with removal of existing tariffs will continue the decline of our industry.

The strong U.S. dollar is responsible for the relative cheapness of foreign products. Since January 2, 1981, the Israeli shekel has fallen in value/ U.S. dollar 1527%. (See Enclosure 4.) Our tomato industry in America is economically competitive with other nations, but we can not offset the drastic devaluation of the shekel as well as the removal of tariffs.

As stated in the Senate Finance Committee Hearing on February 6, 1984, 90% of the products traded between the U.S. and Israel are already tariff free.

Roderick A. DeArment, Chief Counsel
February 13, 1984
Page 3

The remaining 10% are "trade sensitive" areas. This statement raised the following questions:

(1) If this agreement is to be of such economic benefit to the U.S., why are the American Israel Public Affairs Committee, the American Jewish Committee, the Zionist Organization of America and the National Association of Arab Americans lobbying so hard for it?

(2) Should the U.S. Government create more competition for American businesses, forcing their failure?

(3) Will not the United States-Israel Free Trade Agreement force some U.S. businesses to close, making them eligible for the Trade Adjustment Assistance Program, thus costing the taxpayers more money?

(4) Does the U.S. not "pump" enough money into Israel through assistance programs without this "free trade agreement"?

(5) Does the American business, worker and citizen receive consideration only after our government has helped an ally?

This trade agreement will deal another blow to the tomato industry, further weakening it. Please give consideration to the retention of the present tariffs between the U.S. and Israel.

Sincerely,

S. Lake Cowart, Jr.

S. Lake Cowart, Jr.

SLC/bwm

Enclosures

Enclosure 1-A

U.S. Imports of Canned Tomatoes, TSUS 141.6600
U.S. Total and from Israel
(Israel's rank and as % of the total)

	POUNDS	THOUSAND DOLLARS
1978		
U.S. Total........	74,164,976	13,935
Israel (3)........	7,451,389	1,268
	10.05%	9.10%
1979		
U.S. Total........	45,566,276	9,615
Israel (3)........	5,497,885	969
	12.07%	10.08%
1980		
U.S. Total........	39,880,425	8,517
Israel (3)........	4,148,889	794
	10.40%	9.32%
1981		
U.S. Total........	97,227,954	18,964
Israel (3)........	14,355,621	2,891
	14.76%	15.24%
1982		
U.S. Total........	167,017,976	32,905
Israel (3)........	24,713,804	5,498
	14.80%	16.71%

Principal suppliers in 1982, in descending order by volume:

Italy...........	77,215,744
Spain...........	57,267,614
Israel..........	24,713,804
China Taiwan....	4,052,140

Source: National Food Processors Association

Enclosure 1-B

U.S. Imports of Tomato Paste, 141.6520
U.S. Total and from Israel
(Israel's rank and as % of total)

	POUNDS	THOUSAND DOLLARS
1978		
U.S. Total........	50,990,645	13,911
Israel (6)........	2,391,030	642
	4.69%	4.62%
1979		
U.S. Total........	42,054,052	11,701
Israel (4)........	2,983,998	709
	7.10%	6.06%
1980		
U.S. Total........	25,465,289	8,457
Israel (6)........	314,834	72
	1.24%	0.85%
1981		
U.S. Total........	65,202,175	22,831
Israel (2)........	10,954,188	3,660
	16.8%	16.03%
1982		
U.S. Total........	198,029,353	74,575
Israel (4)........	25,048,974	8,599
	12.65%	11.53%

Principal suppliers in 1982, in descending order by volume:

China Taiwan....	51,029,853
Mexico..........	36,093,247
Portugal........	27,189,356
Israel..........	25,048,974
Italy...........	22,929,299
Spain...........	9,445,791

Source: National Food Processors Association

Enclosure 1-C

U.S. Imports of Tomato Sauce, TSUS 141.6540
U.S. Total and from Israel
(Israel's rank and as % of total)

	POUNDS	THOUSAND DOLLARS
1978		
U.S. Total........	7,116,183	1,133
Israel (1)........	6,345,237	972
	89.17%	85.79%
1979		
U.S. Total........	2,793,422	493
Israel (1)........	2,274,353	408
	81.42%	82.76%
1980		
U. S. Total.......	1,651,098	354
Israel (1).......	1,299,742	268
	78.72%	75.71%
1981		
U.S. Total........	9,116,339	2,072
Israel (1)........	8,008,791	1,686
	87.85%	81.37%
1982		
U.S. Total........	21,824,299	5,399
Israel (1)........	18,954,172	4,474
	86.85%	82.87%

Source: National Food Processors Association

Enclosure 2

Total U.S. Exports of Canned Tomatoes and Tomato Products

TYPE OF PRODUCT	POUNDS	$ AMOUNT
(1981)		
Canned Tomatoes	32,192,981	$ 8,620,000
Tomato Paste	24,553,746	11,168,000
Tomato Pulp	2,087,125	666,000
Tomato Sauce	9,013,796	2,917,000
Ketchup and Chili Sauce	27,753,801	10,720,000
TOTAL		$34,091,000
(1982)		
Canned Tomatoes	19,977,735	$ 5,332,000
Tomato Paste	22,556,163	11,412,000
Tomato Pulp	1,301,384	478,000
Tomato Sauce	6,315,073	2,432,000
Ketchup and Chili Sauce	27,572,539	10,757,000
TOTAL		$30,411,000

Source: National Food Processors Association

ENCLOSURE # 3

Private label market prices are close to private label lists which show:

PRIVATE LABEL WAX BEAN PRICES

Item:	24/303	6/10
Midwest:		
Fancy Cut 3-sv	$7 25	$11 00-$11.25
Fancy Cut 4-sv	7 00	10 75
Ex Std Cut 4-sv	6 50	10 25
Ex Std Cut 5-sv	6 25	10 00
New York State:		
Fancy Cut 3-sv	8 20	12 50
Fancy Cut 4-sv	7 60-8 10	12 25
Ex Std Cut 4-sv	7 40-7 80	12 00
Ex Std Cut 5-sv	7 20-7 65	11 75
Northwest:		
Fancy Cut 3-sv	8 75	12 75
Fancy Cut 4 sv	8 50	12 25
Ex Std Cut 5-sv	8 00-8 35	11 50

Note Prices are per case, f.o.b area indicated

TOMATOES — Estimated tonnage of processing tomatoes in 10 major producing countries fell 2% last year, with only Italy, Portugal and Israel registering gains.

TOMATOES FOR PROCESSING MAJOR PRODUCING COUNTRIES

(Source Foreign Agricultural Service)

1,000 Tons:	Preliminary 1983	Revised 1982	% Chge.
United States	7,032	7,299	- 4
Canada	386	477	- 19
Mexico	150	180	17
Italy	3 250	3,020	+ 8
Greece	1,040	1,178	- 11
Portugal	550	480	+ 15
Spain	526	567	- 7
France	305	375	- 19
~~Israel~~	~~293~~	~~240~~	~~+ 22~~
Taiwan	370	378	- 2
Total	13,892	14,189	- 2

TOMATO PRODUCTS — Imports of Tomato Paste are still ahead of last year, with the equivalent of 1.4 million cases of 6/10s coming in between July 1-Dec. 1 or 17% more than last year.

TOMATO AND TOMATO PASTE IMPORTS JULY 1-DEC. 1

(Source: Bureau of Census)

1,000 Equivalent Cases:	Nov.	% Chge.	7/1-12/1	% Chge.
Tomato Paste, 6/10s	502	+19	1,430	+17
Canned Tomatoes, 24/3s	546	+33	1,425	+53

CANNED FRUITS

OVERVIEW — The overall Dec. 1 inventory position of West Coast Canned Fruits is extremely tight — only 20.2 million cases (24/2½ basis) or 41% less than a year ago. Indeed, Dec. 1 stocks were nearly one million cases less than the amount shipped between Dec. 1, 1982 and June 1, 1983.

WEST COAST CANNED FRUIT POSITION — DEC. 1

(Source. California League of Food Processors and Northwest Food Processors Association)

1,000 Cases, 24/2½ Basis:	1983/84	1982/83	% Chge.
Carryover, June 1	13 095	20 404	36
Pack	28 632	39,135	27
Season's Supply	41 727	59,539	30
Shipments			
June 1-Dec 1	21 487	25 212	15
Stocks, Dec 1	20,240	34,327	41

Note Figures include Northwest and California Pears, California Cling and Free Peaches, Fruit Cocktail, Fruit Mix, Fruits for Salad and Apricots

CLING PEACHES — There were less than 6.8 million cases (24/2½ basis) on hand as of Dec. 1 — 55% less than a year ago and already 2.6 million cases less than the amount shipped from Dec. 1, 1982 through June 1, 1983

[illegible]

CLING PEACH CANNERS' POSITION — DEC. 1

(Source: California League of Food Processors)

1,000 Cases, 24/2½ Basis:	1983/84	1982/83	% Chge.
Carryover, June 1	5,573	7,865	-29
Pack	10,686 a	17,846	-40
Season's Supply	16,259	25,711	-37
Shipments:			
Oct. 1-Dec 1	3,269	3,231	+ 1
June 1-Dec. 1	9,483	10,714	-11
Stocks, Dec. 1	6,776	14,997	-55

SHIPMENTS and STOCKS by CAN SIZE

	Shipments 6/1-12/1	% Chge.	Stocks Dec. 1	% Chge.
24/8-oz.	656	- 5	937	-32
24/303	3,836	- 1	4,241	-38
24/2½	3,405	-18	2,284	-66
6/10	4 037	-13	1,978	-57
Total Actual Cases	11,933	-10	9,440	-51
Total 24/2½ Basis	9,483	-11	6,776	-55

Most canners are out of one pack size or another. Shipments are strictly at list which still show private label Choice HS 24/8-oz. packs $8.95, 24/303s $12.75, 24/2½s $16.60 (not $18.35 as incorrectly noted last week) and foodservice 6/10s $16 per case, f.o.b. California.

Exports of Canned Preaches between June 1-Dec. 1 totaled the equivalent of some 484,000 24/2½ cases — 47% less than exported in the comparable year ago period.

SELECTED CANNED FRUIT EXPORTS JUNE 1-DEC. 1

(Source: Bureau of Census)

1,000 Cases, 24/2½ Basis:	Nov.	% Chge.	6/1-12/1	% Chge.
Peaches	40	-76	484	-47
Fruit Cocktail	104	-30	678	-30
Pineapple	53	+29	308	+28
Pears	8	-12	38	+36
Tart Cherries	2	-84	12	-84

PINEAPPLE — Higher domestic foodservice prices in the offing, with one leading packer posting the trade that effective Jan. 16 all styles of 6/10s will advance 75¢ per case. New lists will show: 6/10 Fancy Coarse Crushed in Juice $18.50, Fancy Chunks in HS or Juice $17.85, Choice Sliced and Choice Tidbits $17.40 per case, c.i.f. West Coast dock.

Imports of Canned Pineapple between July

BACKGROUND
of
LAKE PACKING CO., INC.
Lottsburg, Va.

I. History

A. 1908 - Founded by A. B. Headley and William John Cowart

1. Canned tomatoes in #1 and #2 cans, sealing lids with soldering iron

2. Also shucked oysters, as do the present owners under the name of Cowart Seafood Corp.

B. 1932 - Ceased operations due to the death of A. B. Headley

C. 1948 - Erected new buildings and purchased new machinery under ownership of S. S. Headley and S. Lake Cowart, Sr.

1. Processed herring, herring roe and tomatoes

D. 1976 - Mechanized plant with mechanical peeling of tomatoes

E. 1979 - Built new plant, warehouses, etc.; bought first tomato harvester and installed second peeled tomato line

F. 1981 - Installed tomato juice line, built additional warehousing facilities and bought second harvester

II. Statistics

A. Employment - Seasonally employs 90 - 100 people in the plant, with an additional 25 - 30 farm workers

B. Gross Sales - 1982 - $2 million from tomatoes and tomato juice
1983 - $1.7 million

C. Wages - 1982 - $312 thousand in production wages for tomatoes and tomato juice
1983 - $286 thousand

D. Agricultural Purchases - Tomatoes - 1982 - $447 thousand
1983 - $389 thousand

washington state
farm bureau
111 W. 21ST P.O. BOX 2569, OLYMPIA WASHINGTON 98507
TELEPHONE (206) 357-9975

February 13, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance, Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

RE: Free-Trade Area With Israel

On behalf of the over 5,000 member families of the Washington State Farm Bureau, some of whom are horticulturists, my comments are directed to the administration's proposal to establish free-trade areas with Israel.

We believe higher living standards throughout the world depend upon mutually beneficial trade among nations. However, this proposal is not mutually beneficial to U.S. producers. Israel would be getting duty-free access to a market with 234 million people, while we would be getting access to only 4 million people.

