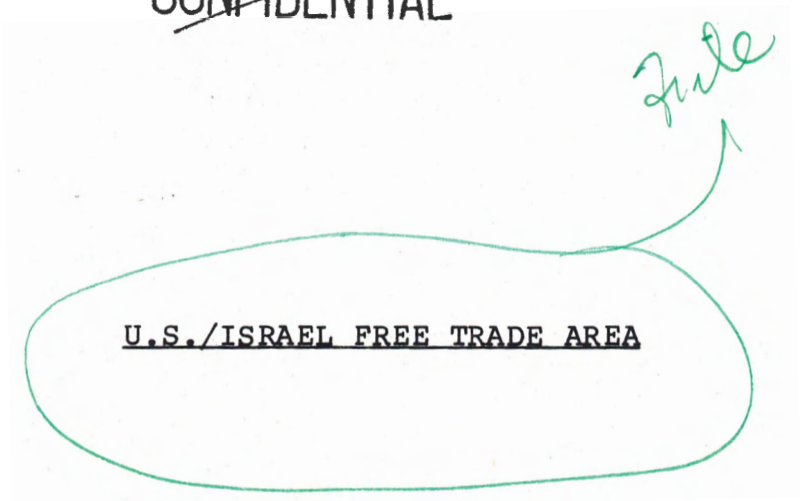

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CBC/900 Anderson

Heritage Foundation says that Judge on board

Tuesday. 1-1-17 TPC

Do up a memo —
Talk with Howard &
Phil Dusk

In advance of TPC mtg Tues.

TRADE POLICY COMMITTEE
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506

October 13, 1983

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CLARK FROM MONTGOMERY, F DOCDATE 13 OCT 83

YWORDS INTL TRADE ISRAEL

BJECT AGENDA & BACKGROUND PAPERS FOR 18 OCT TRADE POLICY COM RE US - ISRAEL FREE TRADE AREA

TION: ANY ACTION NECESSARY DUE 17 OCT 83 STATUS S FILES

FOR ACTION FOR CONCURRENCE FOR INFO

MCMINN KEMP BAILEY

DUR

File & Delete from computer

OMMENTS

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TION OFFICER (S) ASSIGNED ACTION REQUIRED DUE COPIES TO

No action necessary - meeting postponed 10/24

SPATCH W/ATTCH FILE (C)

US Dept of FTA 16

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measures regulating commerce must be eliminated on "substantially all" the trade between the parties. An "interim agreement" can qualify under Article XXIV if it contains a plan and schedule for formation of the FTA "within a reasonable length of time".

The requirement to eliminate restrictions on "substantially all" trade consistently has been the most troublesome, although no FTA proposal has been flatly disapproved because of inadequate trade coverage. In practice, trade coverage of existing free trade areas has ranged from as little as 50 percent (Australia-New Zealand, EC-Morocco and EC-Tunisia) to as much as 90 percent (EFTA). The extent of the trade coverage of a U.S. FTA with Israel would be a major factor in determining how defensible such an agreement would be under Article XXIV. While textiles, because of MFA, may be considered a special case, extensive exclusions in other product areas could be more problematic. A waiver under Article XXIV:10 can be obtained for FTA proposals which do not, but eventually will, satisfy Article XXIV requirements. If Article XXIV:10 does not apply, a waiver may be obtained under Article XXV:5.

Article XXIV:8(b) permits FTA members to retain restrictions imposed under GATT Articles XI, XII, XIII, XIV, XV and XX without violating the "substantially all" trade requirement. Thus, balance of payments measures and restrictions on agricultural imports taken while domestic agricultural production is restrained can be maintained. Based on past precedent, Article XXIV would not prohibit FTA members from imposing countervailing and anti-dumping duties and taking safeguard actions on imports from one another, as trade between FTA members is governed by their specific agreement rather than the GATT. However, Article XIX requires that if safeguard actions are taken against non-FTA members, they should apply to FTA members also.

Domestic Legal Aspects

The FTA, as a trade agreement, would require specific implementing authority. It could go forward as new legislation following the usual course of a tariff bill, which would probably originate in the House as a revenue measure. The process is lengthy, permits amendments, and allows unlimited debate. Alternatively, the President could submit the FTA as a trade agreement under section 102 of the Trade Act of 1974 as amended. This option would allow the legislation to move through Congress on a "fast track", non-amendable basis. However, the legislative history is not clear whether Congress intended this provision to be used in a case where the trade agreement in question reduces primarily tariff rather than non-tariff measures. Which ever procedure were to be used, extensive consultations with the private sector, organized labor and Congress would take place before legislation is submitted.

Other Trade Policy Considerations

The FTA represents a departure from traditional United States support of the most-favored-nation (MFN) principle as the most economically efficient way to conduct international trade. Preferential arrangements tend to distort trade flows by giving a producer in a country inside the arrangement an artificial advantage over producers in other countries. Several other broad consequences could result from a U.S. decision to enter into an FTA with Israel. First, it is possible that such an action could mark the end of the Casey-Soames Understanding, under which the EC agreed to cease entering into new preferential arrangements and to refrain from insisting on continuation of reverse preferences in those already in place (except in the case of Israel). U.S. exports to the 61 Lome Convention countries totaled $4.2 billion in 1979, and reinstitution of reverse preferences for the EC in those countries, or with the Mediterranean countries, could entail a loss for the U.S. of some of this trade. Second, a U.S. move in favor of bilateral preferential arrangements could encourage Canada, Japan, or other countries to establish FTAs in additional geographical areas (Asia or Latin America), which could affect U.S. export interests adversely.

TRADE POLICY COMMITTEE

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506

UNCLASSIFIED with
~~CONFIDENTIAL~~ Attachment

November 18, 1983

File

MEMORANDUM FOR MEMBERS OF THE TRADE POLICY COMMITTEE

FROM : Frederick L. Montgomery
Executive Secretary

SUBJECT: U.S.-Israel Free Trade Area

Attached ~~is~~ a background paper on ~~the~~ U.S.-Israel Free Trade Area proposal to be discussed at the TPC meeting on November 22.

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RDS 4/10/19

CONFIDENTIAL

U.S./ISRAEL FREE TRADE AREA

INTRODUCTION

During discussions with Ambassador Brock and other U.S. officials over the last two years, Israel has regularly proposed a two-way free trade area (FTA) between the United States and Israel, similar to the industrial free trade area now in effect between Israel and the European Community (EC). The initial Israeli proposal included Egypt, however, discussions with Egyptian officials have revealed no interest in an FTA at this time. The Israelis are interested in an FTA with the United States because of the political and economic security that they believe it will provide.

