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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
233262	CABLE	RE. JOINT ECONOMIC GROUP	3	10/2/1984	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

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B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
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B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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July 9, 1984

Balance of Payments Proposal

1. Trade measures taken for balance of payments reasons by one Party may not be applied to the trade of the other Party.

2. The provisions of Paragraph 1 will apply to all balance of payments measures in effect at the time the Free Trade Area comes into force, such that any trade of one Party subject to balance of payments measures of the other Party will be exempted fully from such restrictions from the first day of the Free Trade Area coming into force.

3. The provisions of Paragraph 1 will apply to all trade restrictions imposed by either Party which the Party concerned justifies in the GATT under either Article XII or XVIII, whether or not other GATT exceptions might apply in the absence of a balance of payments justification.

File
US-Israel
Free Trade
Area

TPRG PAPER

U.S.-ISRAEL FREE TRADE AREA
PREPARATIONS FOR THE JULY 9-13 NEGOTIATIONS

PROBLEM

The attached paper outlines a number of issues on which the TPSC was unable to reach a consensus in preparing negotiating instructions for use by the U.S. del in negotiations with Israel on the free trade area during the week of July 9. The issues are:

- Balance of Payments Provision
- Product Coverage
- Staging Proposal
- Safeguards
- Export Subsidies
- Agricultural Subsidies
- Infant Industry Provision
- Third Party Conciliation
- Services

The TPRG is asked to provide negotiating guidance on these subjects for the negotiations.

CLASSIFIED BY Doral Cooper
DECLASSIFIED ON 7/9/84

BALANCE OF PAYMENTS (BOP) PROVISION

A key question for the United States is whether the FTA should permit any imposition of trade restrictions for balance of payments reasons. Since Israel's BOP problems appear chronic, allowing restrictions on such grounds could mean that U.S. exports to Israel would always be subject, or potentially vulnerable, to restrictions.

Israel now imposes a 15 percent import deposit and a 2 percent surcharge on most products. In addition a rather extensive list of products is subject to discretionary licensing. GATT has accepted Israel's trade restrictions justified for BOP reasons.

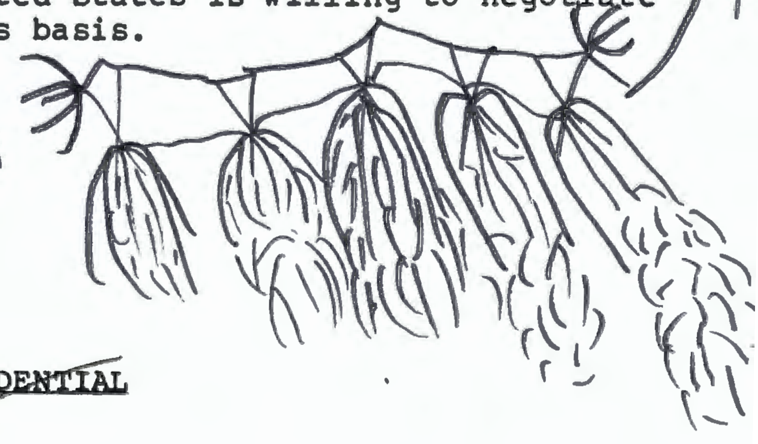
Israel has tabled a proposal which would maintain its freedom to impose BOP restrictions. Informally, Israel has hinted that ~~it might~~ be willing to make import licenses freely available to ~~US~~ imports. The likely result under the Israeli proposal is that US goods would be excluded from quotas, but may be subject to surcharges or import deposits (they therefore would still benefit from the preference of the tariff elimination.)

The currently tabled U.S. proposal would allow Israel to impose general import surcharges or import deposits for BOP reasons. (Article XXIV permits BOP actions between parties to a FTA.) However, the United States would reserve the right to make compensatory adjustments if we did not receive the benefits we expect from the FTA because of Israeli BOP-justified restrictions.

The TPRG should decide if the United States is willing to negotiate an agreement with Israel on this basis.

What & how would we really do it

Limit scope & application & MFN basis



Ag - Exemptions for 7 [illegible] categories

CONFIDENTIAL

ITC 8 products Not subject just 5 yrs

PRODUCT COVERAGE

The TPRG needs to decide whether or not the U.S. will maintain a position calling for inclusion of all products in the FTA. The TPSC was unable to reach consensus on a request from USDA that 24 horticultural products be excluded from the agreement. These products cover approximately half of our agricultural imports from Israel.

