

THE CASE FOR A U.S. - ISRAEL FREE TRADE AREA

Today's hearings before the House Ways and Means Committee are a major step toward an important initiative gaining strong support in Washington. Under review will be legislation (H.R. 5377) introduced by Subcommittee Chairman Sam Gibbons (D-FL) and Rep. Thomas Downey (D-NY) that would grant U.S. Trade Representative William E. Brock congressional authority to negotiate a Free Trade Area (FTA) with Israel. The Senate has already held hearings on the issue and the Administration backs the move. This FTA would benefit both the United States and Israel.

According to the General Agreement on Tariffs and Trade, an FTA agreement requires that "the duties and other restrictive regulations of commerce [be] eliminated on substantially all the trade" between two countries. In the past such agreements were called custom unions. Currently, trade between the U.S. and Israel is only partially free of impediments. While only 10 percent of Israeli exports to the U.S. are subject to U.S. duties, 40 to 45 percent of U.S. exports to Israel are subject to tariffs averaging 10.5 percent. Therefore an FTA would open more of the Israeli market to U.S. exports.

If the U.S. does not negotiate the FTA, it not only will forego potential exports but could lose some of its current sales, now valued at between \$1.5 billion and \$1.8 billion a year. This is because the Israelis are phasing in a trade agreement with the European Economic Community (EEC). The Manufacturer's Association of Israel calculates that the EEC's share of Israel's imports climbed from 33.7 percent in 1980 to 40.9 percent in the first three quarters of 1983. During this period, the U.S. share dropped from 19.3 percent to 18.9 percent. It is likely to decrease further when the EEC agreement is fully implemented. Among U.S. export industries that would benefit from the FTA with Israel are electrical equipment manufacturers, grain farmers, computer firms, and manufacturers of office machinery, telecommunications equipment and paper products. If an FTA is not negotiated, these industries will face increasing competition for the Israeli market from European suppliers.

An FTA also would be of immense value to Israel, helping to stabilize its beleaguered economy. Besides the immediate benefits gained from the elimination of remaining U.S. tariffs, Israel would be able to count on a tariff-free U.S. market in the future. At the moment, many Israeli goods enter this country under the Generalized System of Preferences (GSP). This allows for the duty-free import of goods from certain

"developing" countries, as long as the product in question does not constitute 50 percent or more of the total U.S. imports of that product from the GSP countries. This discourages Israel from increasing production of certain export items that might puncture the 50 percent ceiling. Further, there are dollar limits placed on the tariff-free imports of other goods. As a result, GSP is no substitute for the full free trade that an FTA would allow. Moreover, the GSP expires in January 1985 and there is some doubt concerning its prospects for renewal. An FTA would end this uncertainty for Israeli exporters and help their economy. And because the Israeli share of the American market is very small, the complete elimination of tariff barriers would be no threat to American industry.

Israel is America's closest ally in the Middle East, sharing this country's commitment to freedom and democracy, and American opposition to Soviet expansion. An economically strong Israel is better able to defend itself and thus protect both its own and U.S. interests. And its increasing prosperity, assisted by free trade, would provide a powerful example for the citizens of Arab countries who have grown tired of continuing poverty brought on by statist economic policies and military opposition to Israel. Thus a Free Trade Area with Israel would advance the economic and political goals of both countries.

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For further information:

U.S.-Israel Free Trade Area: Questions and Answers (Washington, D.C.: American Israel Public Affairs Committee, May 1984).

"Israel Trade Talks Could Serve Other U.S. Trade Goals, National Journal, January 28, 1984.

"In Favor of Free Trade," The Israel Economist, December 1983.