DISCUSSION

The Israeli Proposal

The TPSC Task Force on Israel recently met informally with Israeli trade officials to discuss the general scope of their proposal. The Israelis envisage an FTA which would cover all industrial and agricultural products and tariff and non-tariff barriers (except those permitted by Article XXIV of the GATT, e.g., balance of payments provisions). They expect that the FTA would include special provisions for safeguards, rules of origin, infant industries, non-tariff barriers (e.g., antidumping) and consultation/administrative procedures. The Israelis want to include sensitive products to the greatest possible extent and have noted that they would prefer to extend staging on these products, rather than exclude them from the agreement.

The preliminary staging ideas Israel presented are as follows:

United States

1) Immediately bind at zero all products which currently receive duty-free treatment under GSP; (35 percent of Israeli exports to the U.S. in 1982).

2) Within two years, bind at zero all products which are currently dutiable (5 percent of Israeli exports to the U.S.) except in the case of a limited number of extremely

sensitive products;

3) Excepted products, if there are any, could be staged over a longer period of time or be subject to other measures (e.g., tariff quota) which would provide some measure of temporary protection while gradually phasing in preferential access).

Israel

1) Immediately bind 30 percent of dutiable imports from the U.S. (22 percent currently are bound at zero);

2) Stage an additional 10-20 percent of U.S. imports to zero over a five year period;

3) Stage to zero products which are currently subject to the 1975 GSP Understanding (133 items, approximately 20 percent of U.S. exports to Israel) over a ten year period.

The EC-Israel Agreement

In 1975 the EC and Israel established a bilateral industrial free trade area. Under the agreement, EC imports of most industrial goods from Israel were granted duty-free entry after July 1, 1977. Full EC concessions on certain sensitive items (refined petroleum products, textiles and certain chemicals) were delayed until December 31, 1979.

Israel eliminated tariffs on about 60 percent of its industrial imports from the EC between 1975 and 1980. Duty-free treatment for the remaining more sensitive products was to be staged in by 1985, with two two year extensions possible at specific stages. Israel applied one extension in 1979 and has asked the EC to invoke the second extension in 1985.

Coverage of agricultural products under the agreement was more limited. The EC offered preferential tariffs on 80 percent of its agriculture from Israel, including citrus products, although the Common Agricultural Policy (CAP) rules remain in effect (especially the imposition of a reference price for certain fruits and vegetables). Israel's agricultural tariff concessions to the EC were minimal--reductions of 15 to 25 percent on trade equal to about one percent of total EC agricultural exports to Israel. Israel has tried on several occasions to encourage the EC to expand the agricultural coverage of the agreements but thus far has not met with any success.

1975 Bilateral GSP Understanding

Section 502(b)(3) of the 1974 Trade Act requires potential GSP beneficiaries to eliminate reverse preferences "with a significant adverse effect on United States commerce." To obtain GSP eligibility, Israel in October 1975 entered into a bilateral Understanding covering 133 items on which Israel agreed to lower MFN duties on an unbound basis if specified criteria were met or "if United States trade in such items would otherwise be adversely affected in significant measure". Either the U.S. or Israel can request reviews to consider changes in the criteria or the list of products. To date, neither the U.S. or Israel has called for such a review. In the last year we have received some complaints from U.S. exporters about the effects of preferential tariff rates for EC products on their competitive position in the Israeli market. We expect that as the EC/Israel agreement reaches its final staging period we will receive an increasing number of complaints.

The TPSC Subcommittee began to examine these complaints to determine if a review of the Understanding should take place. However, the Israeli position voiced at our recent technical discussions indicates that Israel believes it cannot expand the product list further.

ANALYSIS OF THE ISRAELI PROPOSAL

Economic Considerations 1

Total U.S. imports from Israel in 1982 were $1.2 billion while total U.S. exports to Israel were $1.5 billion. About forty-five percent of this trade in each direction is dutiable although Israel currently receives duty-free treatment under GSP for many of its exports which otherwise would be subject to duties. In 1982, $1 billion or 90 percent of U.S. imports from Israel entered duty-free either on an MFN basis ($641 million or 55 percent) or under GSP ($403 million or 35 percent).

The main economic benefit of an FTA to Israel would be duty-free treatment for products not presently covered by GSP as well as secure, predictable treatment for current GSP items, now subject to changes in status because of graduation actions or competitive need exclusions. Some sensitive items would have to be included in an FTA if Israel were to benefit measurably. Israel's exports subject to U.S. duties tend to be sensitive,

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1For purposes of analysis, the TPSC Subcommittee has assumed that the proposed two-way FTA would cover "substantially all" trade, in conformity with GATT Article XXIV and the informal Israeli proposal.

high duty items--such as textiles and apparel, leather wearing apparel, jewelry, bromine chemicals, handmade glassware, citrus, flowers, processed tomato product and olives. About one-third of dutiable U.S. imports from Israel in 1981 ($21.8 million) consisted of agricultural products. Israel would have to expand exports significantly in presently dutiable product areas to realize much of an increase in overall exports to the United States as a result of a FTA. For example, for Israel's total exports to the United States to increase by a mere 5 percent solely as a result of the FTA, dutiable exports would have to increase by nearly 95 percent.

The potential export gains for the United States under an Israeli-U.S. FTA are uncertain. Although about forty percent of 1982 U.S. exports to Israel were dutiable, a portion of this trade currently is entitled to the EC's preferential duty rates under the 1975 GSP Understanding. Under an FTA the U.S. would gain by having potential duty-free access to the entire Israeli market. This duty-free access will be particularly important for industrial products where our trade directly parallels that of the EC. Most agricultural products are not covered by the EC-Israel Agreement and therefore U.S. agricultural exports generally do not have to compete against EC tariff preferences in the Israeli market. In addition, Israeli government purchases of U.S. grain exports enter Israel duty-free. It is possible that an FTA would not increase U.S. exports significantly in such agricultural products as beef or processed foods because these U.S. items have not been competitive in price and often do not meet strict Kosher requirements.

Non-Tariff Measures

The informal Israeli FTA proposal indicates that Israel is willing to include provisions for eliminating non-tariff barriers in the agreement, as they have done with the EC. In the Israel-EC Agreement, Israel must eliminate all quantitative restrictions on imports from the EC by 1985. An on-going consultation mechanism has been set up to assure that any "inadvertent" future barriers can be quickly eliminated as well. GATT Article XXIV:8(b) does allow FTA members to retain restrictions imposed under certain GATT Articles, e.g., balance of payments provisions.

