

EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE

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EC SIGNS FAR-REACHING AGREEMENT WITH ISRAEL

The European Community and the State of Israel signed two accords on 8 February 1977 in Brussels that broaden substantially the possibility for exchanges of trade and cooperation.

One is an Additional Protocol complementing an agreement signed 11 May, 1975. The Additional Protocol expands the strictly commercial May 1975 pact to embrace wider cooperation in trade and also non-trade areas, such as scientific, technical and environmental research programs. By its terms, the parties are committed to establishing industrial free trade. Agricultural trade between the parties will continue subject to conditions that are, however, liberalized according to the new agreement.

The second accord is an auxiliary Financial Protocol empowering the European Investment Bank (EIB) to loan, for a limited period, up to \$30 million European Units of Account (EUA). As a spur to private investment and co-financing, the EIB is also authorized to make awards, tenders and contracts "open on the same terms to all individuals and bodies corporate in the EC countries and Israel" for the period ending 31 October 1981.

The impetus for such increased exchanges with Israel conforms wholly to

the "global" Mediterranean policy that the EC Heads of State and Government adopted at the Paris Summit Conference in October 1972. The EC then declared officially its aim to achieve the progressively freer movement of goods, and, beyond narrow trade considerations, the promotion of more widely-based cooperation between it and the countries of the Mediterranean basin. Since, the EC has striven to build stable links with these countries in its effort to both ease trade tariffs and help stimulate their general economic development, taking into account, at the same time, the independence and individual character of each.

Thus, on 26 January 1977, the EC signed accords reflecting the aims of its Mediterranean policy with Egypt, Syria and Jordan; these followed similar ones already cemented with Algeria, Morocco, Tunisia and Israel. (As noted above, the Additional Protocol signed 8 February 1977 with Israel largely expands existing accords with that country.) An analogous agreement with Lebanon remains to be finally signed before the EC's "global and balanced approach" to the Mediterranean is complete.

SOME HISTORY

In his speech introducing the protocol-signing on 8 February, Mr. Claude Cheysson, member of the Commission of the EC, recalled that Europe is Israel's prime commercial partner, accounting for 40 per cent of its exchanges, although these are in an "intolerable" state of disequilibrium: the ratio of EC imports to exports barely attained 38 per cent in 1974, he noted, while in 1975, the rate rose to 44 per cent; 1976, he hailed as "more promising", adding that this amelioration "must be continued."

Mr. Cheysson further reminded that Israel became, in April 1958, the third country to ask to accredit an ambassador to the Community. In an early response to this gesture of good will, the EC agreed, on 4 June 1964, to lift partially and for three years certain duties-- mainly, where they exceeded those charged by the EC common external tariff-- on Israeli goods in some 20

industrial and agricultural categories. For her part, Israel pledged to work toward facilitating EC importations. This non-preferential agreement was renewed several times.

An accord for preferential trading, which granted Israel new and substantially greater tariff advantages, was signed by the Commission in Luxembourg on 29 June 1970. Taking effect on 1 October 1970, this agreement rounded the corner in encouraging not only Israel's industrial exports but also further investment. It also allowed some degree of reciprocity in favor of the EC and is felt to have begun decisively the movement by the parties toward a free trade area, now slated for 1985, according to the 8 February 1977 Protocol.

To sustain such links while exploring the possibilities for future, broader cooperation, the EC and Israel approved and renewed various other protocols. Finally, on 11 May 1975, the two parties formally agreed to expand their trade and cooperations, the first concrete outgrowth of the Community's "global" Mediterranean policy, laid down in 1972.

The two years it has taken to live up to that 1975 harbinger of wide-ranging cooperation, which became official with the Additional and Financial Protocols signed this month, is understandable, as Mr. Cheysson pointed out, owing to each party's preoccupation with the international economic crisis, domestic policy and also the ambitious nature of the new pact.

ISRAELI COMMENTS

Speaking in Brussels at the 8 February 1977 meeting with EC representatives, Israeli Deputy-Premier and Minister for Foreign Affairs Yigal Allon hinted of the possible improvement of regional cooperation, thanks to the new accords between the EC and Arab nations on one hand, and between the EC and his country on the other: "if it were possible to realize cooperation between the states of the region, the Middle East could be transformed into a world center of prosperity," he said, cautioning, however, that discussing the problems of

the Middle East within the framework of the Euro-Arab Dialogue might "diminish rather than reinforce" Europe's role in this part of the world.