The TPSC has identified a number of sensitive products for which staging should be extended in order to allow the U.S. industries to adjust to potential additional imports from Israel. The Committee has provided recommendations on the staging for these products (either immediate, medium or long term staging).

Prior to 5-yr review ITC

STAGING PROPOSAL

The TPSC has agreed to propose a simple approach to staging involving three categories of staging for each side. This approach would involve development of a median range of protection for both the United States and Israel, an assumption of simultaneous staging, an identification by both parties of items which could be staged to zero immediately and in the long term (10 years as indicated in discussions thus far), and an understanding that U.S. products could not be disadvantaged vis a vis EC products in the Israeli market throughout the staging process and upon completion of the agreement. The TPRG should discuss whether the "simultaneous" staging exercise should be considered on the basis of duties foregone or trade values covered.

Automatic zero phase down 10/[illegible]

SAFEGUARDS

In January the TPRG deferred decision on a safeguard provision for the FTA until we had received the ITC advice on product coverage and had a better view of how sensitive products were addressed in the agreement. The TPSC recommends that the issue of safeguards be deferred until later in the negotiations when the product coverage is clarified.

Why?

CONFIDENTIAL

SUBSIDIES

TO BE PROVIDED ON MONDAY

CONFIDENTIAL

(2) Ag - each loan ex subs

AGRICULTURAL SUBSIDIES

In previous discussions with Israel on export subsidies, agricultural subsidies have not been included in the scope of programs reviewed. In both the preliminary discussions held with the GOI on possible accession to the Subsidies Code and in discussions of this topic thus far in the free trade area context, U.S. negotiators proceeded on the assumption that developing countries have not been required to make a commitment on the elimination of agricultural subsidies, export or otherwise, under the U.S. Subsidies Code Commitments Policy. The only provisions of the Subsidies Code relating to developing country agricultural export subsidies involve more traditional GATT determinations of effect, rather than prohibition of such subsidies.

According to Embassy Tel Aviv, Israel greatly reduced most of its agricultural subsidies in the last fiscal year to about $126 million, compared to $533 million for 81/82, (an aggregate decrease of 76 percent.)

The export agricultural subsidy programs include the setting ~~of minimum prices for exported products (funded partly by the GOI and partly by the agricultural cooperatives); subsidized loans to agricultural producers for equipment, such as greenhouses; and investment incentives similar to the Regional Development Program for industrial investment.~~

The value of total agricultural output in Israel for the 81/82 period was $2.4 billion; in 82/83, this amount increased slightly to $2.8 billion. In 82/83, the value of export subsides in relation to total agricultural output was less than 5 percent.

We would be introducing a new issue at this point in the negotiations if we request that Israel eliminate agricultural export subsidies. While it is doubtful that they would have a complete response for us on the point at the July round, we can be sure that they would request reciprocal action from the United States, including the removal of U.S. quota restrictions on dairy products under Section 22 of the Agricultural Adjustment Act.

* 1. If status quo but some language dairy

CTA

CONFIDENTIAL

~~CONFIDENTIAL~~

INFANT INDUSTRY PROVISION

It is legal under the GATT to have an infant industry provision in the FTA agreement until the agreement is fully implemented.

The Israelis have asked for such a provision. The TPRG should consider if the USG could agree to such a provision at some future point in the negotiations. The EC-Israel agreement contains a carefully ~~limited~~ infant industry clause which allows Israel to raise tariffs on certain products of new industries after appropriate consultation. The EC tells us that the provision has not been abused, and that Israel has used it only a few times.

THIRD PARTY CONCILIATION

Israel has proposed including third party conciliation in the dispute settlement provisions of the agreement. It is suggested that each side nominate a conciliator and if these two cannot reach agreement, they nominate a third. There is some question whether the Israelis are proposing a binding or non-binding mechanism. If their proposal is for non-binding conciliation, such an option may provide a means of resolving disputes without having to resort to compensation or retaliation, since the conciliators' recommendations carry a measure of "moral suasion." The Israelis have stated that in a non-binding system, they would have to retain compensation and retaliation as measures of last resort.