International Legal Aspects

GATT Article XXIV authorizes free trade areas as a departure from other provisions of the GATT (i.e., the MFN obligation in Article I) and sets out the conditions which a free trade area must fulfill if it is to quality for this exemption: 1) duties and other regulations of commerce maintained by the parties entering into an FTA may not be higher or more restrictive vis-a-vis third parties than those which the parties had in place prior to the agreement; and 2) duties and other restrictive

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File Israeli Free Trade Area

TO: JIDDA Immediate
RIYADH Immediate

INFO: Geneva
Dhahran
Abudhabi
Doha
Kuwait
Manama
Muscat
Tunis

SUBJECT: Discussions with Saudi Arabia re Free Trade Area

REF: A. State 338930, B. Riyadh 3851

1. Thank you for your comments on the benefits and drawbacks of a possible U.S.-Saudi FTA.

2. Embassy should be aware that the U.S. is not prepared to move forward quickly with a U.S.-Saudi initiative. Absolutely no groundwork has been done and such an initiative would require extensive preparation. At this time, we would agree to discuss an FTA with the Saudis only--repeat only--if the Government comes to us requesting consultations based on Under Secretary Wallis' discussion (Ref A). Embassy should not--repeat not--advocate this move.

3. As noted in Ref B, a U.S.-Saudi FTA would not be popular on the Hill and as you point out it would be difficult to get Congressional approval for this initiative.

4. If the Saudis do press for negotiation of an FTA we have no--repeat no--intention of legislatively linking a Saudi FTA with an Israeli FTA on the Hill.

5. Suggest Embassy cancel Sunday meeting unless other issues are to be discussed.

6. For Abudhabi, Doha, Kuwait, Manama, Muscat and Tunis: Please do not--repeat not--inform government officials of this initiative.

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

November 23, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: William E. Brock

SUBJECT: U.S.-Israel Two-Way Free Trade Area

Yesterday, the Trade Policy Committee (TPC) reviewed a proposal put forward by the Government of Israel to establish a free trade area between the United States and Israel. The TPC consensus was that, based both on political and economic grounds, the idea of a U.S.-Israel free trade area made excellent sense. If you agree, we will proceed with the negotiations in the near future.

We have been told that Prime Minister Shamir will raise this issue with you during his visit next week, since it is the key trade policy issue in Israeli-U.S. relations at this time. If you think it appropriate, I suggest that George Shultz and I meet with Prime Minister Shamir separately to discuss the issue in more detail.

A U.S.-Israel free trade area would have important political benefits for both the United States and Israel. In addition, there would be significant economic benefits for both sides, and particularly for the United States. The vast majority of Israeli exports to the United States are currently free of duty, while U.S. exports to Israel face very high tariff and non-tariff barriers. These would be eliminated in the free trade area.

You should be aware that the free trade area negotiations will be extremely complex since all products in both economies will be included. For this reason, plus the fact that the proposal must be approved by Congress, it would be difficult for us to commit to a specific timetable for completion of the agreement even if we began negotiations in the next few months.

NSC/S PROFILE UNCLASSIFIED ID 8308591

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TO PRESIDENT FROM BROCK, W DOCDATE 23 NOV 83

KEYWORDS. INTL TRADE ISRAEL

File

SUBJECT: US - ISRAEL TWO-WAY FREE TRADE AREA

ACTION: FOR RECORD PURPOSES DUE: STATUS C FILES WH

FOR ACTION FOR CONCURRENCE FOR INFO

MCMINN

ROBINSON

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KIMMITT

KEMP

COMMENTS

REF# LOG 8307380 NSCIFID (MR MR)

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FRP

JMP:

For your info. That is Bud's "OK" at top of page.

I don't think Mr. Meese needs to see it. And you have probably seen the cy Mr. Meese sent to NSC. Dona

7380

12/6/83
Bud —
This will be forwarded to NSC in Washington.
CF

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

President saw and was advised that this would be reviewed and presented for discussion prior to the Shamir visit
CF

November 23, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: William E. Brock

SUBJECT: U.S.-Israel Two-Way Free Trade Area

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

File
US-Israeli
Free Trade
Area

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January 11, 1984

TO : Members of the Trade Policy Staff Committee

FROM : Frederick L. Montgomery, Chairman

SUBJECT: TPSC Meeting

The Trade Policy Staff Committee will meet on Thursday, January 12, 1984, 2:30 p.m., Room 403, USTR to consider TPSC Draft Document 84-5, U.S.-Israel Free Trade Area Initial Negotiations (attached).

Questions or comments prior to the meeting should be phoned to Nancy Adams (395-6813).

Attachment

UNCLASSIFIED with
~~CONFIDENTIAL~~ Attachment
RW 4/10/19

CONFIDENTIAL

TRADE POLICY STAFF COMMITTEE

DRAFT Document 84-5

SUBJECT:

U.S.-Israel Free Trade Area
Initial Negotiations

SUBMITTED BY:

Office of the United States
Trade Representative

DATE: January 11, 1984

CONFIDENTIAL

TPSC PAPER

I. Issue

Negotiations between the United States and Israel on a two-way Free Trade Area (FTA) are scheduled to begin in Washington on January 17, 1984. It is expected that these initial negotiations will focus on the parameters of the agreement, including coverage, staging, non-tariff measures (including those covered by GATT Codes of Conduct), safeguards, national security provisions, rules of origin, territorial coverage, possible infant industry provisions and administrative issues such as future meetings and the establishment of working parties to address specific topics. Guidance is needed for the U.S. delegation on these issues.

II. Recommendation

The U.S. delegation should be guided by the positions outlined in the discussion section.

III. Discussion

A. Background

On November 28, 1983, following consideration by the Trade Policy Committee and the President, the United States agreed to begin negotiations with Israel on a two-way free trade area. The Israeli Government had originally proposed these negotiations in 1981. Since that time, the U.S. has reviewed the economic and political merits of the proposal and recently determined that the U.S. could gain substantially from a free trade area with Israel.

The first round of negotiations with Israel with begin on January 17, 1984. This round will focus on the possible scope of the agreement, including initial discussions on the relationship of the agreement to GATT, coverage (i.e. products, services, investment), staging, coverage of non-tariff barriers and other anticipated provisions such as safeguards, subsidies, national security provisions, rules of origin, infant industry provisions and administrative provisions. Each of these issues is discussed below.