Furthermore, in 1982, the United States exported $6.3 million worth of horticultural products to Israel while we imported $36.1 million worth of such products. This imbalance continued through the first 11 months of 1983.

In 1980, our government proved Israel was subsidizing roses which were being imported by the United States. Since the current countervailing duty on roses imported from Israel is about 22% advalorem, why open our markets to additional subsidized products?

Since Israel is not a signatory to the GATT Subsidy Code, growers can only get relief from subsidized products by proving injury to their industry. It is very difficult for growers to raise enough funds for legal expenses to prove their case.

U.S. policy has been to protect small as well as large producers but this proposal would soon drive the small family operators out of business because they cannot compete against the treasury of Israel.

Our members fear Israel would begin to target U.S. markets with their products under this proposal; therefore, we ask that horticultural commodities and products be exempt from this proposal.

We believe Israel already receives substantial tariff breaks under the Generalized System of Preference Program, as well as substantial foreign aid, why accord Israel further tariff advantages.

Sincerely,

Robert M. Jones

Robert Jones
President

Domestic Telex No.: 640811 PRIMEX NYK
Int'l. Telex No.: 425270 PITC
234777 PITC
Cables: PRIMEXINT

Primex

Manufacturers/Importers/Exporters/Exclusive International Agents

February 13, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington D.C. 20510

SUBJECT: [redacted]

Gentlemen:

It came to our attontion that during recent meetings between President Reagan and Prime Minister Shamir that it was agreed to have hearings on the subject which began on January 17, 1984.

We as exporters of U.S. products to Israel and importers from Israel are in full support of such an agreement between two friendly countries as the U.S. and Israel.

We sincerely believe that such an agreement will continue to strenghten the ties between the 2 nations.

We trust that President Reagan's administration will exhaust all efforts to conclude in the shortest possible time a favorable agreement.

Very truly yours,

PRIMEX INTERNATIONAL TRADING CORPORATION

Ernest Paul
President
EP:gm
cc: Mr. Abraham Rosental/Israel Trade Center

Primex International Trading Corp./41 Madison Ave. New York, NY 10010/(212)679-5060

AmeriBrom, Inc.
Member of the Dead Sea Bromine Group

1250 BROADWAY, NEW YORK, N.Y. 10001
(212) 563-4600
TELEX RCA 220531

February 16, 1984

Dirksen Senate Office Building
Committee on Finance - Room SD-219
United States Senate
Washington, D.C. 20510

Attn: Roderick A. DeArment,
Chief Counsel

Re: Free-Trade Area with Israel
<u>Hearing of February 6, 1984</u>

Dear Mr. DeArment:

Pursuant to Senate Finance Committee Press Release No.84-105 dated January 13, 1984 submission of comments is hereby made urging the prompt introduction and passage of legislation granting the President the authority to reduce tariffs with respect to products from Israel under a reciprocal trade arrangement known as a free trade area.

Ameribrom, Inc. is the exclusive United States importer of various bromine compounds manufactured by Dead Sea Bromine Co. Ltd. and its subsidiary, Bromine Compounds, Ltd. of Be'er Sheva Israel. The Dead Sea, with a concentration of bromide salts many times in excess of ocean water, is Israel's most significant natural resource and an excellant vehicle for future economic development of that country.

Before discussing the importance of such legislation to the Israeli bromine industry in particular, the benefits of such an arrangement generally to the United States and Israel is worthy of note.

It is our understanding that the overall objective of a free trade area arrangement is the elimination of tariff and non-tariff barriers to trade with respect to a broad spectrum of commodities. Most importantly, the establishment of a free trade area would greatly increase the volume of two way trade between Israel and the United States, resulting in a total increase in employment and economic activity. Moreover, because Israeli tariffs are, on the whole, much higher than U.S. tariffs, such an arrangement would be of particular benefit to U.S. exporters.

While the United States has, in recent years, experienced an unfavorable balance of trade on a world-wide basis, it has enjoyed a positive trade balance as a result of its present access to Israeli markets. In calendar year 1982, for example, U.S. exports to Israel totaled approximately 2.3 billion dollars, more than double the value of total Israeli exports to the United States. It is certainly reasonable to assume that because of the substantial Israeli rate reductions, this gap will widen as duty rates decline.

Israel is already in the final stages of a trade cooperation agreement with the European Community. The failure to establish a similar arrangement with the United States will provide a distinct competitive advantage to the European Community's products in the Israeli marketplace.

Of course, the benefits to Israel are equally obvious. With its mounting trade deficit and the numerous problems which have plagued the Israeli economy in recent years, markets for the exportation of its goods are essential to its survival. Access to a marketplace the size and and wealth of the United States is a vital element to the success of any export program and to Israel's overall economic health.

As the United States' staunchest ally in that troubled region of the world, the importance of a healthy Israeli economy to U.S. foreign policy objectives in the Middle East cannot be overstated. The creation of a free trade arrangement between these two nations is clearly in the best interests of the United States and we should take advantage of this opportunity.

The Israeli brominated products industry can only become a positive factor in creating a healthy economic climate in Israel if it can obtain free access to overseas markets such as the United States. The consumption of brominated products rises proportionately with increases in a nation's level of industrialization and standard of living. Accordingly, access to the markets of the more industrialized nations of the world is vital to the well being of that industry (given Israel's limited size and state of industrialization, it is of no surprise that home market consumption of bromine and bromine compounds approximates only 1-1/2 to 2 percent of total Israeli production of these products).

Although many Israeli products currently enjoy the benefits of duty-free entry into the United States under the Generalized System of Preferences (GSP) program, the Israeli brominated products industry is precluded from enjoying a proportionate share of these benefits for two basic reasons:

1. Many brominated compounds are classifiable under tariff provisions which are not GSP eligible (it is noteworthy that applicable column one rates of duty for such products are among the highest in the tariff schedules); and

2. Because of the dependency upon a natural resource base, there are few world-wide producers of bromine and bromine compounds, particularly in quantities sufficient for export. Thus, imports into this country of GSP eligible Israeli brominated products are severely curtailed by virtue of the 50% competitive need limitation. To the extent that Israeli brominated products exceed the 50% limitation, it is wholly because of the uniqueness

of the industry (based upn the availability of bromide salts from the Dead Sea) rather than the dollar volume of such imports.

Even the meager benefits which this Israeli industry presently enjoys under the GSP is severely threatened by current proposed legislation necessary to extend the GSP program. We understand that one of the proposals being advocated is the creation of a two tier system which will impose even more stringent competitive need limitations on the products of certain beneficiary developing nations. Should this two tier system encompass those Israeli brominated products presently benefiting from the GSP, the result will be to further reduce the already de minimus levels of imports by dollar value of these products, or to totally eliminate current benefits.

Because bromine and bromine compound production is characterized by high fixed costs, an even greater loss of access to the U.S. market place would be particuarly onerous. As production of a particular bromine compound declines, the cost of production per unit will naturally increase. Dead Sea Bromine Co. Ltd. estimates that the average percentage value of fixed costs to ex-factory price approximates 45-50% for those bromine compounds which are currently marketed in the United States on a profitable or marginally profitable basis. Were the Israeli brominated products industry to have its access to the U.S. market place eroded, its competitiveness in other world markets would be adversely impacted as well. By the same token, to the extent access to the U.S. marketplace increases, the competitiveness of its brominated products will benefit in other world markets.

We understand that certain United States producers of bromine and brominated products will oppose the enactment of legislation paving the way for free trade legislation or will at least request that such legislation exclude brominated products. While not unmindful of the profit orientation inherent in all business entities, we do not believe that such opposition can be justified or that claims of adverse impact to the U.S. industry can withstand close scrutiny.

While the enactment of a free trade arrangement will likely result in some increase in shipments of Israeli brominated products there are clear limits to the production capacity of the Israeli industry and even at maximum output, impact upon of the total U.S. market for consumption would be minimal. According to a 1983 report of the U.S. Department of the Interior, Bureau of Mines, imports of bromine and bromine compounds from Israel constituted approximately one percent of domestic consumption during calendar year 1982 (Bureau of Mines, Mineral Commodity Summaries - 1984).

Even if the tariff barriers covering all bromine products from Israel were to be reduced to zero and imports do increase, the U.S. producers will continue to enjoy significant competitive advantages due to their lower costs of doing business which include lower transportation costs, lower energy costs and lower material costs (with the possible exception of the bromine itself). All other things being equal, U.S. producers will always benefit from "buy America" consumer sentiment.

Finally, U.S. producers of bromine and brominated products are an elite group, currently situated in positions of great market strength. [*] In the case of some bromine products, there is but one U.S. producer. For example, dibromo neopentyl glycol, a flame retardant, is produced and marketed by one U.S. company and Ameribrom. Similarly dibromo methane, a slimicide intermediate utilized for water treatment and purification, is imported and marketed by Ameribrom in competition with one U.S.

---

*] See attached copy of Great Lakes Chemical Corporation (the largest producer of bromine and brominated products in this country) sales chart (1973-1982) from 1982 Annual Report at pg. 1.

company who established the market price. It is readily evident that an additional benefit of a free trade arrangement would accrue to domestic consuming industries of bromine compounds. Clearly the ability of Ameribrom to import brominated products continues to prevent a monopoly in the market place by a single company with all the far reaching consequences that such a situation can create.

Thus, there exists no rational basis for concluding that expanded access of this Israeli industry to the markets of the United States would prove injurious to the domestic producing industries.

CONCLUSIONS AND RECOMMENDATIONS

The obvious benefits to the economy and interests of the United States in entering into a free trade arrangement with Israel are numerous and constitute a compelling basis for favorable congressional action. While it may be that a commodity exclusion is warranted in some situation, no such exclusion can be justified with respect to brominated products.

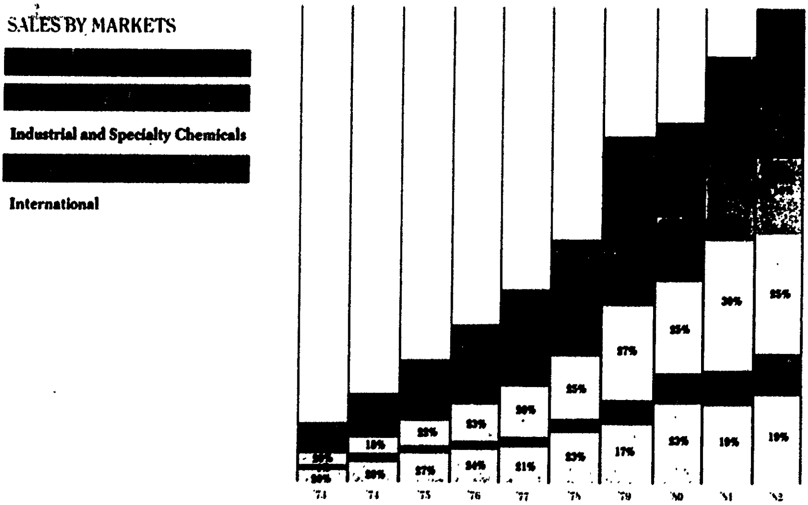
The willingness to abandon the higher tariff barriers on the Israeli side is a clear indication of that nation's readiness to grant significant benefits to the United States. For the United States' part, we do not believe that limiting the benefits of a free trade arrangement to these products that are already enjoying the benefits of the GSP constitutes reciprocity. We assume the United States is willing to grant concessions and, in the absence of evidence of a compelling nature, the exclusion of benefits under a free trade arrangement to a particular product sector is wholly unwarranted.

Not only is such basis wholly absent in the case of bromine and bromine products but the inclusion of such products in a free trade arrangement is of vital importance to the health of this Israeli industry.

Respectfully submitted,

AMERIBROM, INC.

By ____________________
Noah Ehrlich,
Vice President


SALES BY MARKETS
Industrial and Specialty Chemicals
International

apfa AMERICAN PIPE FITTINGS ASSOCIATION
8136 OLD KEENE MILL RD., SUITE B-311, SPRINGFIELD, VA 22152 (703) 644-0001

February 20, 1984

Mr. Roderick A. DeArment
Chief Counsel
Committe on Finance, Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. DeArment,

On behalf of this Association, we respectfully submit our views concerning:

Committee on Finance Hearing on
Proposal for Free-Trade Area With
Israel - February 6, 1984

In view of the already extremely complex and difficult to adminster treaties, regulations and legislation that affect international trade, it does not seem sensible to create another broad policy which permits us to single out certain countries for special treatment. In doing so, it may help one segment of the U.S. industry but it may also hurt others.

Israel has enjoyed GSP duty-free status since 1976 and may continue to be qualified to receive this privilege if the GSP is extended beyond 1985.

Although pipe fitting imports from Israel, with one or two exceptions, currently represent a very small percentage of the total U.S. imports, APFA member firms have expressed concern about Israel's potential to make serious inroads into the domestic market. For example, Israel accounts for 19% of stainless steel butt-weld fittings imports, 8% of alloy couplings but presently only 2-3% of all the rest.