SERVICES

The United States wants to extend the principles of national treatment and transparency to cover the trade activities of services sectors under the FTA. This has particular value for the coverage of the telecommunications sector which is excluded in the existing U.S.-Israel Treaty of Friendship, Commerce and Navigation (FCN). Because the FTA provisions would extend solely to trade activities in services, we believe the exceptions outlined in the FCN treaty could be narrowed.

The Israelis have generally accepted our interest in including services provisions in the FTA but are concerned that they know too little about services trade to commit to broad principles at this time. They are also concerned about how the FTA could extend to services regulated by states.

The TPSC suggests that the TPRG may wish to review this issue.

CLASSIFIED BY Israel Cooper

DECLASSIFIED ON 7/9/84

~~CONFIDENTIAL~~

File
Israeli Trade
Free Area

→ ① McMinn
② Teicher

FYI 9-19-84

11

RCM HAS SEEN

MEMORANDUM

The attached is a copy of the submission filed before the International Trade Commission (ITC) as part of its investigation on the probable economic effect of providing duty-free treatment for imports from Israel by virtue of a free trade ares.

The following facts are clear from the information provided to the ITC.

Access to a marketplace the size and wealth of the United States is a vital element to the success of any export program and this is particularly true with respect to the brominated products industry. According to a recent report of the United States bromine industry, 52% of total free world consumption of bromine and brominated products occurs in the United States. Though the Israeli industry is able to compete with U. S. producers in such major markets as Europe and Japan, there can be no compensation for denial of access to the market which accounts for over half of the free world consumption. At present, such denial of access is precisely what is occurring, as Israel's share of the United States market for consumption is approximately <u>2-1/2%</u>. The balance is accounted for almost wholly by the United States producers as other exporters of bromine or brominated products to the United States are virtually non-existent.

In the production of its brominated compounds, Israel is very much dependent upon foreign sources of non-brominated chemical intermediates and, currently, many such chemical intermediates are sourced in the United States. As demand for Israeli brominated products increases, the need for chemical intermediates of foreign origin will similarly rise.

In many instances where a particular brominated product is being supplied by a single U. S. company and an israeli presence serves as a second source. Where only one source of supply is available, consumers are vulnerable to pricing caprices and shortages, either as a result of intentional decisions regarding factory product mix or as a result of unanticipated events such as labor strikes, equipment failure, etc.

The Israeli industry is certainly not in a position to threaten the pricing structure of the domestic producers. Although the methods of obtaining elemental bromine in Israel and the United States vary considerably, overall costs of production are quite comparable. In Israel, bromine rich brines are obtained at lesser expense than in the United States but the Israeli production method requires significantly greater energy input to separate bromine from brines, and energy is far more costly in Israel. Comparable production costs, coupled with high transportation costs to the market where the domestic industry is already based, makes it extremely difficult for the Israeli industry to compete in the United States, tariff rates notwithstanding.

Evidence of the ability of the domestic industry to compete effectively without the benefits of tariff protection can be seen in international markets. In Japan, the United States has recently gained significant inroads to the detriment of the Israeli industry and one of the three major domestic producers, Great Lakes Chemical Corporation, reported nearly a doubling of its international sales in 1983 from the year before, an increase of approximately 25 million dollars.

The domestic industry, under the name the U. S. Bromine Alliance, suggests that imports will increase by approximately 20 million dollars over the next several years. It further suggests

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that, based upon present capacity utilization rates in the domestic industry, and the threat of continued decline in domestic consumption of ethylene dibromide, the industry is in a weakened state and particularly vulnerable to the threat of increased imports.

While we believe that a twenty million dollar increase in imports is a grossly over-inflated projection, it is, in any event, an insignificant figure. There are three U. S. producers which comprise the U. S. Bromine Alliance and account for nearly all domestic production: Great Lakes Chemical Corporation, Ethyl Corporation and Dow Chemical Corporation. Because Ethyl and Dow are major diversified producers, little can be gleaned as to the success of their bromine and bromine derivative operations from an examination of documents available to the public. However, Great Lakes, the largest U. S. producer or bromine and brominated derivatives, is dedicated almost exclusively to the production of these products. Accordingly, an examination of this company's performance, as a whole, provides excellent insight into the health of the domestic industry.