B. Authority to Conclude a Free Trade Area

The Administration is currently exploring several possible legislative options with Congress for the free trade area agreement. It is not anticipated that a final decision on the appropriate legislative mechanism will be made before negotiations commence in January. Regardless of which legislative approach is adopted, it will be necessary and appropriate to seek advice from the International Trade Commission (ITC) on all U.S. tariffs and non-tariff barriers which could be included in the agreement. Since the Administration does not have specific negotiating authority under which it can request ITC advice at this time, the TPSC should agree that the Administration use general authority under Section 332 of the Tariff Act of 1930 to seek this advice as soon as possible. A draft letter to the ITC requesting this advice is attached in Appendix I.

It is apparent that detailed discussions on product coverage and staging will have to be delayed until USITC advice is received. The TPSC must consider holding separate hearings to assure that the negotiating advice is as extensive as possible. A detailed summary of probable legislative requirements and procedural steps to be followed is attached (Appendix 2).

*****RECOMMENDATION:**

-- **That the TPSC approve a request (Appendix I) that the ITC review all U.S. tariffs and non-tariff barriers under the general authority of Section 332 of the Tariff Act of 1930 in order to obtain advice on the probable economic effects of concluding a free trade area with Israel.**

C. Scope of the Agreement

1. Relationship of the FTA Agreement to the GATT

The GATT permits free trade areas as a deviation from Article I Most Favored Nation (MFN) obligations under Article XXIV. Article XXIV states that:

> ...the provisions of this agreement shall not prevent as between the territories of contracting parties, the formation of a customs union or of a free trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free trade area;

Provided that:

> (a) with respect to a customs union, or an interim agreement leading to the formation of a customs union, the duties and other

> regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;
>
> (b) with respect to a free trade area, or an interim agreement leading to the formation of a free trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free trade area, or interim agreement, as the case may be; and
>
> (c) any interim agreement referred to in sub-paragraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free trade area within a reasonable length of time.

In addition, Article XXIV provides the following definition of a free trade area.

> A free trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

In essence, a free trade area provides for deviation only from the GATT MFN obligations, rather than from the entire agreement. Thus, it will be important that the U.S.-Israel FTA agreement specifically detail its relationship to the GATT obligations undertaken by the United States and Israel, and outline any areas where the parties intend to expand upon those obligations under the FTA. This specific detailed account of the relationship

of the FTA to the GATT will be of particular value when the FTA, in the form of an Interim Agreement, is submitted to the GATT Contracting Parties for their consideration and recommendations (as outlined in Article XXIV, 7(b)). It will also be useful domestically in minimizing any requested deviations from present practice on such issues as safeguards.

***RECOMMENDATION:

-- **That the TPSC agree that negotiation of a U.S.-Israel FTA should be undertaken in the context of U.S. and Israeli obligations under the General Agreement on Tariffs and Trade.**

-- **That the TPSC agree that the FTA agreement should specifically detail its relationship to the GATT: (1) as a permitted deviation from Article I MFN obligations under Article XXIV; and (2) as the FTA relates to other GATT obligations.**

-- **That the TPSC agree that to the extent feasible, FTA provisions should be based on related provisions of the GATT. In addition, any areas of the FTA which expand upon GATT obligations should be specifically related to the existing GATT obligations.**

2. Product Coverage

Total U.S. imports from Israel in 1982 were $1.2 billion while total U.S. civilian exports to Israel were $1.5 billion. About forty-five percent of this trade is dutiable, although Israel receives duty-free treatment under GSP for many of its exports which otherwise would be subject to duties. In 1982, $1 billion or 90 percent of U.S. imports from Israel entered duty-free either on an MFN basis ($641 million or 55 percent) or under GSP ($403 million or 35 percent).

The main economic benefit of an FTA to Israel would be duty-free treatment for products not presently covered by GSP as well as secure, predictable treatment for current GSP items now subject to changes in status because of graduation actions or competitive need exclusions. Israel's exports subject to U.S. duties generally tend to be items with duties above average--such as textiles and apparel, leather wearing apparel, jewelry, bromine chemicals, handmade glassware, citrus, flowers, processed tomato products and olives. About one-third of dutiable U.S. imports from Israel in 1981 ($21.8 million) consisted of agricultural products.

Given the requirements that the U.S. obtain advice from the International Trade Commission prior to entering into detailed product negotiations, we will be unable to address specific tariffs and non-tariff barriers in the initial stages of negotiation. However, the U.S. and Israel should be able to discuss

broad parameters of coverage, including a theoretical assumption that we will endeavor to meet the GATT criterion of "substantially all trade".

The TPSC may wish to consider at a later date the exclusion of Defense trade covered by the U.S.-Israel Memorandum of Understanding concerning the Principles Governing Mutual Cooperation and Development, Scientific and Engineer Exchange and Procurement and Logistic Support of Selected Defense Equipment as amended.

The TPSC Subcommittee on LDCs Task Force on Israel has agreed, with the reservation of the Departments of Labor and Agriculture, to recommend the following position on product coverage for the upcoming negotiations.

***RECOMMENDATION:

-- **That the TPSC agree that at the outset of negotiations and pending detailed advice from the ITC, that the U.S. and Israel should aim to include all products in the negotiation.**

3. Services Coverage

While the GATT product coverage criteria in Article XXIV does not address services coverage, this negotiation provides an opportunity to seek liberalization in services as well. This effort would be fully consistent with U.S. positions on trade in services. The TPSC should agree that the U.S. should use this opportunity to extend the liberalization inherent in an FTA by including services to the greatest extent possible in the FTA negotiations.

Since the current level of bilateral trade in services between the U.S. and Israel is relatively small and the incidence of non-tariff barriers is currently low, any services provisions in the FTA must be geared to future trade in services. Following are a number of possible proposals which the U.S. could make on services coverage during the course of negotiations. These proposals will need to be explored in greater detail by the Subcommittee.

1. Seek a pledge not to impose further restrictive measures on services trade.

2. Seek removal of existing non-tariff measures affecting services trade between the two countries within the parameters of domestic legal requirements to the extent possible.

3. Seek, in the context of FTA tariff reductions, early reduction of tariffs on goods tied to service firms' performance of their activities (e.g., airline reservation equipment, computer hardware).

4. Seek acceptance of national treatment and transparency as basic trade principles applicable to services. (These principles would serve as the governing rules under which trade in services would be conducted between the U.S. and Israel.)

5. As an addition to applying national treatment to services, seek agreement on the principle that trade distortions arising from government regulations should be minimized.

6. Seek extension to services of principles embodied in non-tariff codes, such as setting procedures for assuring fair treatment of parties affected by government actions, publication of proposed regulations, opportunity for comments on proposed regulations, access to responsible officials and the courts and provisions for dispute settlement.