Israel imports a very small number of pipe fittings from the U. S. only 189,293 pounds in 1983 of the 61 million pounds that the U.S. exported. There were no imports in the two categories mentioned above.

Although we realize that a special relationship exists between the U.S. and Israel, we suggest that the establishment of a free-trade area may set a precedent and spawn similar demands from other nations.

Sincerely,
Paul H. Engle, Jr.
Paul H. Engle, Jr.
Executive Director

PHE/mkp
cc: Peter Buck Feller
Arne Salvesen

atalanta
CORPORATION
17 VARICK STREET, NEW YORK, N.Y. 10013 • 212-431-9000

February 16, 1984

Mr. Roderick A. DeArment
Chief Counsel
COMMITTEE ON FINANCE
Room SD-219
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. DeArment,

The firm ATALANTA CORPORATION is a major importer of Food Products in the United States, established since 1945, with an annual volume of sales of approximately $270,000,000.00.

The purpose of this letter is to express our firm and emphatic support for the establishment of a **Free Trade Area (FTA)** between the **United States and Israel**, a subject that was taken into consideration during the recent meeting in Washington of President Reagan and Prime Minister Shamir.

The advantages are numerous and obvious and there is no necessity for us to list a series of cliches to underline the importance of such relation between the two countries.

We do know that the United States has to be involved in the distressed area of the Middle East and we do also know that military presence or intervention being no remedy to the situation.

Let us try trade facilities which bring with them prosperity, communications, friendship and exchange of goods and ways of life - As let's use Israel as the bridgehead.

2....

For Telex communications use services assigned as follows: Shrimp - Lobster - Fish - Cheese Unox RCA 232450 ATA UR ITT 420082 TRADATL
EXPORTS - Imports of Frozen Meat ITT 422005 Communications From Denmark - Norway - Spain - Hungary RCA 22809 ATA UR
ALL BRANCHES IN USA USE Western Union 125187 CABLE ADDRESS TRADATLAN - NEW YORK

Mr. Roderick A. DeArment
Chief Counsel   February 16, 1984

That makes it imperative that we do establish with Israel the soonest possible the FTA program.

As far as ATALANTA is concerned we are no stranger to the trade with Israel. For 1983 we have imported from Israel and sold to the U.S. market, the following:

TOMATOE PRODUCTS	$1,100,000.00
SILVER ONIONS	750,000.00
MATZO	500,000.00
CITRUS FRUITS	70,000.00
Misc. Food Products:	
Soups, Vegetables, Cookies, Ethenic Foods, etc.	1,000,000.00
	$3,420,000.00

We know that much could be accomplished with FTA, and we are more than willing to do our share.

Sincerely,

George G. Gellert
Chairman of the Board

cc: Mr. Abraham Rosental
Israel Trade Center

National Can

Metal Container Division

February 17, 1984

Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Recently a hearing was held (February 6th, 2:30 P.M., Room SD-19, Dirksen Senate Office Building) dealing with a proposal for a free trade area with Israel on imports of canned fruits and vegetables.

Even with the duty in effect, #10 Tomato products (as an example) from Israel to New York are delivered below the cost of a case delivered to New York by canners in the Northeastern & Mid-Atlantic area of the United States. In one specific instance, the spread is 8¢ per case. With the proposed removal of the current $1.41 import duty, the difference would become $1.49.

Naturally, this would adversely affect Farmers, Processors and other allied industries such as ours. At a time when many in the food industry are struggling for survival, we urge that, at the very least, no action be taken to remove this duty. Certainly, domestic producers should not be penalized in favor of foreign competition.

We trust you will give our appeal thoughtful and serious consideration.

Very truly yours,

[illegible] CORPORATION

[illegible]
Sales Representative

TFH/lms

National Can Corporation/Rutherford Plaza Building, 7133 Rutherford Road, Baltimore, Maryland 21207 (301) 944-8214

KEDEM

Royal Wine Corporation

March 19, 1984

Roderick A. DeArment
Chief Counsel
Committee on Finance
Rm SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Gentlemen:

Regarding a Free Trade Area between Israel and the United States, I offer the following information.

We are a Kosher wine producing and importing company with annual sales of over 10 million dollars. We sell mostly in countries where there is a large Jewish population.

At the present time, we can not sell our products in Israel, which should be our largest market, due to quotas and high tariffs imposed by the state of Israel. On the other hand, wine produced in Israel is being imported to the United States with NO duty. This puts us at a disadvantage. If a Free Trade Area is established, we would have a chance to compete fairly and sell our products in Israel.

Sincerely yours,

Herman Herzog
President

HH/sh

420 KENT AVENUE / BROOKLYN, NEW YORK 11211 / PHONE 212 384 2400
Award Winning Domestic, Israeli, French and Italian Wines

SPICE KING CORPORATION
6009 WASHINGTON BOULEVARD
CULVER CITY, CALIF. 90230
(213) 836-7770

CABLE: SPICEKING CULVERCITYCALIF.

TELEX. 664350 — SPICEKING CULV

February 2, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

We welcome the initiative to have the opportunity of a Free Trade Area between the United States and Israel.

As this Company will greatly benefit by the elimination of custom duty into Israel the F T A will enable us to ship large quantities to Israel.

Consequently our country will be a great beneficiary of the Free Trade Area.

Sincerely yours,

Bart R. Stern

BRS/acg

Laboratory Tested and Approved Products

BARTHOLOMEW R. STERN
438 El Camino
Beverly Hills, Calif. 90212
(213) 277-9665
Business Consulting

February 3, 1984

Mr. Roderick A. DeArment
Chief Counsel, Committee on Finance
Room SD-219
Dirksen Senate Office Building
WASHINGTON, D.C. 20510

Dear Mr. DeArment:

We strongly support the FREE TRADE AREA between the United States and Israel.

It is my ardent belief that this will open tremendous potential for American exports to Israel and Europe as Israel is enjoying a Free Trade Area with the European Community.

Needless to say that we in the United States must do everything possible to increase and to cooperate in every possible way with our friendly allies.

Therefore, I urge the Committee on Finance to establish a FREE TRADE AREA between the United States and Israel.

In the short and long run the United States and my Company will be the beneficiaries.

Respectfully yours,

BARTHOLOMEW R. STERN

Jewish War Veterans of the United States of America
1712 New Hampshire Avenue, N.W., Washington, D.C. 20009

Mr. Chairman and Members of the Committee:

The Jewish War Veterans of the USA strongly supports the establishment of a Free Trade Area (FTA) between Israel and the United States. We believe the establishment of an FTA will be good trade policy and benefit the economies of both the United States and Israel.

The United States' economy would benefit greatly from an FTA with Israel. Israel already imports $1.5 billion of American civilian goods annually. The balance of trade between the U.S. and Israel has always favored the United States with our country enjoying a $408 million surplus. This figure is almost certain to increase with enhanced trading relations. In addition, exports to Israel generate approximately 100,000 jobs in the U.S., according to estimates made by the Commerce Department. We believe the United States cannot afford to by-pass this opportunity to improve our own ailing export market that suffers from high interest rates and a strong dollar.

One concern voiced by American industries is that 90% of Israel's exports to the U.S. are already duty free through the Generalized System of Preferences and Most Favored-National treatment under the GATT (General Agreement on Tariffs and Trade). Opponents argue that the remaining 10% will only flood the American market with cheap labor-intensive products such as jewelry. This is unlikely to happen since Israel is not a cheap labor intensive enclave nor is it a large enough country to undercut prices in the U.S. market.

Another concern voiced by opponents is that Israeli agricultural exports will have a negative net effect on the U.S. farmer. Yet our agricultural exports to Israel exceed Israel's exports to the U.S. by a margin of 8 to 1 ($421 million to $53 million in 1982). An FTA would serve to expand our farm exports and protect the farm market against European competitors; American farmers will also benefit from Israeli technological advances.

Finally, a stable and dependable market generated by an FTA would serve to lesson Israel's debt to the U.S., increase Israel's ability to become self-reliant, and would enable Israel to buy American products for its advanced high technology industries. These accounted for $730 million of U.S. exports to Israel in 1981.

Furthermore, the European Common Market recently signed a similar agreement with Israel and therefore, the competitive position of American firms selling to Israel could decline as much as 10% without a similar agreement between the U.S. and Israel. An FTA would head off this potential problem as well as assist an ailing Israeli economy.

The commitment to an FTA by President Reagan and Prime Minister Shamir will give an added boost to their bilateral negotiations on other issues. Since Congressional action is required to conclude an FTA agreement, we strongly urge the Committee to also take into account the importance of maintaining a strong U.S. - Israeli relationship. We therefore hope Congress will work closely with the Administration and all concerned parties for the success of the FTA negotiations.

HERITAGE
INTERNATIONAL BANK
7126 Wisconsin Avenue • Bethesda, MD 20814 • (301) 951-0800

February 15, 1984

STATEMENT OF SUPPORT BY

DONALD E. WOLPE, CHAIRMAN OF THE BOARD
AND
WILFRED C. WRIGHT, PRESIDENT & CHIEF EXECUTIVE OFFICER
HERITAGE INTERNATIONAL BANK

RE: UNITED STATES SENATE: FEBRUARY 6, 1984
COMMITTEE ON FINANCE HEARING ON
PROPOSAL FOR FREE TRADE AREA WITH ISRAEL

Heritage International Bank, a Maryland State Bank insured by the Federal Deposit Insurance Corporation was chartered by the Maryland Banking Commissioner June 27, 1983. A full-service commercial bank, Heritage International Bank received approval of the the Maryland Banking Commissioner, the FDIC and the Bank of Israel to open a Representative Office in Israel.

On December 5, 1983 this Bank's Representative Office opened for business in Tel Aviv. The Bank has leased permanent premises in Tel Aviv which are presently being constructed. The permanent office is expected to be completed and occupied in the Spring 1984.

Heritage International Bank is the only American bank with an office in Israel. In fact, it is the only free world bank with an office in Israel. As such, this Bank has a substantial interest in the Proposal to Establish a Free Trade Area with Israel.

It is our considered opinion that this proposal should be approved and the Free Trade Area between our two countries established without delay. The Area will undoubtedly serve the immediate and continuing best interests of the United States. Let us enumerate some of the most cogent of those interests which this Bank already recognizes.

1. The United States currently enjoys a substantial favorable trade balance with Israel. That favorable trade performance should be encouraged and expanded. Israel has a demonstrable need for U.S. production to serve widely diverse skills and manufacture and the U.S. has the obvious ability to fulfill a large share of Israel's import requirements. Our personal experience in establishing this Bank's office in Israel confirms that the present economic and tariff relationship between our two countries acts to our mutual disadvantage. As an example, Heritage requires a wide assortment of office furniture, furnishing, office equipment and supplies. We would prefer to have our selections shipped in to Israel from the United States - employing our decorating taste and skills - and utilizing equipment proven by local experience. Because of the extra duty costs imposed on such furniture and equipment, the purchase

of American-made products was prohibited. In exercising prudent economic judgment, we had to purchase products manufactured in Israel - which we believe to be less well suited to the image we wished to project than American-made items would have been.

2. Although our Office in Israel has been open but a short time - the initial thrust of banking opportunities indicate a substantial interest on behalf of Israeli firms in acquiring American-made products. We have already financed the purchase of American made computers shipped to Israel for sale and/or lease to Israeli firms. We are currently negotiating financing for the sale of American-made modular homes to Israel importers for erection in Israel. Substantial additional product lines are being sought. Israel has an enormous appetite for what the U.S. can provide.

3. Israel has concluded an agreement with the European Economic Community that allows shipment of Israeli products into the European markets duty-free. This presents a rare opportunity to the American industrialist who can establish an entity or co-production facility in Israel, ship semi-finished U.S. manufactures there for completion and re-export on a duty

free basis into the European marketplace - a distinct advantage compared to attempting to export directly to Europe over high European tariffs on U.S. goods.

Israel is already demonstrating a tremendous growth in the field of high technology in every mode of scientific and medical enterprise. Israel's achievements in manufacturing and marketing, embracing their technological advances assure both a continuing and escalating requirement for the necessary materials and products which American resources are able to provide. The resultant market potential and an available pool of high tech on which U.S. firms can draw for their own product improvement and development, should indeed favor both countries to neither's disadvantage.

Israel is one of the few countries in the world which presently provides a favorable trade balance to the United States. Indeed, Israel is one of the strongest and most faithful U.S. trading partners.

Thus, we earnestly support the proposed establishment of the Free Trade Area between our two countries confident that the strategic, democratic and cultural relationships that weld the United States and Israel together will be immensely strengthened in new and significant economic dimensions. Indeed the technical, scientific, manufacturing skills of our two countries will produce new levels of accomplishment and prosperity that will prove to be a model for all countries and of freedom and opportunity for all peoples.