In its 1983 annual report, Great Lakes reported sales and earnings at record highs and an <u>increase</u> in sales of over 53 million dollars from the prior years. Thus, in a single year, one of the three major domestic producers has increased its bromine revenues to almost three times the total increase it predicts for Israeli imports as a whole.

Prospects for continued growth are equally impressive in the domestic industry. Great Lakes' sales and earnings in the first quarter of 1984 rose in excess of 50% compared to the same period in the prior year. The company projects that its sales will reach one billion dollars by the year 1990, an increase from 1983 levels of almost 750 million dollars. Such projections are based

Great Lakes
Chemical Corporation
P.O. Box 2200
West Lafayette, Indiana 47906
(317) 463-2511

A PROGRESS REPORT

For the Six Months
Ended June 30, 1984

Great Lakes
Chemical Corporation

TO THE STOCKHOLDERS

July 27, 198-

Adding to the excellent gains posted in the first three months of 1984, both revenues and earnings for the second quarter again soared to all-time highs. This performance marks the sixth consecutive quarter of record operating earnings.

Revenues were $74,172,000 for the 1984 second quarter, up 35.4 percent from the $54,764,000 recorded for the corresponding quarter of last year. Net income for the quarter surged 61.5 percent to $8,890,000, or $.60 per share, versus the $5,503,000, or $.38 per share, posted in the second quarter of 1983.

For the first six months of this year, revenues rose 42.1 percent to $141,896,000, compared to $99,873,000 for the first half of last year. Earnings for the period leaped to $16,897,000, or $1.13 per share, which were 72.9 percent above the $9,773,000, or $.67 per share, earned in the first six months of 1983.

All key business segments helped fuel the record-setting growth: fire control chemicals topped their ambitious goals; international revenues stayed strong; better market conditions bolstered oilfield products' volume and margins; demand for agricultural products, particularly metaphenoxybenzaldehyde, far exceeded our expectations; and, two major domestic subsidiaries—E/M Lubricants and Hydrotech—surpassed last year's performance by wide margins.

Recent Events

■ On June 18, 1984, the Board of Directors declared a regular quarterly dividend of $.09 per share. The dividend is payable on July 30, 1984, to the holders of record on July 1, 1984. The current indicated annual dividend is 20 percent above the $.30 per share paid in 1983.

■ Important signals from both domestic and worldwide marketplaces indicate that the decade-long oversupply of elemental bromine is finally nearing an end as demand approaches the industry's effective capacity. This improving supply-demand relationship, combined with significant increases in key raw material costs, is exerting and should continue to exert upward pricing pressure on bromine and bromine-containing compounds.

■ Moving to increase capacity and open doors to new, specialty chemical manufacturing opportunities, the Company purchased the Newport, Tennessee, production facility of Syntex Chemicals, Inc. in June, 1984. This modern, efficient and versatile plant, is well-suited for the manufacture of brominated and non-brominated products, including flame retardants, agricultural and pharmaceutical intermediates and other fine chemicals.

Purchased at a fraction of its replacement cost, the facility will be used initially to make material which will be supplied to Syntex under a long-term agreement and selected flame retardants. The capabilities of the Newport plant are thus an excellent adjunct to our principal manufacturing operations at El Dorado, Arkansas, and will launch us into new segments of the attractive, chemical intermediates market.

■ As described in our last quarterly report, the Federal Trade Commission, early this year, provisionally approved a Consent Order terminating its Administrative Proceeding regarding our mid-1981 acquisition of certain bromine-related assets from Northwest Industries. Details leading to final approval were completed in May and the settlement agreement is now in place, precisely as it was initially approved. This action brings a welcome and highly satisfactory end to an expensive, time-consuming, legal procedure.

■ Boosted by sales from their new line of proprietary equipment, revenues and earnings of Inland Specialty Chemical Corporation continue their upward trend. The three new equipment systems, designed to help printed circuit board manufacturers improve effluent quality, are promising complements to Inland's primary activities in electronics chemicals.

■ After many months of careful evaluation and study, I have recently implemented an organizational restructuring plan designed to support the Company's ambitious growth and profit goals. The new structure will more precisely focus resources on key business segments; more efficiently coordinate our worldwide activities; and, provide advancement opportunities for top-performing executives.