*****RECOMMENDATIONS:**

-- **That the TPSC agree that the U.S. should use this opportunity to extend the liberalization inherent in an FTA by including services in the FTA negotiations to the greatest extent possible.**

-- **That the TPSC direct the Subcommittee to undertake a further review of the possible approaches which might be undertaken to include services coverage in the agreement.**

4. Investment Coverage

As in the case of services, the GATT does not address investment coverage in an FTA. However, the inclusion of some investment provisions should be considered, particularly given U.S. positions on trade and investment and on investment performance requirements. The TPSC should recommend that the U.S. attempt to include investment provisions in the agreement to the extent that they are necessary and/or helpful in expanding U.S. investment opportunities in Israel.

However, before any specific negotiations on investment coverage are undertaken, the U.S. needs to examine whether investment coverage in the FTA would compromise the U.S. position on investment in the territories currently occupied by Israel.

U.S. investment in Israel is small relative to U.S. investment in most other foreign markets, however, U.S. direct investment in Israel probably is significant in comparison to that of other countries. Investment rights and obligations between the U.S. and Israel are covered to a significant extent in the 1951 Treaty of Friendship, Commerce and Navigation (FCN). The FCN Treaty covers almost all investment issues of concern to

the U.S., except in the area of performance requirements. The question of coverage of investment in services has been reviewed and it was determined that the limitations on services investment coverage in the FCN Treaty were imposed because of constraints on the U.S., rather than the Israeli side.

If the U.S. determines that investment coverage in the FTA could be designed to insure that our position vis-a-vis the occupied territories is not undermined, it is probable that coverage would be concentrated in the area of performance requirements. Israeli performance requirements probably do not result in significant distortions of trade and investment flows. However, in seeking the most comprehensive trade and investment agreement possible during the upcoming negotiations, the U.S. should attempt to protect itself against the possibility that performance requirements might become increasingly troublesome as U.S. investment in Israel increases.

While we do not have extensive information on Israeli performance requirements, it seems that the government selectively awards incentives to sophisticated, export oriented manufacturing and service operations and favors firms exporting products developed in Israel. Firms locating in designated development areas and those producing substitutes for imports have also been favored in the past.

Two other specific performance requirements are reportedly imposed by Israeli policies as conditions for incentives.

1. Investments made in domestic markets which are already saturated must comply with certain export requirements or be located in development towns.

2. Investors must supply as paid-up capital from 30-50% of the fixed assets, the exact percentage depending on the priority of the location in which the investment is made.

Several additional incentives are offered by Israel to attract "approved" investors. These incentives include: corporate tax incentives, (including reductions and exemptions on income taxes, withholding tax on certain dividends and higher depreciation allowances); personal tax incentives and capital grants and development loans at "reasonable cost"; R&D incentives (including government subsidies for up to 50% of the R&D expenditures of projects primarily intended for export.

Prior to discussion of performance requirements, the U.S. should submit several questions to Israeli officials on these requirements. These questions are listed in Appendix 3, which provides a draft set of questions to exchange with Israeli officials in advance of our January 17 negotiation.

Depending on the Israeli response to these questions, the U.S. should seek language in the FTA prohibiting the use of

performance requirements which distort trade flows, whether imposed as conditions for incentives, establishment or maintenance of operations. The following language is suggested:

> "Neither country shall impose measures which distort international trade and investment flows."

In addition, the TPSC will need to consider at some future date how to address the relationship between the FTA and the FCN treaty.

*****RECOMMENDATIONS:**

-- **That the TPSC direct the Subcommittee to review the consistency of including investment coverage in the FTA with U.S. policy on the occupied territories.**

-- **That the TPSC agree in principle that the U.S. and Israel should use the opportunity offered by the FTA to explore the possibility of extending the investment coverage (currently covered in the FCN Treaty) to include investment measures that distort international trade and investment flows, including performance requirements, to the extent possible.**

5. Intellectual Property Coverage

The issue of adequate protection for intellectual property rights has been raised by a number of concerned U.S. industries, including the chemical, motion picture and pharmaceutical industries. While we have not reviewed this issue extensively we should seek advice from the private sector on problems faced in the Israeli market with respect to intellectual property rights, patents and trademarks. The TPSC should agree that the U.S. should flag this issue for the Israelis and suggest that some intellectual property right provisions in the FTA agreement may be helpful in resolving existing and future problems.

*****RECOMMENDATIONS:**

-- **That the TPSC agree to flag this issue as one for possible inclusion in the FTA.**

-- **That the TPSC seek additional advice from the private sector on the desirability of including some provisions on intellectual property rights in the Agreement.**

6. Coverage of Non-Tariff Barriers

As in the case of tariff coverage, the U.S. will have to seek ITC advice on the elimination of U.S. non-tariff barriers as a part of the FTA agreement. In expectation of this requirement, we have asked Israeli officials to identify key U.S. non-tariff

barriers of interest and concern to them. To date, we have not received a complete list, however it is expected soon. Once this list is received, it will be submitted in its entirety to the ITC along with the request for review of items in the tariff schedule.

Absent the Israeli "request list", we are aware of a number of U.S. actions which disturb the Israelis. For example, the Israelis will probably seek an unlimited quota on dairy products covered under Section 22 of the Agricultural Adjustment Act. The Israelis have requested expansion of their quota on several occasions in the last few years. We are also aware that the Israelis will be concerned about U.S. standards on kosher food.

Our information on Israeli non-tariff barriers is quite deficient. We are aware of a number of Israeli NTBs imposed on products which affect our trade, including licensing actions on a number of products, however it is important that we seek additional information from the private sector to update our information. One area of particular concern to us is actions taken by Israel for balance of payments reasons. Such actions are fully consistent with Israel's rights under GATT Article XXIV to maintain actions for balance of payments reasons under Article XVIII, Section B. The U.S. cannot require that Israel give up this GATT right, however, we need to carefully explore ways to insure that Israel abides by the spirit and the letter of Article XVIII. This is particularly important because such actions as licensing and import deposit schemes could undermine, at least temporarily, the concessions granted the U.S. under the agreement. One possible approach to this problem is to require that the agreement specifically refer to rights and obligations under Article XVIII. A second possible approach might be to require that Israel agree to undertake balance of payments obligations only as a part of an IMF package. These approaches will require further study.

Regardless how we address this problem, discussions on non-tariff barriers can focus, at a minimum, on actions taken ostensibly for balance of payments reasons which can be shown to have a discriminatory effect. Several examples of such actions exist (i.e. poultry licensing and the import deposit on aluminum screening).