Donald E. Wolpe, Chairman
of the Board

Wilfred C. Wright, President
and Chief Executive Officer

plantex-u.s.a.
INCORPORATED

319 KNICKERBOCKER AVENUE
HILLSDALE, N.J. 07642
(201) 666-5535
TELEX: 134-462

TESTIMONY OF
MURRAY A. MOSKOWITZ
GENERAL MANAGER AND VICE PRESIDENT
OF
PLANTEX - U.S.A., Inc.
319 Knickerbocker Avenue
Hillsdale, New Jersey 07642
(201) 666-5535

BEFORE THE
SUBCOMMITTED ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE

UNITED STATES SENATE

ON THE PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

JANUARY 27, 1984

My name is Murray A. Moskowitz. I am General Manager and Vice President of Plantex - U.S.A., Inc., a subsidiary of Teva Pharmaceutical, a pharmaceutical company in Israel,

Plantex imports into and sells in the United States pharmaceutical products manufactured by the parent company and its subsidiaries. We currently benefit from the duty-free provisions of the Generalized System of Preferences (GSP) on a major product, amitriptyline-hydro-chloride. Without this duty-free treatment, as I will explain shortly, Plantex' total business would be in jeopardy. Thus, I am here before you today to express Plantex' support for a free-trade area with Israel.

Let me begin by explaining that Plantex is in the generic, raw material drug business. Like other generic drug suppliers and manufacturers, we are completely dependent upon foreign suppliers, because the large U.S. producers of drugs do not generally supply drugs for sale to generic manufacturers in the U.S. We in the generic drug business are convinced, and we are sure that many of your constituents are also convinced that the U.S. consumer should have the option to buy lower-priced generic drugs. Moreover, many third party payers of drug bills in the U.S., including Federal and State governments, Unions, HMOs, and so forth, are very conscious of the importance of the generic drug industry in providing safe, effective low-cost drugs. Thus it is important and in the public interest that this supply of generic drugs continue.

One of Plantex' main products now, which we import from Israel, is amitriptyline-hydro-chloride, an anti-depressant. The customs duty on this product is 27.7%, a veritable tariff wall when added to 10% royalties and shipping fees. Since 1982, the product has been classified for duty-free treatment under the GSP. Our major competitors are Italian and Swiss companies. Even without benefit of the GSP, the Italians and Swiss are able to sell the drug in the United States at a slightly lower price than we are able to, even though we benefit from the GSP. Obviously, if we were no longer able to receive duty free benefits, we would not be able to compete with the Italians and the Swiss and, as this is a major product line, we could be forced out of business.

In light of this background, you can understand why Plantex - U.S.A. favors both renewal of the GSP and the establishment of a free-trade area with Israel. In your deliberations of what course of action to take, I urge you to consider small importing businesses such as Plantex. We are Americans and we employ Americans. We sell health-care products in the United States at great benefit to American health care

- 2

consumers. Without duty-free treatment, our most important product, which we import from Israel, would not be competitive in the United States because of competition from drugs produced in developed nations. It is certainly in the best interest of the United States for our product to enter duty-free, for if we are forced out of the market, it is certain that the American consumer will pay more for this product.

I turn now to the effect that reimposition of the high duty would have on our parent company in Israel. If Plantex is unable to sell its parent company's products in the United States, Teva Pharmaceutical in Israel would also suffer significantly. I can illustrate this point with the following example: In 1980, when the American Selling Price method of valuation was abolished, the duty on amitriptyline-hydrochloride, which was not then on the GSP, went from 6.6% to 36%. After that date, and before the drug was placed on the GSP in 1982, Plantex sold almost none of it in the U.S.

As a result, the parent company in Israel (then Plantex Ltd., which was later acquired by Teva) suffered serious reverses, forcing the closing of one plant, sale of its assets to another company, and retrenchment at its remaining facilities. Given this history, the impact of reimposing duties would clearly be felt in Israel.

I would like to point out here that Teva has had some other serious trade set-backs in recent years. Its major export markets were in Iran and Africa. For political reasons, these markets are now closed to Teva. As with other Israeli companies, Teva is limited politically to those export markets it can develop. Therefore, the European and U.S. Markets are crucial.

Teva can compete in Europe, where its products receive duty-free treatment, and now it can compete in the U.S. with the GSP. Without duty-free treatment, it will be forced out of the U.S. market. I should point out here that, unlike competing companies producing drugs in developed countries, most of which possess sufficient natural resources for the production of intermediates, Teva must import most of these raw materials used to produce its products. It is thus at a competitive disadvantage vis-a-vis those developed countries. Elimination of duties can help to offset this disadvantage.

Finally, I would like to note that U.S. amitriptyline-hydro cloride can and does enter Israel duty-free. Thus, there is at this time full reciprocity between Israel and the U.S. as to tariff treatment of this drug.

Diva

DIVA FASHIONS, LTD. 1411 Broadway • Suite 1705 • New York, New York 10018 • Telephone (212) 840-7898

February 16, 1984

United States of America - Israel Free Trade
Agreement Hearing

As importers of Israeli swimwear, we would like to extend our support of a free trade agreement between the United States & Israel.

Over the past five years since our firm has been in the United States, the American swimwear consumer & buyer have learned that the high quality of workmanship & fashion forward concept of design makes our product unique. A F.T.A. would enable our customer to buy this unique product at a comparable price to an american product. Many prospective customers do not buy our product because our price point reflects the 32½% duty we pay on all of our swimsuits.

In addition, we believe a F.T.A. would benefit the U.S. Government by enabling American exporters to compete with European exporters by increasing their share of the market in Israel.

Hopefully this F.T.A. would be a key to peace in the Mid-East.

Sincerely
Diva Swimwear of New York

Furman's
SUPERIOR BRAND
Quality Canned Vegetables

FURMAN CANNING CO.
R. D. #2 NORTHUMBERLAND, PA. 17857
PHONE 717 - 473-3516
UPC Manufacturer's No. 41100

STATEMENT TO THE SENATE COMMITTEE ON FINANCE

PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

February 6, 1984 Room SD-215 Dirksen Senate Office Building

Furman Canning Company is very much opposed to the granting of duty-free treatment on canned tomatoes and other processed tomatoes from Israel.

Furman Canning Company is a small family-owned business which operates a canning plant in central Pennsylvania. Our principal business is in canned tomatoes. During the summer months of June, July, August, and September, we can peas, snap beans, and tomatoes, all of which are delivered to our processing plant by farmers in the area. During the other eight months of the year we utilize our plant capacity in the canning of dry beans.

The principal business of the Furman Canning Company is canned tomatoes, which accounts for 75% of our seasonal pack of canned vegetables and 35% of our total year round production. We do not believe we could continue to stay in business if we could not operate at a profit on canned tomatoes, which is the backbone of our business.

We have already encountered Israeli tomato products in our area. Israeli #10 crushed tomatoes are now being delivered to customers in our trading area at prices which are below our costs. The current tariff rate of 14.7% on peeled tomatoes,and 13.6% on tomato sauces is not a deterrent to Israeli imports and we are concerned that any reduction in that rate of duty would have disastrous consequences for us as canners and on our growers and our communities. If the duty comes off, the Israeli price could drop another $1.30. If we had to drop our selling prices to those levels we would go bankrupt in a rather short time span.

According to Bureau of the Census figures, imports of Israeli tomato sauces jumped 136% from 1981 to 1982. I do not have 1983 figures but I assume they also increased.

The Furman Canning Company is a small business. We contract with a total of 198 farmers of whom 183 grow tomatoes for us. We contract in advance of the season, thereby guaranteeing the farmer a firm price per ton for their products even before the crop is grown and guaranteeing us an adequate supply of fresh vegetables. Many of these farmers have grown crops for us for 20 years or more. Our economic well-being as canners, very directly affects their economic well-being as farmers. The total paid by our company to our 183 tomato growers in 1983 was $3,321,692.00

The Furman Canning Company employs 165 people on a year-round basis and an additional 175 during the canning season. Our total payroll for 340 people during 1983 was $2,810,733.00

We believe there are approximately 100 tomato canners in the United States, many of them small businesses like ours, who also rely on canned tomatoes as the principal item in their product line. Although we cannot speak for any of them, we know with certainty that duty-free imports of canned tomatoes and tomato concentrates from Israel would be disastrous for our business.

We most earnestly recommend that canned tomatoes and other processed tomato products be excluded from the Free Trade Area agreement and we ask that congress do so by statute if necessary to accomplish that objective.

Respectfully submitted,

Joel R. Furman

Joel R. Furman
V.P.Marketing

STATEMENT TO THE SENATE COMMITTEE ON FINANCE
PROPOSAL FOR FREE-TRADE AREA WITH ISRAEL

February 6, 1984 Room SD-215 Dirksen Senate Office Building

The tomato growers of Pennsylvania are very much opposed to the granting of duty-free treatment on canned tomatoes and other processed tomatoes from Israel.

There are 5000 acres of tomatoes grown in Pennsylvania for processing with a value of 7 million dollars. Tomatoes are the most important processing crop in Pennsylvania. It is a very important revenue to over 400 growers in Pennsylvania.

The processors we grow for have already encountered Israeli canned tomatoes in the market place which are prices below their cost. The current tariff rate of 14.7% is not a deterrent to Israeli imports and we are concerned that any reduction in the rate of duty would have a disastrous consequences for the canners and us as growers.

We would have to reduce our prices on raw tomatoes by $27 per ton in order for our processors to be competitive with duty free imports from Israel. This price would be $12 below our production cost. Many growers could not continue to stay in business if they could not grow tomatoes at a profit.

We most earnestly recommend that canned tomatoes and other processed tomato products be excluded from the Free Trade Area Agreement and we ask that Congress do so by statute if necessary to accomplish that objective.

Sincerely yours,
Dwight Hess/erh
Dwight Hess

STATEMENT OF THE CALIFORNIA FARM BUREAU FEDERATION
BEFORE THE SENATE COMMITTEE ON FINANCE
REGARDING THE PROPOSAL TO ESTABLISH A
U.S./ISRAEL FREE-TRADE AREA

Submitted by
Henry J. Voss, President

February 6, 1984

The California Farm Bureau Federation is the state's largest general farm organization, representing over 100,000 member families. Among our members are over 800 cut flower producers, 1,100 processing tomato producers, 700 olive producers, 2,000 citrus producers, and 1,300 avocado producers. The creation of a duty-free trade arrangement with Israel has the potential to severely affect the domestic markets of these import-sensitive crops.

Current statistics on imports, production, market apportionment, import duties, and subsidies provided by the Israeli government have been presented to the Committee by other U.S. agricultural groups which will be affected by the proposal. Testimony presented to the Committee on behalf of the American Farm Bureau Federation described the current imbalance of trade between the U.S. and Israel and the inequitable nature of the proposal. Those statistics clearly illustrate the precarious position of U.S. horticultural crop producers and therefore we oppose the inclusion of agricultural products in the proposed bilateral agreement.

While we favor the reduction of trade barriers between nations and trading on a strictly commercial basis, we believe any change in current trade relationships must be negotiated to ensure that such changes are mutually advantageous. This legislation could set a dangerous precedent which could invite such requests from a myriad of other countries, eroding the foundation of all other negotiated trade agreements. The proposal could also be a violation of the General Agreement on Tariffs and Trade by awarding special treatment to one nation, an action which the United States has challenged when taken by other nations.

We join the American Farm Bureau Federation and other agricultural groups in requesting that agricultural products be exempted from the proposal to establish a free-trade area with Israel.

California League of Food Processors

CHARLES E. BAILEY
CHAIRMAN
ROBERT W. ZWISSIG
VICE CHAIRMAN
LAWRENCE K. TABER
PRESIDENT
GERALD H. UPHOLT
VICE PRESIDENT
E. D. YATES
VICE PRESIDENT

STATEMENT TO THE SENATE COMMITTEE ON FINANCE
February 13, 1984
EXCLUSION OF CERTAIN PROCESSED FOOD PRODUCTS
FROM [redacted] FREE TRADE AREA

The California League of Food Processors, whose member companies produce approximately 75 percent of the canned fruits and vegetables produced in California, urges that four groups of processed food products -- Tomatoes, Artichokes, Olives, and Fruit Mixtures -- be excluded from the United States-Israel Free Trade Area.

The articles of concern are:

(1) Tomatoes, prepared or preserved:

TSUS 141.65 Tomato paste and sauce

TSUS 141.66 Tomatoes, prepared or preserved, other

TSUS 140.74 Tomatoes, dried, desiccated, or dehydrated, reduced to flour

(2) Artichokes, prepared or preserved:

TSUS 141.76 Artichokes packed in salt, in brine, or pickled

TSUS 141.92 Artichokes, prepared or preserved, other

(3) Olives, prepared or preserved:

TSUS 148.44 Olives, not ripe, not pitted or stuffed, green in color

TSUS 148.46 Olives, ripe, not pitted or stuffed, not green in color

TSUS 148.48 Olives, ripe, not pitted or stuffed, green in color

TSUS 148.50 Olives, pitted or stuffed

TSUS 148.56 Olives otherwise prepared or preserved

(4) Fruit Mixtures:

TSUS 150.05 Fruit mixtures containing apricots, citrus fruits, peaches or pears

California League of Food Processors ☐ 1007 L Street ☐ Sacramento, Ca 95814 ☐ (916)444-9260

All of the enumerated articles are among the 10 percent of Israeli products which are not imported into the United States duty free. The enumerated articles are not duty-free in this country because they are import-sensitive.