As an important part of the reorganization, Allen W. Smith, 56, was promoted to Group Vice President. A 12-year veteran of the Company, Mr. Smith will be working closely with me to guide the Company into new business areas and will continue managing the activities of certain subsidiaries.

Further consolidating certain other functions, B.G. McGuire and Bob G. Tibbetts have both been elected to Senior Vice President positions. Mr. McGuire, 53, will add corporate engineering to his current responsibilities for manufacturing and related activities. Mr. Tibbetts, 46, will expand his marketing and business management duties to encompass worldwide direction for fire control chemicals, agricultural products, and specialties.

In addition, two new corporate Vice Presidents were appointed. William P. Blake, 42, Vice President, Specialties and Flame Retardants, will provide sales and business direction for these two important product lines. Lowell C. Horwedel, 51, in addition to his responsibilities as President of our E/M Lubricants subsidiary, will serve as Corporate Vice President.

CONSOLIDATED CHANGES IN FINANCIAL POSITION

(thousands of dollars)

	Six Months Ended June 30	
	1984	1983
Cash from Operations	$29,245	$19,394
Working Capital Changes, excluding Debt Changes	(3,896)	312
Long-Term Asset Changes		
Plant and equipment additions	(17,863)	(8,791)
Trade notes receivable	(2,500)	—
Marketable securities	(1,885)	—
Other	(202)	(381)
	(22,450)	(9,172)
Debt Changes		
Notes payable	—	(4,898)
Long-term debt, including current portion	3,725	(3,736)
	3,725	(8,634)
Stockholders' Equity Changes		
Cash dividends declared	(2,685)	(2,189)
Other	(1,328)	24

As an integral part of the plan, Dr. John S. Little, Vice President, Corporate Technology, Robert B. McDonald, Vice President, Engineering, Wayne R. Merriman, Vice President, International, and Norman L. Ritter, Secretary and Treasurer, have also assumed additional responsibilities.

Outlook

The major events of the past few months, capped by the outstanding results of the second quarter, have further enhanced our already strong position. We look forward to the second half of the year with enthusiasm and determination to make 1984 another banner year for Great Lakes.

Respectfully submitted,

Emerson Kampen

Emerson Kampen
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS

(thousands of dollars)

	June 30, 1984	December 31, 1983	June 30, 1983
Assets			
Current assets	$ 99,055	$ 90,369	$ 76,736
Plant and equipment	131,842	121,411	115,646
Excess of investments over net assets of subsidiaries acquired	9,007	9,124	9,234
Other assets	10,793	6,136	4,328
	$250,697	$227,040	$205,944
Liabilities and Stockholders' Equity			
Current liabilities	$ 41,561	$ 39,513	$ 29,107
Long-term debt, less current portion	28,954	25,098	31,162
Deferred federal income taxes	22,811	17,942	14,157
Minority interests	1,762	3,077	2,920
Stockholders' equity	155,609	141,410	128,598
	$250,697	$227,040	$205,944

CONSOLIDATED CHANGES IN FINANCIAL POSITION

(thousands of dollars)

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	(22,450)	(9,172)
Debt Changes		
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Long-term debt, including current portion	3,725	(3,736)
	3,725	(8,634)
Stockholders' Equity Changes		
Cash dividends declared	(2,685)	(2,189)
Other	(1,328)	24
	(4,013)	(2,165)
Increase (Decrease) in Cash and Short-Term Investments	$ 2,611	$ (12652)

16

on anticipated growth in bromine application for fire extinguishing agents, flame retardants, water treatment chemicals and oil well completion fluids.

Based both on recent growth and the industry's projection for the future, it is readily apparent that the anticipated increase in import sales pales by comparison, regardless of whether one considers the Israeli industry's estimate of ten million or the Alliance estimate. If we adopt the formula of the U. S. bromine alliance of 20 jobs for every million dollars of sales, it is anticipated that the ranks of the bromine related labor force in the United States will swell considerably over the balance of this decade.