*****RECOMMENDATION:**

-- **That the TPSC seek ITC advice on the elimination of U.S. non-tariff barriers as a part of its request to the ITC on product coverage.**

-- **That the TPSC seek additional advice from the private sector on non-tariff barriers faced in the Israeli market.**

-- **That the TPSC direct the Subcommittee to review possible**

options for minimizing the negative effect on U.S. concessions of Israeli actions taken for balance of payments reasons and develop a list of balance of payments related actions which have been discriminatory.

7. Staging

Assuming that virtually all trade between the U.S. and Israel is included in the agreement, staging will be one of the most important aspects of this negotiation. During discussions in August between U.S. and Israeli officials, the Israelis presented a preliminary, informal proposal for staging of the agreement. This proposal, which is outlined below, provides for slightly longer staging for the Israelis. The initial Israeli proposal was as follows:

United States

1. Immediately stage to zero duties on all products which currently receive duty-free treatment under GSP (35 percent of Israeli exports to the U.S. in 1982).

2. Within two years, reduce to zero duties on all products which are currently dutiable (5 percent of Israeli exports to the U.S.) except in the case of a limited number of extremely sensitive products.

3. For the most sensitive products, staging could be extended over a longer period of time or other measures, such as tariff quotas could be adopted to provide some measure of temporary protection while gradually phasing in preferential access.

Israel

1. Immediately reduce to zero duties on 30 percent of dutiable imports from the U.S. (22 percent currently are bound at zero).

2. Stage an additional 10-20 percent of U.S. imports to zero over a five year period.

3. Stage to zero products which are currently subject to the 1975 GSP Understanding (133 products, approximately 20 percent of U.S. exports to Israel) over a ten year period.

A recent elaboration of the Israeli proposal transmitted in Tel Aviv 179 (1/4/84) acknowledges the possibility of a fourth category for limited exceptions from the agreement.

The effect of this proposed staging on U.S. and Israeli

trade is summarized in the following table.

Israeli Staging Proposal
Percent of Duty-Free Trade at Each Point of Staging (*)

	Current	Immediate to 2 years	5 Years	10 Years
Israeli Imports from U.S.	22	52	62-72	95-100
U.S. Imports from Israel	55	90	95-100	

(*) Based on 1982 trade figures.

This proposal indicates that the Israelis will expect that items currently covered under the U.S. Generalized System of Preferences will be treated as if they were already duty free. The U.S. should insure that GSP eligible items are treated in staging as dutiable items and that staging proceed from the MFN rates of duty on these items. If this approach is taken, the Israeli staging proposal could be modified to provide more simultaneous staging than is currently proposed. The U.S. could agree to immediate staging of GSP eligible items only if we received a comparable degree of immediate duty reductions from Israel. Should any GSP item require extended staging (following ITC advice), the item should continue to receive GSP benefits subject to all competitive need requirements until final staging is achieved.

While the Israelis can be expected to plead that the respective size of each market would necessitate a skewed staging scenario, the U.S. should not accept this proposal, particularly at the outset of negotiations. Our opening position must be that staging of the agreement be simultaneous.

*****RECOMMENDATION:**

-- **That the TPSC agree that the U.S. opening position on staging should be that staging of the tariff reductions should be simultaneous.**

8. Provisions Related to GATT Codes of Conduct

As a general policy, the U.S. would like to encourage greater LDC participation in the GATT Codes of Conduct. To date, Israel has signed the Government Procurement Code but has not acceded to any other Codes. The Subcommittee believes that the U.S. should use this agreement as an opportunity to encourage Israeli accession to the remaining codes, to the extent possible. A more detailed explanation of recommended negotiating positions on several of these issues is outlined below.

A. Subsidies

Israel currently is not a signatory of the GATT Subsidies Code. The U.S. has held Subsidies Code negotiations with Israel in the last year, but these negotiations were curtailed at the request of Israel. Nevertheless, the issue of subsidies is particularly important in the context of the FTA negotiations because under U.S. law, all duty free items receive the injury test in countervailing duty proceedings. The U.S. interprets GATT membership to constitute an obligation to provide the injury test on duty free products. Therefore, an Israel - U.S. FTA will enable Israel to receive the injury test in CVD proceedings for all the duty-free products covered by the FTA. Given this fact, it is important that the FTA address the issue of export subsidies in detail. A number of options for U.S positions are offered below.

1. As a condition to the FTA, the U.S. could require that Israel sign the Subsidies Code. Agreement by Israel to acceed to the Code, however, would not address the fact that Israel will receive the injury test regardless of whether or not they sign the code.

2. The U.S could also seek a commitment from Israel as a fundamental part of the FTA agreement that Israel will phase out all export subsidies within a reasonable period of time and not institute any other export subsidy programs (a standstill with a time-specific phase out of export sub sidies). This commitment would be similar to commitments we are seeking from other LDCs in Subsidies Code negotiations. For example, it would specifically state that if Israel derogated from its commitment, the U.S. would have the right to revoke the injury test without Israel complaining to the GATT.

3. A third option, virtually identical to option 2, would be to require a commitment to eliminate and not introduce new export subsidies, but NOT require specific language relating Israeli derogation from the agreement to

U.S. revocation of the injury test.

4. As a condition to the FTA, the U.S. could require that Israel agree not to provide export subsidies prohibited under the Subsidies Code on merchandise exported to the U.S.

***__RECOMMENDATION:__

-- **That the TPSC adopt both Options 1 and 2 as an opening negotiating positions.**

B. Antidumping

The FTA will have to address the question of antidumping at least to the extent that both parties agree that if a party finds that dumping is taking place, it may take appropriate measures in accordance with Article VI of the GATT. This provision should also include a commitment to notify the affected party and consult under specific consultation procedures which should be included in the FTA Agreement. Consultation procedures in the agreement would have to be carefully worded to be consistent with GATT obligations and U.S. law.

U.S. negotiators should be aware that it may be in the Israeli interest to call for strict antidumping provisions in the agreement. As such, we may wish to let the Israelis take the lead on this issue to determine their interest.

***__RECOMMENDATION__

-- **That the TPSC agree that any antidumping provision in the FTA agreement be drafted to relate the provision to Article VI of the GATT and to be consistent with U.S. law.**

C. Other Codes of Conduct

The U.S. may have particular interests in securing Israeli signature to the Code on Civil Aircraft, the Code on Technical Barriers to Trade (the Standards Code) and the Customs Valuation Code. Given the extent of the aircraft trade between the U.S. and Israel, it may be in our interest to discuss the merits of code accession with the Israelis. In the case of the Standards Code, we have a number of on-going standards problems with Israel which might be easier to resolve if Israel accepted the provisions of this agreement. Finally, while Israeli accession to the Customs Valuation Code would appear on face to be of little value in a duty free environment, Israeli accession might provide an additional avenue in which to address certain domestic taxes, such as the Israeli value added tax, which distort our trade with Israel.

