european community
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BACKGROUND NOTE

No. 16/1975

May 22, 1975

EUROPEAN COMMUNITY SIGNS NEW TRADE AGREEMENT WITH ISRAEL

After two years of negotiations, the European Community and Israel signed a comprehensive trade agreement in Brussels on May 11 that will gradually scale down customs duties and eventually establish a free trade area between them. The new agreement, including products such as iron and steel, replaces a less extensive agreement which was due to expire on October 1, 1975.

Israeli officials described the accord as "the most important economic treaty signed in the history of Israel." As Israel's foremost trading partner, the Community currently absorbs 40 per cent of all Israeli exports and supplies Israel with more than 50 per cent of its imports. In 1974, the Community exported nearly $2 billion worth of goods to Israel and imported about $700 million worth of goods from it.

The new trade treaty will reduce tariffs on Israeli industrial products exported to the EC by 60 per cent as of July 1 this year, with a further cut of 20 per cent on January 1, 1976 and total elimination of tariffs by July 1, 1977.

Tariff reductions for Israeli agricultural exports will be less extensive, for certain Community countries, particularly Italy, were concerned over the effect that abundant, high-quality Israeli citrus products could have on the European market.

EC tariff reductions on Israeli oranges, however, will be increased from the present rate of 40 per cent to 60 per cent for the six original EC countries. The three nations that joined the EC in 1973 (Britain, Denmark, and Ireland) will allow Israeli oranges an initial tariff cut of 80 per cent, which will be extended to the entire Community in 1978. Highly favorable reductions in EC tariffs will also be granted to such Israeli farm products as grapefruit, melons, strawberries, tomato paste,and fruit juices.

Israel, on the other hand, will gradually abolish customs duties on EC products over a 14-year period, permitting free entry of EC exports by January 1, 1989. Israel's infant industries will benefit from special concessions, such as partial tariffs on 10 per cent of the volume of imports during the 14-year adjustment time, so that they can adapt to their more established European competition.

The major impact of the trade agreement will be felt by Israel's industrial structure, which must now enlarge its production scope from approximately three million Israelis to more than 250 million Europeans.

With open access to the prosperous European market, Israel hopes to attract large-scale American investments for the creation of joint Israeli-American industrial plants. Israeli financial officials believe this would ease the domestic economic sacrifices needed to meet the high costs of expanded assembly-line machinery, while providing American investors with more favorable opportunities to sell their goods in Europe.

For the Community, the new trade pact with Israel marks the first step in a series of treaties the EC hopes to conclude with its commercial partners in Spain, North Africa, and the Middle East, as part of a "global Mediterranean policy" initiated three years ago.

Negotiations with the Maghreb countries have been stalled over the sensitive issues of oil and Algerian wine, as well as the terms for possible financial and development aid.

The EC has also begun talks on trade agreements with four more Arab nations--Egypt, Lebanon, Jordan, and Libya. Should financial and development assistance be included in the eventual treaties, Israel would also qualify for the same aid conditions offered to its neighbors.