Figures quoted by the domestic industry relating to its capacity utilization are of dubious value because they are based upon capacity to separate out the bromine from the underground brine deposits in above ground operations ("tower capacity"), while U. S. capacity to initially obtain the requisite brines (well capacity) is considerably less. Thus, assuming well capacity to be half of tower capacity, even if the wells are excavating brines at full capacity for an entire year, utilization would be a mere 50% based upon the yardstick which the Alliance is utilizing. While the specific figures are not available to us, it is widely recognized that United States well capacity is significantly below tower capacity.

Similarly, claims as to the threat posed by continuing declines in ethylene dibromide consumption in the United States are unfounded. In stark contrast to predictions of significant decreases in bromine production needs in 1984 and the future as a result of recent agricultural bans, the following statement was attributed to the president of Great Lakes in the trade publication Chemical Week. (Feb. 15, 19884)

> EPA's most recent ban * * * will have absolutely no negative impact on the present or future business of our company.

Concededly, the shrinking market for ethylene dibromide as a gasoline additive has negatively impacted the domestic industry. However, the greatest loss has occurred years ago; since then the domestic industry has been quite successful in offsetting the diminishing demand for this product with new bromine applications. While domestic consumption of ethylene dibromide was approximately 310 million pounds in 1973, it is estimated that domestic consumption in 1983 was less than 1/4 of that level, about 70 million pounds. This being the case, the Alliance members can look forward to increasing profits from rapid growth occurring in other bromine product areas without fear that further EDB cut-backs would erode or offset such growth.

The realistic picture with respect to the phasedown in ethylene dobromide consumption, capacity utilization and the bromine supply situation in the United States is summed up in a single statement attributable to the director of brine products at Dow Chemical Corporation, as reported in the March 21, 1984 issue of Chemical Week:

> "The big three players in the bromine game have been cognizant of eventual phase-out of EDB - hence our heavy effort in flame retardants and clear fluids. And right now bromine is very tight".

In sum, the domestic industry is in an excellent state of economic health and is well poised to benefit from the anticipated surge in demand for brominated products attributable both to current and newly developing applications.

This industry has organized itself into an efficient and vocal entity, but it is difficult to imagine an industry less deserving of special deference.

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We hope to be in a position for you and Peres to sign a declaration on the Free Trade Area Agreement that is nearly concluded between the United States and Israel. This joint declaration would outline the general principles and objectives of the Free Trade Area and instruct negotiators from both sides to finalize their negotiations in the very near future.

We expect to have congressional authority this week to enter into the Free Trade Area Agreement with Israel. However, under current domestic law, before you can sign the actual agreement, Congress must receive a 90-day prior notice of intent. This issue will be included in your pre-brief for the Peres visit.

File U.S.-Israel Free Trade Area

Declaration on Free Trade Area Agreement
Between the
United States of America and Israel

In accordance with discussions concluded between the President of the United States and the Prime Minister of Israel on November 29, 1983, the United States and Israel,

-- Desiring to promote mutual relations and further the historic friendship between them;

-- Determined to strengthen and develop the economic relations between them for their mutual benefit;

-- Wishing to contribute to the harmonious development of world trade;

-- Wishing to establish reciprocal free trade between the two nations through the removal of trade barriers;

have entered into negotiations to establish a Free Trade Area between the two nations. Such Free Trade Area, when concluded, shall, <u>inter alia</u>

-- be consistent with the obligations of both nations under the General Agreement on Tariffs and Trade;

-- provide for the elimination of duties and other restrictive regulations of commerce on substantially all the trade between the two nations;

~~-- be phased in over ten years;~~

-- create a forum through a Joint Committee where representatives of both nations will meet on a regular basis to discuss bilateral trade issues and thereby promote a closer relationship between the United States and Israel;

-- eliminate export subsidies in accordance with the GATT Agreement on Interpretation and Application of Articles VI, XVI and XXIII (the Subsidies Code);

-- eliminate any trade-related performance requirements imposed on each other's nationals;

reaffirm

-- ~~reconfirm~~ the mutual obligations of the United States and Israel with respect to intellectual property rights;

-- establish rules of origin to ensure that duty-free treatment is accorded only to goods originating in either the United States or Israel and provide that U.S. and Israeli customs authorities shall assist one another in implementing and enforcing the rules of origin;

- -- allow either side to impose safeguard actions against the other, but only if imports originating within the free trade area are found to be the cause of injury;

- -- establish notification and consultation procedures, and a procedure for the settlement of disputes arising within the context of the agreement.