***RECOMMENDATION

-- **That the TPSC agree that the U.S. should encourage Israeli accession to additional GATT Codes of Conduct, most specifically the Code on Civil Aircraft, the Code on Technical Barriers to Trade and the Customs Valuation Code.**

Safeguard Provision

To provide a temporary adjustment period for industries that are disrupted by Israel FTA imports, the Israel-U.S. FTA will have to allow for safeguard measures to be taken against Israeli imports. A safeguard provision will also aid, and perhaps be crucial, in winning support from industry and Congress for the FTA. The U.S. position on an appropriate safeguard provision in the FTA will be guided by existing practices and the effect the safeguard procedure will have on other aspects of the FTA and other U.S. trade policy objectives.

There are a number of key considerations that the TPSC should take into account in determining the most appropriate safeguard mechanism for the U.S.-Israel FTA. First, the United States must consider the consistency of the procedure selected with the GATT, especially since we intend to have the entire arrangement GATT-consistent. Second, we must be cognizant of the implications of the FTA's safeguard provision with other U.S. safeguard procedures and our continued efforts to reach multilateral agreement on an improved GATT safeguard measure. Finally, it is important to consider the effect the safeguard procedure will have on support from U.S. industry and Congress for the FTA, including the effect the safeguard procedure has on discouraging product exclusions. Given all these considerations, the following options are provided for TPSC discussion:

1. Maintain the existing Section 201 safeguard procedure with no special modification for Israeli FTA trade.

2. Apply modified safeguard procedure for Israeli FTA products, thereby allowing Israeli products to be excluded from 201 relief measures.

3. Establish a safeguard procedure for Israeli products that has a lower injury threshold than Section 201 (e.g. "material injury"), but require that the injury is linked to Israeli imports.

The Subcommittee has agreed, with the reservation of the Department of Labor to the following recommendation.

***RECOMMENDATION:

-- **That the TPSC agree that the U.S. opening position should be to endeavor to maintain existing Section 201 safeguard procedures in the Agreement with no special modification for Israeli FTA trade.**

National Security Provision

In an effort to protect our right to take specific actions for national security reasons, the FTA Agreement should contain provisions which allow for future restrictions on imports of Israeli products or services which could adversely affect industries key to national security. We should expect that the Israelis, given their current state of war, will also be interested in a national security provision. GATT language (in Article XXI) on national security actions may serve as the basis for this provision, however, we may wish to modify GATT language somewhat to incorporate language of Section 232 of the Trade Expansion Act of 1962, might be accomplished by including a statement on preserving rights under domestic laws.

When national security is adversely affected by imports, appropriate actions must be taken to offset this problem by restricting imports. Adverse impact can occur even though the items or services being imported are not in themselves critical products, but rather, their import is deleterious to the viability of key sectors of the industrial base needed for the production of critical national security items. In addition, limitations may be needed in the case where investments of one party in the other nation could lead to the control or acquisition of firms considered critical to the national security of the other nation.

***RECOMMENDATION

-- **That the TPSC agree that the FTA Agreement should include provisions similar to Article XXI of the GATT and reserve our rights to take actions against imports and investments for national security reasons consistent with domestic laws.**

-- **That the TPSC consider the need to ensure that no provision of the agreement should preclude taking actions on the exports of goods, services, technologies, or information deemed to be of national security and foreign policy importance.**

Infant Industry Provision

The EC-Israel FTA Agreement contains limited provisions for Israeli protection of infant industries. The Israelis can be expected to ask for a similar provision in the U.S.-Israel FTA. The EC-Israel agreement provides for temporary increases

in the 1975 base rate of duty by Israel on up to ten percent of Israel's imports of EC products. Staging of concessions is thus based on the revised rate. The products involved are not excluded from the agreement, but rather must be duty free by the end of the final staging period (1987 or 1989, depending on the acceptance of the EC of the Israeli request for its second two-year extension of staging.)

The TPSC needs to consider whether we could accept a similar provision in our FTA, should Israel request one. While our actual decision will not have to be made until more details of the product coverage and staging are determined, we should provide a general position on this issue for the January negotiations on the assumption that Israel may request such a provision in the context of setting broad parameters for the agreement. In terms of negotiating strategy, it would be advisable to resist including any infant industry provisions in the agreement. However, the TPSC may wish to recommend that we consider this issue in more detail to see whether we could agree to a limited number of infant-industry concessions without harming our interests. It is clear that if we could agree to such a provision, it would have to be limited in scope and duration.

*****RECOMMENDATION:**

-- **That the TPSC agree that the opening U.S. position should be that no infant industry provisions be included in the agreement.**

Rules of Origin

It will be essential to include detailed rules of origin in our FTA agreement. This will be necessary to ensure that Israel does not become a back channel for EC or other exports bound for the U.S. The issue of rules of origin has already been mentioned by a number of private sector advisors, particularly in the agricultural area, as an issue of significant concern. Negotiation of specific rules of origin undoubtedly will be complex and will have to be dealt with at a later time, however, the Subcommittee needs to provide general guidance on the need for rules of origin in the agreement.

*****RECOMMENDATIONS:**

-- **That the TPSC agree that detailed rules of origin must be addressed in the agreement and that U.S. negotiators should ensure that rules of origin be included in later rounds of negotiations on the FTA.**

-- **That these rules of origin must be designed to ensure that the U.S. is effectively protected from imports from other sources which may be diverted to Israel prior to export to the U.S.**

-- **That the TPSC direct the Subcommittee to begin a review of possible rules of origin for future consideration.**

Territorial Coverage - Occupied Territories

The Department of State is currently reviewing a number of options which could be adopted in the FTA to address the issue of products originating in the occupied territories. The FTA agreement will have to address this question in some form, however, this issue can probably be resolved at a later date through creative drafting language. The TPSC will need to provide our negotiators with some guidance on the need to address this issue at some point in the agreement.