The MFN rates of duty on most of the enumerated articles have not been reduced for many years.

This statement details the numerous steps taken by the Executive Branch to withhold the articles of concern from MFN tariff reduction and from duty-free GSP treatment, often by creating new tariff classifications for the specific purpose of excluding these products from tariff reduction or elimination.

Great care was taken by the United States not to reduce the MFN rate of duty on any of these products during the Tokyo Round.

Care also has been taken by the United States not to grant duty-free treatment on these products under the Generalized System of Preferences. The Executive Branch has accepted petitions for GSP treatment on most of these products and, after public hearings and reconsideration, has refused to grant GSP treatment.

The U.S. International Trade Commission and its predecessor agency, the Tariff Commission, have consistently recommended against reductions in the MFN rates of duty, and against GSP treatment on all of these products, and generations of U.S. trade policy administrators have come to the same considered judgment: That tariffs on these products should not be reduced or eliminated.

In summary, the United States has consistently withheld its MFN rates of duty on the five product groups -- Tomatoes, Artichokes, Olives, Fruit Mixtures, and Citrus Juices -- from reduction or elimination.

In the face of these considered judgments on the need to hold the line on U.S. tariffs on these products -- because of their import sensitivity and their economic importance to U.S. growers and processors -- it should be unthinkable to reduce or eliminate U.S. tariffs on these products, even for the benefit of one trading partner.

All of the articles of concern should be excluded from the Free Trade Area by statute.

Canned Tomatoes and Tomato Concentrates

The considered position of the Executive Branch is to hold the line on the MFN rates of duty on tomato paste and sauce (TSUS 141.65) and on canned tomatoes (TSUS 141.66).

The considered position of the Executive Branch is also to hold the line on the MFN rate of duty on tomato flour (flakes) (TSUS 140.74), an ingredient from which tomato paste can be made.

Tariff History: The MFN rates of duty on tomato paste and sauce and on canned tomatoes were reduced by Ambassador Roth in the closing hours of the Kennedy Round in response to a specific request by the EEC's chief negotiator, Commissioner Rey. The concession rates on the two tomato products were less than the 50 percent permitted by the TEA of 1962 because the concessions were a political gesture which was contrary to the U.S. Tariff Commission recommendations and contrary to the established U.S. position.

Great care was taken during the Tokyo Round not to reduce the MFN rates of duty on tomato paste and sauce or on canned tomatoes.

A petition for GSP treatment on canned tomatoes was accepted for review and public hearings held on it in 1978. After reconsideration, the petition was denied.

The separate classification for tomato flour (flakes) was established in 1982, at Executive Branch initiative, in order to withhold tomato flour from the grant of GSP treatment on miscellaneous vegetable flours (Case No. 81-20).

Artichokes

The considered position of the Executive Branch is to hold the line on the MFN rates of duty on pickled artichokes (TSUS 141.76) and on otherwise prepared or preserved artichokes (TSUS 141.92).

Tariff History: Pickled artichokes were initially classifiable within the basket classification for miscellaneous pickled vegetables (TSUS 141.75). The most recent MFN rate reduction was in 1963, 21 years ago, and that was for cucumber pickles from the EEC.

The separate classification for pickled artichokes (TSUS 141.76) was created in 1976, at Executive Branch initiative, in order to withhold pickled artichokes from the grant of GSP treatment on miscellaneous pickled vegetables.

Other prepared or preserved artichokes (not pickled) were initially classifiable within the basket classification for miscellaneous processed vegetables (TSUS 141.81). The most recent MFN rate reduction was in 1955.

The separate classification for otherwise prepared or preserved artichokes was created in 1981, at Executive Branch initiative, in order to withhold these artichokes from the grant of GSP treatment on miscellaneous processed vegetables (Case No. 79-8).

Olives

The considered position of the Executive Branch is to hold the line on the MFN rates of duty on almost all styles of olives.

Tariff History: The United States has reduced the rates of duty on only two of nine tariff classifications for olives. The MFN rates of duty on TSUS 148.36 and on TSUS 148.54 were reduced in 1950, 34 years ago, with Greece the principal foreign supplier. The rates of duty on other styles of olives have not been reduced below the column 2 rates.

Petitions for GSP treatment have been accepted for review, and public hearings held, and the petitions denied, as follows:

Case No.	TSUS	Petitioner
79-13	148.44 Olives	Hazayith of Israel
79-14	148.50 Olives	Hazayith of Israel
79-15	148.56 Olives	Hazayith of Israel
80-21	148.52 Olives	Government of Morocco
80-22	148.54 Olives	Government of Morocco
82-18	148.44 Olives	Hazayith of Israel

The Administration has specifically considered GSP petitions submitted by Israel and has rejected them. The Administration rejected GSP treatment on one item, TSUS 148.44, a second time.

Fruit Mixtures

The considered position of the Executive Branch is to hold lthe line on the MFN rate of duty on TSUS 150.05, prepared or preserved fruit mixtures.

Tariff History: Prepared or preserved fruit mixtures were initially provided for in TUSU 150.00. The MFN rate of duty was reduced to 17.5 percent in 1951, 33 years ago, with the Dominican Republic the principal foreign supplier.

TSUS 150.00 was subdivided during the Tokyo Round in order to provide for a concession rate on "tropical fruit salad", chiefly from developing countries. In subdividing TSUS 150.00, the United States maintained the 17.5 percent rate of duty on prepared or preserved fruit mixtures "containing apricots, citrus fruits, peaches or pears".

The text of the new tariff classification was carefully developed in order to safeguard, specifically, the U.S. industries which produce such products as fruit cocktail and citrus salads.

In 1980 the United States accepted for review a petition from Israel for GSP treatment on TSUS 150.05, the product which the United States had specifically reserved from the Tokyo Round concession. The GSP petition was denied.

Conclusion

On the basis of U.S. International Trade Commission and interagency reviews, the articles of concern -- Tomatoes and Tomato Products, Artichokes, Olives, and Fruit Mixtures -- have been identified by the Executive Branch as import-sensitive products on which MFN tariff rates should not be reduced and GSP treatment should not be granted.

The Administration has presented no evidence that we know of to justify a complete reversal of its well-considered policy of holding the line on MFN tariff rates on these products.

All of the articles of concern should be withheld from the Free Trade Area by statute.

Respectfully Submitted,

CALIFORNIA LEAGUE OF FOOD PROCESSORS

Lawrence K. Taber
President

LKT:d

BEFORE THE UNITED STATES SENATE
COMMITTEE ON FINANCE

HEARING ON PROPOSED
FREE-TRADE AREA WITH ISRAEL

STATEMENT OF THE
CALIFORNIA-ARIZONA CITRUS LEAGUE

California-Arizona Citrus League
P.O. Box 7888, Valley Annex
Van Nuys, CA 91409

This statement is being submitted by the California-Arizona Citrus League (the League) for the written record in connection with the February 6, 1984, hearing on the Administration's proposed free-trade area with Israel. The League is a voluntary non-profit trade association composed of marketers of California and Arizona citrus. It speaks on behalf of the California-Arizona citrus industry on matters of general concern, including legislation, foreign trade and related topics.

The League objects to the Administration's proposed free-trade area on both policy and economic grounds and welcomes this opportunity to present our views.

The Administration has declared in hearings before this Committee and in other contexts that the proposed free-trade agreement with Israel is expected to be similar to

Counsel:

Julian B. Heron, Jr.
Carolyn B. Gleason
Heron, Burchette, Ruckert & Rothwell
1200 New Hampshire Avenue, N.W.
Suite 420
Washington, D.C. 20036

Date: February 17, 1984

the trade agreement Israel now has with the EEC. Our major objection to the proposal relates to this EEC/Israel trading arrangement and the comparisons being drawn with it.

As this Committee knows, the Community's preferential trade arrangements with Israel and other Mediterranean countries on citrus imports are currently the subject of the oldest outstanding U.S. trade complaint under Section 301 of the Trade Act of 1974, as amended, and the predecessor section, Section 252. The case has been pending for more than 14 years and is now being prosecuted under the dispute settlement provisions of the General Agreement on Tariffs and Trade (GATT).

The case was brought, and has been vigorously pursued, because the EEC's preferential trade agreements with Israel and other Mediterranean countries have cost our domestic industry dramatic reductions in lost EEC sales. Since the introduction of the EEC's preference scheme for Mediterranean citrus producing countries in 1969 and 1970, EEC imports of fresh oranges from the United States have decreased by over 30 percent. EEC imports of U.S. lemons have dropped over one-third. These export losses are largely attributable to the EEC tariff preferences enjoyed by Israel, one of the leading Mediterranean citrus suppliers to the Community.

Given Israel's complicity in an illegal trading arrangement that has caused extreme harm to our industry, it is wrong as a matter of policy to reward Israel with duty-free access to the U.S. market for citrus and citrus products. A removal of U.S. tariffs on these products would remove any incentive for Israel to help correct the scheme that has caused the United States so much damage.

Further, by referencing the EEC's agreement with Israel as a model for the U.S./Israel proposal, the Administration has sent misleading and damaging signals to the GATT panel considering our complaint. Both our government and industry have devoted too much time and expense to this case to allow U.S. actions or pronouncements to negatively affect the outcome.

Equally important, because U.S. sales abroad have suffered so extensively from the EEC/Mediterranean trading arrangements, the Administration should not jeopardize our home markets by opening our doors to citrus or other agricultural products, one of Israel's major agricultural exports. It should be remembered that although Israel now supplies most of its agricultural products to the EEC, once Spain accedes to the Community, Israel will need to rely more heavily on its second largest export outlet, the United States. A flood of Israeli agricultural imports into the U.S. east coast, particularly of speciality crops, should be expected if tariff preferences are extended to Israel. Since Israel does not import citrus, U.S. market losses would not be offset by trade liberalization in Israel. The Administration and Congress should not allow the interests of California agriculture to be sacrificed in this fashion in order to assist Israel.

The Administration should also be concerned that an agreement such as this is likely to produce a proliferation of similar arrangements that would cause even greater economic harm to our industry and the U.S. economy. The Committee is reminded of the EEC's system of preferential trading arrangements with the ten Mediterranean countries. This broad-reaching system began in 1969 in the form of individual agreements with Morocco and Tunisia. Because these agreements produced intense political pressure from the other Mediterranean nations for comparable agreements, the EEC found itself by 1976 engaged in eight other preferential trading arrangements, including one with Israel.

The United States' long term agreements provide another example of how bilateral trading arrangements inevitably proliferate. Although the U.S./Soviet long term agreement was negotiated and tauted as a unique arrangement, subsequent political pressure has forced the United States to negotiate similar agreements with the People's Republic of China and Mexico.

The United States should expect similar pressure to follow from a trade agreement with Israel, not only from certain Mediterranean countries, but also from countries closer to home, such as Mexico and Brazil. Pressure would be particularly strong from these latter countries, which already feel disadvantaged by the benefits being extended to the Caribbean Basin nations. Duty free treatment for citrus and citrus products from the Mediterranean, Mexico, Brazil, or any other country with a similarly advanced citrus industry would unquestionably cause economic devastation to our home market, both in the form of a dramatic drop in sales and a sharp decline in employment.

In addition to these economic concerns, there are obvious policy reasons to be concerned about additional trade preference agreements. If additional countries were put on an equal footing with Israel, the preferential trade advantages intended by the Administration's U.S./Israel proposal would be significantly weakened. This would also dilute the benefits intended by the Caribbean Basin Initiative.

If the Administration is committed to the U.S./Israel proposal for political reasons -- and the League hopes that it is not -- the negotiated agreement and implementing legislation should contain an explicit prohibition against extending trade preferences to other countries. The prohibition should particularly cover benefits for citrus and other agricultural products, since these are major trade items for all countries involved.

Indeed, if the Administration and Congress are truly committed to providing trade advantages to Israel, then agricultural products should also be excluded from eligibility under the Generalized System of Preferences, which affords a vast array of countries the benefits of zero duty treatment. H.R. 3581 provides for this exclusion and we encourage the Committee to support its passage.

In sum, the League opposes for economic and policy reasons the extension of trade benefits on citrus and citrus products to a country involved in a trade arrangement that has caused clear damage to U.S. citrus exports. The League is also concerned that the United States will be pressed into providing similar benefits to other nations with advanced citrus and agricultural industries. This would cause irreparable harm to both our industry and the U.S. economy. To prevent such consequences, the California-Arizona citrus industry strongly urges this Committee to oppose trade liberalization for Israel, particularly on citrus and citrus products. The Committee's assistance and close supervision on this matter is appreciated.