Therefore, to accomplish these objectives, the President of the United States and the Prime Minister of Israel agree to instruct their negotiators to begin the final phase of the Free Trade Area negotiations next week.

The date of signature of the instrument establishing the Free Trade Area shall be subject to the domestic legal requirements of each signatory.

In Witness Whereof the President of the United States of America and the Prime Minister of Israel have signed the present Declaration.

Ronald Reagan
President of the United States

Shimon Peres
Prime Minister of Israel

Draft Presidential Remarks

U.S. - Israel Free Trade Area

Prime Minister Peres and I have just taken an historic step. We have [agreed] [signed a Declaration] to commit/committing our two governments to conclude negotiations on the establishment of a free trade area between the United States and Israel.

This agreement is the first of its kind for the United States. We have an unwavering commitment to Israel's security and economic well-being. Right now, our friends in Israel are facing a genuine challenge as they try to restore their economy to full health. One expression of U.S. support for Israel is our economic and military assistance, which this year will be given on an all-grant basis for the first time. The United States is prepared to help in this way, but U.S. aid alone, however generous, cannot remedy the situation.

Israel is doing all that it can now to put its own economic house in order. But they need help from their friends to complete the process. Israel's ability to expand its economy and help itself depends, in large part, on the degree to which Israel's exports can enter other markets. A reciprocal free trade area between our two countries gives Israel the maximum access possible to the U.S. market, while at the same time opening up the Israeli market completely to American exports. The agreement offers Israel the incentive to streamline its economy and guarantee that Israeli producers become as efficient and competitive as possible.

A free trade area between our two countries adds a new dimension to our bilateral economic relationship. Through this agreement, we will promote both countries' trade and investment interests and contribute to a more secure Israel.

Last November, former Prime Minister Shamir and I discussed the possibility of establishing a reciprocal free trade area between the United States and Israel. Negotiations to accomplish such an agreement were undertaken by Ambassador Brock, the United States Trade Representative, beginning last January.

It gives me great pleasure to announce today that great progress has been made to make the U.S. - Israel Free Trade Area a reality, and Prime Minister Peres and I have directed our negotiators to begin the final phase of the negotiations next week.

Although the U.S. - Israel Free Trade Area will still be subject to Congressional review, we both anticipate that the agreement will be in force by early next year. This landmark agreement is a further reflection of the commonality of ideals, interests and objectives shared between the United States and Israel.

ES SENSITIVE
8427511

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON 10/3

October 3, 1984

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~~CONFIDENTIAL~~

MEMORANDUM TO THE SECRETARY

SUBJECT: Israel's Free Trade Area

Bill Brock assures me that we can have a document for Prime Minister Peres and President Reagan to sign while the Prime Minister is here next Monday and Tuesday.

The document would take the form of an agreement or an MOU saying that, now that Congress has authorized the FTA, we will proceed promptly to complete the agreement, and it will conform to the following principles, which then will be spelled out. Bill promised to send me a draft of such an MOU later this afternoon.

I emphasized to Bill that you would be extremely pleased to learn this.

W

Allen Wallis

~~CONFIDENTIAL~~
DECL: OADR

DECLASSIFIED
Authority State Waiver
BY RW 4/12/19

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

File

Attached for your review is the final version of the U.S.-Israel Declaration on the Free Trade Area Agreement for the President's signature on Tuesday. Also attached are draft Presidential remarks on the Free Trade Area for use after Tuesday's meeting with Prime Minister Peres. Please call Alix Platt, 395-7305, immediately, with comments.