Still, Mr. Allon's remarks echoed basically his optimism, enunciated at the signing of the 11 May 1975 treaty that a balanced European policy in the Mediterranean could do much to contribute to "an atmosphere favorable to political progress in that region." At that time, he also indicated that Europe could serve as "a model of cooperation" and that "in the Middle East, just as in Europe, economic integration could well constitute an important factor for peaceful coexistence. The maintaining by the EC of close ties with Israel as well as with her neighbors could contribute to the construction of a like regional, economic structure."

UNLIMITED COOPERATION

Significantly, the new accord is of unlimited duration, and it further provides, in Article 4, an 'evolution' clause that allows the EC and Israel to seek, besides the named areas, "other fields in which cooperation can be applied."

A newly-designated Council of Cooperation, comprising representatives from the EC, Member countries and Israel, will make such recommendations and binding decisions that "it may consider opportune for the purpose of securing the common objectives of the right functioning of the agreement." The Council will also act as liaison between the European Parliamentary and Knesset delegates.

Article 2 of the Additional Protocol states clearly the EC's aim to "contribute to the development of Israel and to the smooth development of economic relations between the parties." Thus, it is now annexed to the May 1975 accord. In addition to individual Israeli cases being examined by the EC for possible participation in Community programs of environmental, scientific and technical cooperation with other non-member countries, Israel is now being permitted to apply to certain technological and research programs that involve the Community indirectly.

DATES

As of 1 January 1985, the EC and Israel are to enjoy an industrial free trade area. And from 1 July 1977, Israeli exports of industrial goods-- including, for the first time, those covered by the European Coal & Steel Community (ECSC) and also processed agricultural goods-- will enter the Community duty-free. Israel undertakes, meanwhile, to remove all tariffs on 60 per cent of EC imports in 5 steps by 1 January 1980, and on the rest, gradually, by 1 January 1985.

The two parties will review at the beginning of 1978 and again early in 1983, the results of the 8 February 1977 agreement overall. It will thereby be possible to amend or improve the accord as deemed fit-- for implementation 1 January 1979 and 1984 respectively.

SENSITIVE LIST, DEFERMENT PROVISION

Article 5 of the Additional Protocol authorizes several precautionary measures regarding goods, such as refined petroleum products, textiles and chemical wares, considered "sensitive" by the Community. To hold down any uncontrolled growth of such imports, import ceilings may be applied and raised yearly by 5 per cent. They must end altogether by 31 December 1979.

Since Israel also wished to avoid abrupt market fluctuations, the Protocol mandates a slower timetable for Israel to eliminate import duties than for the EC, and other arrangements to protect young Israeli industries. To favor its new industries, moreover, Israel may raise certain import duties up to 20 per cent; trade protected in this way must not, however, amount to more than 10 per cent the value of the country's industrial imports. All such duties must be withdrawn by 1 January 1989.

AGRIBUSINESS

There is no provision for total agricultural free trade at this time, but the 8 February 1977 Protocols do augur a considerable growth in this area. Already, 85 per cent of Israeli agricultural exports to the EC enjoy concessions;

over 70 per cent of products affected by the new agreement are to enter the EC with duties cut by 50 per cent or more. Chief among the latest concessions is a 60 per cent cut in duty for citrus fruits.

These preferences are particularly important in light of the proportionately large volume of Israel's agricultural exports to the EC, of which citrus fruit account for the largest share-- 36 per cent of the total. It is expected that other preferences may result following the first general review of the agreement in 1978.

Israeli export prices for fruits and vegetables will conform to the Common Agricultural reference price. In addition, both parties have admitted seasonal arrangements for certain produce, price minimums (lemons), tariff quotas (apricot pulp), and occasional voluntary limitation of exports (tomato concentrates and preserved fruit salad).

On its side, Israel will reduce duties on a limited group of EC agricultural imports by 15 to 25 per cent.