Date: February 17, 1984

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the U.S. Senate Committee on Finance in a hearing on an Administration proposal to establish a free-trade area with Israel. February 6, 1984

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

I support an initiative to "free up" two-way trade between the United States and Israel. However, I object to formation of a free-trade area consisting of just these two countries independently of a U.S. initiative to negotiate a free-trade arrangement with as many countries as care to join with the United States in such a venture. Our Council is alone in its advocacy of such a comprehensive U.S. invitation, and of the domestic adjustment and redevelopment strategy required to secure and sustain a definitive, dependable free-trade policy.

If it turned out that Israel became the only country (at least initially) to accept a U.S. invitation to negotiate a free-trade arrangement, then a strictly bilateral free-trade area comprising these two countries would be acceptable as consistent with the trade-policy principles to which we should adhere. Such, however, is not the case in the Administration's current proposal to establish a free-trade area with Israel alone.

Moreover, the United States lacks a domestic adjustment and redevelopment strategy calculated to ensure that all Israeli products would be programmed for free access to the U.S. market in accordance with a realistic timetable, and that these products would be assured continued free access except in a dire emergency for a competing U.S. industry -- an emergency where <u>temporary</u> departure from the free-trade commitment might be necessary to buy time for an adjustment strategy in which temporary import restraint would be only one component, and even then a measure of last resort. Israel is probably even less prepared to program free access for all U.S. products to the Israeli market, and to make any departure from a free-trade commitment only a temporary measure of last resort limited to emergencies in which coherent industry-adjustment programs would be adopted to restore free-trade status as quickly as possible.

In short, the United States should not seek a free-trade area with Israel except as part of the grand design to which I have referred. And, even if the initiative is limited to the strictly bilateral focus as now seems to be envisaged, it should not be undertaken unless both parties are prepared to program removal of all trade barriers affecting their two-way trade and to sustain such import status with appropriate policies of domestic adjustment and redevelopment. Our country (possibly Israel as well) seems unprepared on both counts.

A free-trade agreement with Israel, or a significant step toward free trade with that country, would enable the United States to lessen the disadvantage for U.S. exports to Israel caused by Israel's quasi-"free trade" agreement with the Economic Community. Lessening and ultimately removing such a disadvantage is something to be welcomed. But this is not sufficient justification for neglecting the trade-policy principles to which we should hold -- the standard to which we should be diligently raising the sights of all nations.

Statement of SAF--The Center for Commercial Floriculture
to
The Senate Finance Committee regarding a hearing, February 6, 1984,
On a Proposal to Establish a Free-trade Area with Israel

As the only national trade association representing the entire floral industry--growers, wholesalers and retailers of floral products--SAF--The Center for Commercial Floriculture is concerned about the Administration's proposal to establish a free-trade area with Israel.

Over the years, SAF has closely monitored the status of various negotiations, treaties, rules, regulations and general orders involved in the complex world of international trade. In addition, SAF has consistently supported the process through which multilateral trade negotiations are made and has backed negotiations favorable to the U.S. economy and to U.S. agriculture, especially the floral industry. Mechanisms are in place for trading on the global marketplace, and SAF has given them its full support.

This proposal for giving duty-free treatment to imports from Israel clearly circumvents the letter of multilateral trade negotiations which are now in force and used throughout the world. In other words, if a free-trade area is established with Israel that would effectively and immediately erase tariffs and non-tariff barriers between Israel and the United States, the system will have been bypassed and the usual road that trade negotiations take will have been detoured.

For example, Israel currently is afforded significant reductions in duties through the Generalized System of Preferences (GSP), one of the trade mechanisms supported by SAF that is designed to help developing nations improve their economies. Through the GSP regulatory system, Israel can, however, petition to receive additional duty-free treatment for a wide variety of its products. SAF feels this process should not be skirted by giving Israel additional and immediate trade advantages outlined in this proposal.

From SAF's point of view, the crux of the matter lies in the circumvention of existing mutilateral trade negotiation regulations. This proposal offers too much without following prescribed channels.

SAF appreciates the opportunity to submit this testimony and kindly requests that these views be considered as work progresses on this proposal.

CEG-I

Committee for Economic Growth of Israel

Executive Office — 5301 North Ironwood Road, P.O. Box 2053, Milwaukee, Wisconsin 53201 (414) 961-1000
Israel Office — 22 Bar Ilan Street, Tel Aviv (03) 226612

Contact: Richard Cohen Associates
(212) 758-6969

For Release
Monday PM, Feb. 6th

PROPOSED FREE TRADE AREA BETWEEN U.S. AND ISRAEL WOULD CREATE JOBS, OPEN NEW EXPORT OPPORTUNITIES, ELMER WINTER TELLS THE SENATE FINANCE COMMITTEE

WASHINGTON, Feb. 6 -- The proposed Free Trade Area between the United States and Israel will open new export opportunities for American manufacturers, create new jobs in the U.S. and help Israel move toward economic independence, the Senate Finance Committee was told today.

Elmer L. Winter of Milwaukee, chairman of the Committee for Economic Growth of Israel, testified in support of an Administration proposal that would permit Israel and the U.S. to trade with each other duty-free.

Mr. Winter, a co-founder and past president of Manpower, Inc., spoke in the name of CEG-I, a nonprofit organization dedicated to expanding business relationships between Israel and the United States. He also testified in behalf of the American Jewish Committee, of which he was president from 1974 to 1978.

Mr. Winter listed seven economic reasons for supporting the proposed Free Trade area, which was agreed upon in principle by President Reagan and Israel Foreign Minister Yitzhak Shamir during their talks in Washington last November. They were:

1. "The proposed FTA will open new export opportunities for U.S. manufacturers."

Increased exports of American-made products will be generated because of lower Israeli tariffs, Mr. Winter said, adding: "This will mean increased U.S. jobs and an increased share of the market in Israel for American-made products."

2. "The proposed FTA will open new R&D opportunities for U.S. companies in Israel."

Citing the "many new breakthroughs" by American firms that do research-and-development work in Israel, Mr. Winter said the Free Trade Area could lead to the manufacture of new products for export from the U.S., thus reducing the American trade deficit, which last year amounted to $69 billion.

3. "The proposed FTA will provide new opportunities for U.S. companies operating their plants in Israel to sell their products in Europe."

Because Israel already enjoys duty-free access to the European Economic Community, Mr. Winter observed, American companies with manufacturing facilities in Israel can sell their products competitively in Europe. At the same time, the FTA will make it possible for American companies to sell, duty-free to Israel, components produced in the U.S. for inclusion in a final product to be assembled in Israel and sold to the European Common Market, Mr. Winter said.

4. "The proposed FTA will provide to Israel an opportunity to reduce her deficit in the balance of payments in relationship to the United States."

In 1982, U.S. exports to Israel amounted to $1.5 billion, while Israel sold $1.2 billion in exports to the United States. By permitting Israel to sell its products in the United States duty-free, Mr. Winter said, the FTA will help Israel reduce its negative trade balance with the U.S. and move toward economic independence.

Israel's Belt-Tightening Measures

Mr. Winter told the Senate committee that Israel "has bitten the economic bullet" by devaluing its currency, cutting its budget, reducing state subsidies and freezing public hiring. These cuts, he said, "will provide economic stability by reducing rampant inflation" and help Israel move "in the direction of regaining economic viability."

5. "The proposed FTA will assist Israel in becoming financially independent of the U.S. in the future."

"We believe it is in the best interests of the United States and Israel," Mr. Winter said, "that Israel work to a point where it will be able to stand on her own two feet. This will gradually reduce the funds that the United States government commits annually to assist Israel to meet her economic needs."

6. "<u>The proposed FTA will not adversely affect U.S. jobs</u>."

Rather, Mr. Winter said, "the Free Trade area will increase opportunities for the export of American-made products to Israel, thus creating more American jobs."

7. "<u>The proposed FTA will be the first step towards the future development of a Mid-East Common Market</u>."

Asserting that "the U.S. can and must play a major role in bringing about a Common Market in the Mid-East, Mr. Winter said the Free Trade Area "may well provide the incentive for some Arab countries and Israel to meet and resolve their political differences."

<u>Plan for Israel's Economic Independence</u>

Mr. Winter is the author of an economic blueprint entitled, "A Plan to Make Financially Independent in 1990." The plan envisions the expansion of trade between the United States and Israel, the increase of R&D by U.S. companies in Israel and the development of joint R&D projects by American and Israel firms in energy, agricultural development and medical technology.

STATEMENT OF LEATHER PRODUCTS COALITION TO THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ON A PROPOSAL TO CREATE AN ISRAEL FREE-TRADE AREA

February 6, 1984

This statement is presented on behalf of several members of the Leather Products Coalition, a group of trade associations and labor unions in leather-related industries. The organizations taking the position included in this statement are:

Amalgamated Clothing and Textile Workers Union, AFL-CIO
Footwear Industries of America, Inc.*
International Leather Goods, Plastics and Novelty Workers' Union, AFL-CIO
Luggage and Leather Goods Manufacturers of America, Inc.
Work Glove Manufacturers Association

The products manufactured by these organizations include footwear, luggage, handbags, personal leather goods, work gloves, and leather wearing apparel.

From the outset of our testimony, we wish to make clear that our statement is not directed at the State of Israel, one of our closest political allies and friends. Indeed, individual unions and many principals of many firms in the leather products sector have close ties to the State of Israel and have worked long and hard to cement the strong cultural, political and economic ties between our two countries. We want to make it clear, therefore, that what

* We understand that the Footwear Division of the Rubber Manufacturers Association, representing rubber footwear manufacturers, is filing a separate statement. Footwear Industries of America, Inc. associates itself with the RMA views.

we are opposing is the concept of free-trade areas in general for reasons we will fully address in our testimony. The creation of such arrangements is simply bad trade policy and is also potentially harmful to leather-related products and workers.

I.

Leather Related Products Are Import Sensitive

Few industries in the United States have suffered as greatly at the hands of imports from developing countries as have the leather-related industries. The domestic industries producing footwear, luggage, handbags, flat goods, work gloves, and leather wearing apparel have all experienced the adverse effects of massive and increasing levels of imports. These import-sensitive industries cannot afford any further loss of market share to imports.

Imports of leather-related products have increased tremendously at the expense of U.S. production, market share and jobs. Table 1 attached to our testimony provides some selected economic indicators on these industries. These data show that current (1983) import penetration rates in the leather-related industries are 64 percent for nonrubber footwear, 35 percent for personal leather goods, 45 percent for luggage, 40-45 percent for work gloves, 59 percent for leather wearing apparel and 85 percent for handbags. Few other sectors have experienced such high import penetration. Clearly, imports of leather-related products do not need preferential duty treatment to penetrate the U.S. market. Moreover, almost 22,400 jobs have been lost in the leather products industries between 1981 and 1983 alone, as the unemployment rate in the leather products sector rose to a staggering 17.8 percent last year. Most workers who have lost their jobs have been unable to find alternative employment. Table 2 attached to our testimony provides additional employment data in the leather-related products industries.

At this point in time, we would hope that the import-sensitivity of these industries would finally be acknowledged by the U.S. Government. All but the leather wearing apparel industry have received technical assistance grants from the U.S. Department of Commerce designed to aid import-impacted industries. Firms and workers in all of the leather-related industries have received adjustment assistance. Both the footwear and the leather wearing apparel industries received a unanimous finding of serious injury from imports by the ITC under the "escape clause." Moreover, most of these leather-related products are not on the (GSP) preference list, a situation consistent with their import-sensitivity.

Most recently, the extreme import-sensitivity of the leather-related industries was recognized in the exclusion that Congress granted leather-related products from duty-free treatment under the Caribbean Basin Initiative legislation. GSP legislation contains a statutory exclusion for footwear (as well as textiles, apparel and certain other products). The rationale for the CBI and GSP exclusions is directly relevant here as well. The proposed free-trade area with Israel would be directly contradictory with congressional policy of long standing. The fact that the country involved is Israel makes it no more acceptable.

II.

Impact of a Free-Trade Area on Leather-Related Products

In a speech delivered before the United Nations in October 1982, U.S. Secretary of State, George P. Shultz referred to the CBI as a "model for fair and productive cooperation between economies vastly different in size and character." It would appear that the Administration, having once established the precedent of preferential (other than GSP) duty arrangements, does not feel constrained in its efforts to begin negotiating other such bilateral arrangements around the world. Not only are such arrangements a flagrant abuse of the GATT, our multilateral trading system, and the most-favored-nation principle on which it is built, but such arrangements undermine the system through, and indeed encourage, bilateralism. In the process, our whole international trade policy becomes politicized. This is irresponsible trade policy, and should be nipped in the bud. Once such a trade policy is established, we can expect that many more countries or regions will knock on the door looking for special market access. On what basis can we turn them down, having already negotiated preferential trade arrangements for the developing countries (GSP), the Caribbean (CBI), and, now, Israel (a free-trade area)? The ASEAN countries have already indicated they want the same treatment.