***RECOMMENDATIONS:**

-- **That the TPSC agree that the Agreement by its terms should be limited to the State of Israel.**

-- **That the TPSC direct the Subcommittee to begin a review of possible language to include in the agreement at a later date to address the problem of treatment of products from the occupied territories.**

Administrative Arrangements

The timing and procedures for negotiating the FTA agreement will undoubtedly be discussed in the course of our initial negotiations. The Israelis want the agreement to be completed as soon as possible, preferably in time to be addressed by this Congress. The U.S. will be constrained by our need to seek ITC advice prior to detailed negotiations on coverage and staging. It is expected that this ITC review will take five or six months to complete, given the fact that advice is required on the entire U.S. tariff schedule. The U.S. also has an interest in completing the agreement before elections, if at all possible, because it is believed that Congressional approval would be easier to obtain prior to the elections.

While many of the procedures to be followed will evolve during the course of negotiations, it may be useful to propose to the Israelis that a statistical working group be established at the outset which could develop detailed product lists and concordances between the respective tariff schedules, as well as facilitate the exchange of computer tapes of trade data for analytical purposes.

***RECOMMENDATIONS:**

-- **That the TPSC agree that the U.S. and Israel should attempt to conclude the FTA agreement as expeditiously as possible within the constraints set out by U.S. legislative requirements.**

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-- **That the TPSC agree that the U.S. propose to the Israelis that a statistical working group be established to facilitate the completion of negotiations.**

January 10, 1984

APPENDIX I

DRAFT

January 6, 1984

The Honorable Alfred Eckes
Chairman
U.S. International Trade Commission
Washington, D.C.

Dear Chairman Eckes:

During the recent visit of Prime Minister Yitzhak Shamir of Israel, President Reagan agreed that the Government of the United States would enter into negotiations with the Government of Israel with a view to the establishment of a free trade area between the United States and Israel. The Administration will seek legislation early this year which would implement such an arrangement.

In connection with these negotiations, to assist the President in making an informed judgment as to the impact which might be caused by the establishment of such a free trade area on U.S. manufacturing, agriculture, mining, fishing, labor, and consumers, at the direction of the President I request the Commission to conduct an investigation, pursuant to section 332(g) of the Tariff Act of 1930, and to advise the President, with respect to each item in the Tariff Schedules of the United States (for which the column 1 rate of duty is other than "free"), as to the probable economic effect of providing duty free treatment for imports from Israel on industries in the United States (the Commonwealth of Puerto Rico, and U.S. insular possessions) producing like or directly competitive articles and on consumers.

With regard to services in the U.S.-Israeli Free Trade Area, we are particularly anxious to establish an understanding that insures open access in the investment and trade activities covering these sectors. In order to consider more fully the implications to the U.S. of establishing such an understanding, we would be grateful for your analysis of U.S. laws and regulations affecting aviation, shipping, banking, insurance, construction and engineering, professional services (lawyers, physicians, management consultants) and telecommunications and data processing. The Commission's advice will also be requested as to the probable economic effects of certain modifications in nontariff areas on domestic industries and purchases and on prices and quantities of articles in the United States. A list of these nontariff areas will be forwarded shortly.

In all respects the Commission should conduct this investigation as if this request had been made pursuant to section 131 of the Trade Act of 1974, including the holding of public hearings. If prior to the completion of the investigation the Congress enacts legislation permitting the duty reductions which would be necessary in establishing the free trade area, we will request that the investigation be shifted to an investigation under section 131 of the Trade Act of 1974. In the event such legislation is passed after completion of the Commission's investigation, we will request that the Commission provide the President similar advice under section 131.

The Commission is requested to provide its advice to the President in this investigation as soon as possible, but not later than four months from the date of receipt of this letter.

Very truly yours,

WILLIAM E. BROCK

WEB:pcc

APPENDIX 2

Procedural Requirements

The following is a brief overview of the major procedural requirements which will apply to the formation of a U.S.-Israel FTA, regardless of what specific type of authority is eventually sought. Most of these procedures will be pursued concurrently.

Before Entering Agreement

The President must:

-- request advice from ITC on all articles which might be modified

-- seek information and advice from various agencies (accomplished through TPC meeting)

-- arrange for public hearings (accomplished through TPSC) and receive hearing summary

-- seek guidance from private sector advisors (discussed below)

The ITC must:

-- within 6 months of receipt of list from President advise on economic impact of proposed modifications. (In this case, ITC has agreed on four months.)

-- hold public hearings

No offer of modification can be made by the President until --

-- he has received a summary of the public hearings held by TPSC and

-- he has received advice from the ITC

After Entering Agreement

-- copy of agreement is transmitted to Congress, with implementing legislation and proposed administrative action, and rationale for each

-- the bill is enacted into law (possibly using fast track procedures of section 151).

Private Sector Advisors

Section 135 of the Trade Act of 1974 provided for the establishment of a system of private sector advisory committees to ensure that a formal mechanism existed to maintain a continuous dialogue between the government and the private sector, regarding trade agreements. Although, in practice, on minor matters the strict requirements of this provision are often pre-empted by

extensive consultations with Congress, the establishment of a FTA with Israel will require a full hearing within the private sector advisory system.

The advisory committee system is managed by the Office of the U.S. Trade Representative in cooperation with the Departments of Commerce, Agriculture, Labor, and Defense. The committees fall into three categories.

At the top level of the system is the Advisory Committee for Trade Negotiations (ACTN). This is a Presidentially-appointed committee of 45 members representing various elements of the U.S. economy, with international trade interests. While the U.S. Trade Representative convenes the meetings of the ACTN, the meetings are chaired by a private sector member who is elected by the Committee. The mandate of the ACTN is to provide overall policy guidance on U.S. trade issues.

The second level of committees in the structure is composed of policy advisory committees in the specific areas of Industry, Agriculture, Labor, Defense, Services, Investments, Steel and Commodities. Their responsibility is to advise the government on how trade issues affect the economies in their respective sectors.

Finally, there are technical and sectoral advisory committees which are composed of experts from their respective fields. The ATACs (Agricultural Technical Advisory Committees), ISACs (Industry Sector Advisory Committees), and LACs (Labor Advisory Committees) provide specific and technical information on problems within the private sector (in areas such as automobiles, steel, wheat, aircraft, or poultry) which are being affected by trade policy. New sectoral committees whose interests were not represented during the MTN have been formed in the areas of energy, small and minority business, and services. In addition, functional committees have been established to monitor two of the Codes of Conduct which were negotiated during the Tokyo Round - Customs Valuation and Standards.

Essentially, before and during any trade negotiations, the private sector advisory groups are intended to provide policy and technical advice to U.S. negotiators. Because in this case the private sector advisors have not yet had an opportunity for full review of the issues related to the U.S.-Israel FTA, the early meetings with Israel should be used to explore the broad idea of an FTA, identify major areas of concern, and settle major parameters.