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Declaration on Free Trade Area Agreement
Between the
United States of America and Israel

In accordance with discussions concluded between the President of the United States and the Prime Minister of Israel on November 29, 1983, the United States and Israel,

-- Desiring to promote mutual relations and further the historic friendship between them;

-- Determined to strengthen and develop the economic relations between them for their mutual benefit;

-- Wishing to contribute to the harmonious development of world trade;

-- Wishing to establish bilateral free trade through the removal of trade barriers;

have entered into negotiations to establish a Free Trade Area between the two nations. The objectives of such Free Trade Area, when concluded, shall be to, inter alia

-- be consistent with the obligations of the General Agreement on Tariffs and Trade, and provide for the elimination of duties and other restrictive regulations of commerce on substantially all the trade between the two nations over a ten-year period;

-- create a forum through a Joint Committee where representatives of both nations will meet on a regular basis to discuss bilateral trade issues and thereby promote a closer relationship between the United States and Israel;

-- eliminate export subsidies, concurrent with the establishment of the Free Trade Area, in accordance with the GATT Agreement on Interpretation and Application of Articles VI, XVI and XXIII (the Subsidies Code);

-- eliminate any trade-related performance requirements imposed on each other's nationals;

-- reaffirm the mutual obligations of the United States and Israel with respect to intellectual property rights;

-- establish rules of origin to ensure that duty-free treatment is accorded only to goods originating in either the United States or Israel and provide that U.S. and Israeli customs authorities shall assist one another in implementing and enforcing the rules of origin;

-- establish appropriate safeguard mechanisms; notification and consultation procedures; and a procedure for the settlement of disputes arising within the context of the agreement.

Therefore, to accomplish these objectives, the President of the United States and the Prime Minister of Israel agree to instruct their negotiators to begin the final phase of the Free Trade Area negotiations next week with the intention of implementing the agreement early next year.

The date of signature of the instrument establishing the Free Trade Area shall be subject to the domestic legal requirements of each signatory.

In Witness Whereof the President of the United States of America and the Prime Minister of Israel have signed the present Declaration.

Ronald Reagan
President of the United States

Shimon Peres
Prime Minister of Israel

Draft Presidential Remarks

U.S. - Israel Free Trade Area

Prime Minister Peres and I have just taken an historic step. We have [agreed] [signed a Declaration] to commit/committing our two governments to conclude negotiations on the establishment of a free trade area between the United States and Israel.

This agreement is the first of its kind for the United States. We are not turning our backs on the multilateral trading system by negotiating this agreement. The United States is fully committed to that system, and we have undertaken these negotiations with Israel bearing our international obligations under the General Agreement on Tariffs and Trade in mind. This agreement will be completely consistent with those obligations.

The United States has an unwavering commitment to Israel's security and economic well-being. I believe that a strong economy is the ultimate foundation on which a country's security must rest. Right now, Israel faces a genuine challenge in trying to restore its economy to full health. Israel's Government of National Unity under Prime Minister Peres' leadership is responding to this challenge with plans for a far-reaching economic recovery program. One expression of U.S. support for Israel during this difficult period is our economic and military assistance, which this year will amount to $2.6 billion and be on an all-grant basis for the first time.

Another, perhaps better, way we can help ease Israel's adjustment burden is to increase Israel's economic self-sufficiency through expanded trade. Israel's ability to expand its economy and help itself depends, in large part, on the degree to which Israel's exports can enter other markets. A reciprocal free trade area between our two countries will provide Israel with an open U.S. market, while at the same time opening up the Israeli market completely to American exports.

Our country has an economic stake in this agreement as well. For too long the world has been battered by the forces of protectionism. World trade has slowed, economic growth has stagnated. We've all lost jobs, income, and opportunity.

But today, our two nations are demonstrating to the world what can be achieved through cooperation and mutual effort. We are swinging the pendulum back toward job creation, increased trade, and open markets. This agreement allows the free enterprise system to operate as it was intended. It will encourage Israeli and American producers and workers to become as efficient and competitive as possible. In addition, it will foster greater investment in Israel and create growth without adding to inflation.

Last November, former Prime Minister Shamir and I discussed the possibility of establishing a reciprocal free trade area between the United States and Israel. Negotiations to accomplish such an agreement were undertaken by Ambassador Brock, the United States Trade Representative, beginning last January.

It gives me great pleasure to announce today that considerable progress has been made to make the U.S. - Israel Free Trade Area a reality, and Prime Minister Peres and I have directed our negotiators to begin the final phase of the negotiations next week.

The U.S. - Israel Free Trade Area will still be subject to Congressional approval. The Congress in an overwhelmingly favorable vote recently has provided the authority for concluding our negotiations. Therefore, we both anticipate that the agreement can be in force by early next year. This landmark agreement is a further reflection of the commonality of ideals, interests and objectives shared between the United States and Israel.

31

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