Many would argue that a two-way free-trade area would be mutually advantageous. This is certainly not the case. Although the United States ran a trade surplus with Israel in 1982 and 1983, the surplus largely consisted of U.S. military sales to Israel. In 1982, our imports from Israel totaled $1.2 billion, and Israel already benefits from GSP duty-free access to our market on over one-third ($407 million in 1982) of its exports to the United States. Israel ranks seventh among the major GSP beneficiaries. Israel's average wage rates in manufacturing are only about one-half the U.S. rates, providing a labor cost advantage on the manufacture of certain products (such as the six leather-related products) which have a high labor content. Moreover, the difference in the size of the population between the United States and Israel -- 233 million <u>vs</u>. 3½ million -- seriously limits what the United States can expect to export to Israel. Congress must also consider the impact of such a proposal at a time when this Nation is racking up massive record trade deficits: $69 billion in 1983 and Administration forecasts of $110 billion in 1984. Every increase of $1 billion in the trade deficit costs this country 25,000 jobs.

While we have not seen any details of this proposal, we are greatly concerned over what the rules of origin, i.e. local content, will be, if any. Even the GSP and the CBI require some degree of local content to ensure the programs are meaningful. Country of origin requirements are necessary to prevent blatant transshipment of products from third country suppliers seeking to take advantage of the duty-free access to the U.S. market. Similarly, value-added requirements are necessary to prevent the use of the free-trade area to set up repackaging operations. Without these types of requirements, it is a sure bet that countries, such as the Far Eastern countries which already supply the bulk of leather related products to the United States, will take unfair advantage of a free-trade area in Israel.

Duties on leather-related products range from 0 to 25 percent, and they do make a difference: Leather wearing apparel (a product which Israel already sends to the U.S. market in sizeable quantities) received duty-free treatment under GSP from 1976 to 1978. Under provisions of the GSP, the duty dropped from just 6 percent to zero. Imports grew dramatically. For example, imports of leather wearing apparel from Korea were $25.3 million in 1975 (before GSP). In 1978, after three years of duty-free treatment, the dollar volume had grown to $114.3 million. Argentina went from $2.9 million in 1975 to $43.9 million in 1978.

What will be the safeguard provisions for import sensitive industries, if any, in this proposal? If they are access to the current trade remedies laws, then such safeguards are totally inadequate. These industries are, quite naturally, "gun-shy" regarding Presidential discretion to grant relief, because the record of such discretionary relief with respect to these industries has been so poor. For example, footwear and leather wearing apparel were denied import relief by Presidents Ford and Carter, respectively, despite unanimous affirmative import injury findings by the International Trade Commission. President Reagan terminated import relief for the footwear industry despite a recommendation to the contrary by the ITC. And the footwear industry's 301 petition on unfair trading practices was virtually ignored by this Administration.

Even on the chance that the safeguard provisions could be incorporated in the free-trade area proposal, they are not a substitute for exemption from duty-free treatment for leather-related products because:

-- imports of these products from Israel are still small and our industries could not now make the case that such imports are causing injury when imports from the Far East are so much larger.

-- Even if the situation deteriorated to the point that a case could be successfully made with respect to imports from Israel, by the time import relief was delivered, imports would have already caused the damage.

-- The production skills and techniques are very similar for all of these industries, as well as between the leather-related industries and the apparel industry. If import relief were to be granted on one leather product imported from Israel, production would merely shift to another leather product.

In conclusion, we are opposed in concept to free-trade areas and we are unalterably opposed to duty-free treatment for leather-related products from any country, including Israel.

Table 1

SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER-RELATED INDUSTRIES

	Nonrubber Footwear	Luggage	Personal Leather Goods	Handbags	Leather Apparel	Leather Work Gloves
Employment (number of employees)						
1977	156,900	17,300	33,100		6,700	5,500
1980	143,600	16,300	30,000		8,000	6,100
1981	146,400	15,200	30,600		7,500	5,700
1982	136,800	14,000	28,200		N/A	N/A
1983(E)	132,000	13,100	26,300		6,000	5,000
Production/ Shipments	(million prs.)	(million dollars)	(million dollars)	(million units)	(million dollars)	(thousand dz. prs.)
1977	418.4	585.0	369.0	55.8	211.0	3,710
1980	386.3	808.0	426.0	47.9	247.0	2,732
1981	372.0	740.0	442.0	46.5	248.0	2,692
1982	342.4	683.0(E)	415.0(E)	38.8	233.0(E)	2,354
1983(E)	325.0	651.0	398.0	N/A	221.0	2,165
Imports	(million prs.)	(million dollars)	(million dollars)	(million dollars)	(million dollars)	(thousand dz. prs.)
1977	368.1	118.0	44.0	207.1	220.4	2,090
1980	365.7	243.2	71.9	350.6	170.9	3,175
1981	375.4	291.9	84.1	406.2	207.1	3,028
1982	479.5	334.8	87.5	409.6	252.0	3,091
1983(E)	580.0	390.0	102.0	460.0	260.0	3,400
Import Penetration* (percent)						
1977	47	N/A	N/A	63	51	37
1980	50	N/A	N/A	77	42	54
1981	51	40(E)	30(E)	81	47	53
1982	59	N/A	N/A	84	56	57
1983(E)	64	45	35	85	59	61

* For the luggage and personal leather goods industries, where import and domestic production data are available only in terms of value, import penetration has been estimated.

(E) -- Estimated.

N/A -- Not available.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce, International Trade Commission and Bureau of Labor Statistics data.

(revised January 1984)

Table 2

FACT SHEET ON EMPLOYMENT IN LEATHER-RELATED PRODUCTS INDUSTRIES

I. Number of Employees

	1983 (E)
Nonrubber Footwear	132,000
Luggage	13,100
Personal Leather Goods, Handbags	26,300
Leather Apparel	6,000
Work Gloves	14,000
TOTAL	

II. Profile of Leather-Related Product Workers in the United States

- Bulk of employment in the under 25 or over 60 age brackets.
- One-third are 50 years of age or older.
- Two-thirds of employment are women.
- Hourly wages rank lowest of any non-durable goods industry.
- Minority employment is as high as 75 percent.

III. Location of Production Facilities

- Approximately 27 percent of shoe production facilities are in New England, 26 percent in the Middle Atlantic States, 19 percent in the Midwest and 28 percent in the South and Southwest.
- With respect to other leather-related product industries, 9 percent of the facilities are in New England, 52 percent in the Middle Atlantic States, 13 percent in the Midwest and 26 percent in the South and Southwest.

IV. Import Penetration - 1983 (E)

Nonrubber Footwear	64%
Handbags	85%
Leather Apparel	59%
Luggage	45%
Leather Work Gloves	61%
All Work Gloves	40-45%
Personal Leather Goods	35%

V. Tariff Rates

Nonrubber Footwear	Free-20% (trade weighted = 9%)
Handbags	6.5-20%
Leather Apparel	6%
Luggage	6.5-20%
Work Gloves	4.2-25%
Personal Leather Goods	5.6-20%

(E) -- Estimated

Philipp Brothers Chemicals, Inc.
COLISEUM TOWER BUILDING
10 Columbus Circle
New York, N.Y. 10019
TWX: 710-581-5202
TELEX: 235002
TELEPHONE: (212) 586-6020
CABLES: PHIBROCHEM NEW YORK

ESTABLISHMENT OF A FREE TRADE AREA BETWEEN THE

UNITED STATES AND ISRAEL

February 9, 1984.

I. Philipp Brothers Chemicals, an international chemical company, based in the United States, owns several plants in the United States and a chemical plant in Israel (Koffolk) supports the establishment of a free trade area between the United States and Israel. The support of this free trade area, to eliminate barriers between our two respective countries would enhance the ability of both the United States and Israel to service and support world markets.

II. The burgeoning of the growing technological expertise of Israel in developing and manufacturing of chemicals including intermediates used in the production of United States products could serve as a greater stimulus of the technological expertise available in Israel. Similarly, in areas where the United States has expertise, that expertise could serve United States manufacturing in marketing products and services available to Israel in a competitive atmosphere with the rest of the world, thus aid in the United States balance of payments.

III. Since our two countries have a long strong history of cooperation in many areas, i.e. military, economic, and social the F.T.A. would serve to enhance that rapport.

IV. Both United States and Israel have a long history of support of the third world countries

Philipp Brothers Chemicals, Inc.
New York, N.Y. 10019

Page 3.

and free trade between our countries would serve as a stimulus in the service of those countries.

V. It has been demonstrated numerous times that the Israeli ability and willingness to compete is predicated upon thorough technology, research and production, oreinted merits rather than undermining markets. The advantage to both countries with fate trade could be considered synergestic.

VI. In those areas in which we compete, namely the pharmaceutical and chemical business free trade could stimulate both United States and Israel to effectively impliment long range and innovative productivity in these areas.

VII. Where GSP is already in place, it has provided the impetus to Israel to develop the infracture to compete in United States markets. The same would be true of the United States where we have the need and desire to becoume truly a world wide partner.

VIII. Just as in the case of military assistance, value to Israel can certainly be coordinated with value of the information provide to the United States.

IX. Philipp Brothers Chemicals, Inc. therefore supports and endorces the idea of a Free Trade Area between our nations.

Philipp Brothers Chemicals, Inc.
New York, N.Y. 10019

Page 4.

X. A Free Trade Area (FTA) would enable Philipp Brothers Chemicals, Inc. to expand business activities in Europe and other trade countries by utilizing the appropriate plant production in Israel and the United States and thus enhancing business activities in common market countries.

XI. The expansion of trade through a Free Trade Area would not only reinforce trade relationships, but, could encourage other mid-east countries to seek this type of accord, thus stimulating the service and peace circle which would be continued.

XII. Philipp Brothers Chemicals, Inc. is ready to discuss its United States, Israeli relationship with any appropriate committee and members of our senior staff are available to any government organization for further inquiry.

Lewis N. Wayne

OLIVE GROWERS COUNCIL OF CALIFORNIA 121 EAST MAIN, SUITE 8, VISALIA, CALIFORNIA 93291 / TELEPHONE (209) 734-1710

Testimony Prepared in Opposition

to

"Proposed Free Trade Area With Israel"

February 6, 1984

Senate Committee on Finance

Dirksen Senate Office Building

Washington, D.C.

By

Adin A. Hester, Manager

Olive Growers Council of California

121 E. Main, Suite 8

Visalia, California 93291

Distinguished Members of the Senate Finance Committee:

The Olive Growers Council of California, its Board of Directors, membership, and staff go on record as opposing any consideration or activation of a "free trade area" with Israel as was proposed by President Reagan in his meeting with Prime Minister Shamir.

The olive growers of California join in concert with the California tomato industry and the citrus industry in stating reasons for opposition.

Opposition Summary

1. The olive farmer is small by California standards. The average grower has approximately 20 acres.
2. Olives have not, until recent years, been a profitable crop for the farmer.
3. The U.S. market for California "black ripe olives" was developed at great expense by olive growers.
4. Olives are long lived. It takes many years from time of planting until olive trees begin to produce. Capital investment is substantial and it takes a long time to recover this cost. Therefore, the market supply cannot be adjusted by the quick planting or removal of trees.
5. If allowed to enter the U.S. free of tariff restrictions, Israel would immediately take advantage of and

enjoy the success of a market place that has been developed and grown at great expense to the California olive grower.

6. Unrestricted access to the U.S. market could destroy the California olive industry by driving down grower prices and causing growers to remove more olive trees.

7. Free access would encourage Israel to plant more olive acreage to take even greater advantage of the U.S. market.

8. As a native crop to Israel, the government gives priority consideration olives. Because of water restrictions in the country and the fact that olive trees use smaller amounts of water, this crop would be given more consideration by the government as an export commodity.

9. California is receiving more and more pressure from Spain as that country continues to export larger quantities of black ripe olives to the United States.

10. As a world olive producer, California is very small. On a world scale, we produce less than 1% of the worlds production. The California olive industry is indeed very small and very fragile.

11. The U.S. has no control over manufacturing practices used in Israel. We would have no control over the safety or quality of the product entering this country. On the other hand, government agencies have a tremendous almost burdensome con-

trol over the California processor which assures both safe and high quality olives being placed in the market place.

12. It is our opinion that, should "free trade area" consideration be given to Israel, it will open the door for many other olive producing countries to seek the same consideration.

<u>Dialogue</u>

Olives are grown commercially only in California. The industry is made up of some 1400 growers who produce olives on 31,000 acres. The average grower produces olives on approximately 22 acres of land. By California standards, that is a very small farming operation. There are many farmers who have very small groves of 5 to 10 acres.

As a commodity, olives have not been a profitable crop for farmers throughout the 70's. Finally, after a dramatic acreage reduction (trees pushed out) in the late 70's and early 80's the industry reduced from over 42,000 acres down to 31,000 acres. Prices to the farmer began to improve. During the same period of time, farmers spent large sums of money to advertise and promote as they developed a special market for the California "black ripe olive". This effort has been rewarded with good acceptance and sustained consumer use in recent years. Even though the industry has emerged successfully, I must remind the committee of the small, fragile nature of the olive farmer. He is small and unique to California.

Land prices are high, development and farming costs are continually moving up, and it takes several years to bring an olive tree into production. It is important to note that olive trees cannot be quickly planted or removed to adjust to changing market conditions. A farmer is married to his olive trees for many years. Therefore, he is forced to ride out the bad times in hopes of experiencing better times in the future.

Therefore, because of the before mentioned reasons, we in the olive industry must oppose any consideration of a "free trade area" with Israel. We are seeing only the tip of the iceberg. To allow free access will send a signal to the government to encourage more olive plantings. Olives are native to Israel. It will also cause them to increase research and development projects to produce olives more efficiently by improving yields, improving farming techniques, and develop more extensive mechanical harvest programs. Although California has tried to move in this direction, we have been slowed down because of government regulations. The development of a loosening agent to improve mechanical harvest efficiency has been stalled because of extensive testing required to clear chemical materials used in this program. The material manufactured in the U.S., is reportedly used in Israel as they mechanically harvest olives.

To allow "free trade access" between the U.S. and Israel will create competition and pressure on the California olive grower that could either put him out of business or cause him to change to other commodites.

Therefore we respectfully request the committee table any further consideration of this request as it relates to olives, tomato products, and citrus products.

Thank you.

Respectfully submitted,

Adin A. Hester

Adin A. Hester, Manager

MAILGRAM SERVICE CENTER
MIDDLETOWN, VA. 22645
02PM

Western Union Mailgram

1-0207491033013 02/02/84 TLX WU SALES IND WS
13 WEST LAFAYETTE, INDIANA, FEBRUARY 2, 1984

SENATOR JOHN C. DANFORTH
497 RUSSELL SENATE OFFICE BLDG.
1ST & C STREETS, N.E.
WASHINGTON, D.C. 20510

FEBRUARY 2, 1984

IN CONNECTION WITH THE SENATE FINANCE COMMITTEE HEARINGS ON FEBRUARY 6 REGARDING THE U.S.-ISRAEL FREE TRADE AREA PROPOSAL, WE AS THE U.S. BROMINE ALLIANCE WANT YOU TO BE AWARE THAT THE AMERICAN BROMINE INDUSTRY OPPOSES THE CONCEPT OF A FREE TRADE AREA WITH ISRAEL THAT WOULD INCLUDE BROMINE CHEMICALS. IT DOES SO STRICTLY ON BUSINESS GROUNDS ALONE.

THE SITUATION OF THE BROMINE INDUSTRY IS UNIQUE. THERE ARE THREE MAJOR U.S. MANUFACTURERS AND ONLY ONE EQUALLY MAJOR FOREIGN PRODUCER, THE DEAD SEA BROMINE GROUP OF ISRAEL.

ISRAEL'S BROMINE OPERATION ALREADY HAS DISTINCT ADVANTAGES OVER ITS U.S. COMPETITORS:

- CHEAPER RAW MATERIAL SOURCE
- GOVERNMENT OWNERSHIP
- GOVERNMENT ASSISTANCE THROUGH TAX REBATES, LOW-COST LOANS, CASH GRANTS TO EXPORTERS, SUBSIDIZED TRANSPORTATION THROUGH STATE-OWNED SHIPPING LINE, AND OTHERS
- DUTY-FREE ACCESS TO THE EUROPEAN COMMUNITY AND JAPAN, WHILE U.S. EXPORTERS PAY ON AN AVERAGE 10 PCT DUTY WHEN SELLING TO THESE MARKETS
- DUTY-FREE ACCESS TO THE UNITED STATES MARKET ON OVER 80 PCT OF BROMINE COMPOUNDS UNDER THE GENERALIZED SYSTEM OF PREFERENCES.

AS A CONSEQUENCE, THE DEAD SEA BROMINE GROUP SUPPLIES 62 PCT OF THE FREE WORLD'S MERCHANT MARKET FOR BROMINE AND ITS DERIVATIVES OUTSIDE THE UNITED STATES.

ISRAEL'S BROMINE PRODUCTION CAPACITY HAS ALMOST DOUBLED OVER FIVE YEARS, WHILE U.S. CAPACITY REMAINS FLAT. CAPACITY UTILIZATION IS ABOUT 90 PCT IN ISRAEL AND 58 PCT IN THE UNTIED STATES.

5241 (R 7/82)

PAGE 2

Western Union Mailgram

THE U.S. BROMINE INDUSTRY, INSTEAD OF BEING HELPED BY ITS GOVERNMENT, HAS BEEN SEVERELY IMPACTED BY GOVERNMENTAL ACTIONS:

- PHASE-DOWN OF LEADED GASOLINE AND WITH IT OF ETHYLENE DIBROMIDE
- BANNING OF EDB AS AN AGRICULTURAL CHEMICAL
- ENVIRONMENTAL LEGISLATION
- SUPERFUND
- IMPOSITION OF SUBSTANTIAL ROYALTIES AND TAXES ON BROMINE IN ARKANSAS.

IN ORDER TO SURVIVE, THE U.S. BROMINE INDUSTRY HAS BEEN FORCED TO DEVOTE A LARGE PART OF ITS EARNINGS TO THE DEVELOPMENT OF NEW BROMINE COMPOUNDS AND NEW APPLICATIONS.

ISRAEL'S DEAD SEA BROMINE GROUP, ON THE OTHER HAND, HAS BEEN PENETRATING THE U.S. MARKET ON A PRICE BASIS WITHOUT REGARD TO THE NECESSITY OF RECOVERING ANY PRIOR INVESTMENTS IN RESEARCH AND DEVELOPMENT. IT HAS CAPTURED ENTIRE PRODUCT SECTORS AND BECOME THEIR SOLE SUPPLIER. DUTY-FREE ACCESS ACROSS THE BOARD WOULD ONLY EXACERBATE THIS SITUATION.

THE RESULT WOULD BE:

- THE LOSS OF BUSINESS FOR AMERICAN COMPANIES AND PARTICULARLY THE LOSS OF AMERICAN JOBS
- A WORSENING U.S. TRADE BALANCE
- LOSS OF A TECHNOLOGICAL EDGE FOR THE BROMINE PRODUCERS AND THEIR CUSTOMERS ALIKE.

THE U.S. BROMINE INDUSTRY IS ALREADY SERIOUSLY HANDICAPPED WHEN COMPETING WITH THE DEAD SEA BROMINE GROUP OF ISRAEL, AND SHOULD THEREFORE BE EXCEPTED FROM ANY FREE TRADE AREA CONSIDERATIONS.

WE URGENTLY NEED YOUR SUPPORT IN THIS MATTER WHICH IS OF VITAL IMPORTANCE TO THIS INDUSTRY AND THE MANY AMERICAN JOBS AND BUSINESSES DEPENDENT ON IT.

U.S. BROMINE ALLIANCE
611 MADISON OFFICE BUILDING
1155 15TH STREET, N.W.
WASHINGTON, D.C. 20005

19:51 EST

MGMCOMP

5241 (R 7/82)

LAW OFFICES
MITCHELL J. COOPER
1001 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C 20036
331-1858

February 13, 1984

Mr. Roderick A. DeArment, Chief Counsel
Committee on Finance
Room SD-219 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. DeArment:

I am enclosing for the Finance Committee's consideration an original and five copies of a statement, in behalf of the Footwear Division of the Rubber Manufacturers Association, on the proposal for a free trade area with Israel.

Sincerely,

Mitchell J. Cooper

Mitchell J. Cooper

mjc/j
encs 6

BEFORE THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE

STATEMENT OF MITCHELL J. COOPER, COUNSEL TO THE FOOTWEAR DIVISION OF THE RUBBER MANUFACTURERS ASSOCIATION

ON THE FEBRUARY 6, 1984, CONSIDERATION OF THE PROPOSAL FOR A FREE TRADE AREA WITH ISRAEL

The Footwear Division of the Rubber Manufacturers Association is the spokesman for manufacturers of most of the waterproof footwear and rubber-soled footwear with fabric uppers produced in this country. The names of these manufacturers appear on Attachment I to this statement. It is the position of this Association that if a free trade agreement is entered into with Israel, that agreement should exclude from its terms all waterproof footwear and rubber-soled footwear with fabric uppers. It is our understanding that the non-rubber footwear industry feels that such an exclusion should encompass their products as well, and we fully support that position.

The duties on waterproof and rubber-soled fabric-upper footwear range from 20% to 67%. With one very minor exception these duties were not cut in either the Kennedy Round or the Tokyo Round of Multilateral Trade Negotiations. All of this footwear, as well as non-rubber footwear, is excepted by statute from GSP duty reductions. The bill extending the GSP statute, currently pending before this Committee, would continue an exception for all footwear. And the recently enacted Caribbean Basin Initiative excepts all footwear from the terms of the one-way duty-free treatment provided by that statute.

Rubber footwear is a labor-intensive, import-sensitive industry. It has had the attention and concern of many

Government agencies. In September, 1981, the Department of Defense examined the capability of the waterproof segment of this industry to meet defense requirements and concluded that "...loss of one or two of our current major suppliers would seriously jeopardize our ability to meet military requirements under surge/mobilization conditions". In 1983 the Department of Defense took another look at the industry and in April of that year sent us a letter stating that "We have completed our review and have determined that the domestic capacity would be insufficient to satisfy all of the Military Departments' requirements in a surge or mobilization situation. It was also found that, if we lose one or two of the major domestic suppliers, it would jeopardize our peacetime supply capability."

In June, 1981, the Department of Commerce issued a report on domestic and import competition in the rubber footwear industry. That report noted the steady decline in domestic shipments and the steady increase in imports of rubber-soled footwear with fabric uppers between 1964 and 1980.

The domestic rubber footwear industry is efficient, well managed and thoroughly modernized. Nonetheless, it has been living on the edge of survival. Despite the admittedly high tariffs applicable to the products of this industry, low-cost imports have been able to dominate the marketplace. When GSP was first enacted in 1973, imports of rubber-soled fabric-upper footwear represented some 31% of domestic consumption; that penetration was considered sufficiently high to except rubber footwear from GSP. In 1982, however, imports accounted for 53% of the domestic market for rubber-soled fabric-upper footwear, and imports accounted for 44.8% of the waterproof footwear market. Import penetration figures for the first three quarters of 1983 are 58.1% for rubber-soled fabric-upper footwear and 57% for waterproof.

Some 90% of rubber footwear imports have been coming from Taiwan, Korea, and, more recently, the People's Republic of China. While wage rates in these countries are undoubtedly lower than in Israel, it is nonetheless significant that our high duties and the great distance of the Far East from our marketplace have not prevented imports from achieving a frightening level of penetration. Israel to date has not been a meaningful source of competition in our domestic market, but it does have the capacity and skill to manufacture high quality rubber footwear. The potential for a substantial new market would bring that capacity and skill to the fore. We are aware, for example, of at least one boot factory in Israel whose products have enjoyed substantial success in the European Common Market as a result of the free trade agreement between Israel and the EEC.

We share the concern for Israel's serious economic problems, and recognize that a healthy Israeli economy does have importance to the United States. We also recognize that there are American export industries which would benefit from a free trade agreement with Israel. Unfortunately, rubber footwear is not one of those industries.

Israel already benefits from the duty-free provisions of GSP. Perhaps it would be appropriate to make available to it the somewhat broader provisions of the Caribbean Basin Initiative. We are, however, firm in our view that it would not be appropriate to endanger what is left of America's rubber footwear industry by providing Israel, or any other country, easier access to our market than it now enjoys.

Attachment No. 1

MEMBERS OF FOOTWEAR DIVISION OF THE RUBBER MANUFACTURERS ASSOCIATION

Converse Rubber Company	Wilmington, Massachusetts
Etonic, Inc.	Brockton, Massachusetts
Fun Footwear Company	West Hazelton, Pennsylvia
Hyde-Spotbilt Athletic Footwear - Saucony	Cambridge, Massachusetts
Kaysam Corporation of America	Paterson, New Jersey
LaCrosse Rubber Mills Company	LaCrosse, Wisconsin
New Balance Athletic Shoes USA	Boston, Massachusetts
Prevue Products Company	Manchester, New Hampshire
Sporto, Inc.	Boston, Massachusetts
Tingley Rubber Corporation	S. Plainfield, New Jersey