

ISRAEL

TRADE SUMMARY

U.S. goods exports in 2014 were \$15.1 billion, up 9.6 percent from the previous year. Israel is currently the 23rd largest export market for U.S. goods. Corresponding U.S. imports from Israel were \$23.1 billion, up 1.1 percent. The U.S. goods trade deficit with Israel was \$8.0 billion in 2014, a decrease of \$1.1 billion from 2013.

U.S. exports of services to Israel were \$4.7 billion in 2013 (latest data available), and U.S. imports were \$5.1 billion. Sales of services in Israel by majority U.S.-owned affiliates were \$3.0 billion in 2012 (latest data available), while sales of services in the United States by majority Israel-owned firms were \$2.9 billion. The stock of U.S. foreign direct investment (FDI) in Israel was \$9.5 billion in 2013 (latest data available), up from \$8.7 billion in 2012. U.S. FDI in Israel is led by the manufacturing sector.

The United States-Israel Free Trade Agreement

Under the United States-Israel Free Trade Agreement (FTA), signed in 1985, the United States and Israel agreed to implement phased tariff reductions culminating in the complete elimination of duties on all products by January 1, 1995. While tariffs on non-agricultural goods traded between the United States and Israel have been eliminated as agreed, tariff and nontariff barriers continue to affect a significant number of key U.S. agricultural product exports.

To address the differing views between the two countries over how the FTA applies to trade in agricultural products, in 1996 the United States and Israel signed an Agreement on Trade in Agricultural Products (ATAP), which established a program of gradual and steady market access liberalization for food and agricultural products effective through December 31, 2001. Negotiation and implementation of a successor ATAP was successfully completed in 2004. This agreement was effective through December 31, 2008, and granted improved access for select U.S. agricultural products. The ATAP has been extended six times, most recently through December 31, 2014, to allow time for the negotiation of a successor agreement. The ATAP provides U.S. food and agricultural products access to the Israeli market under 1 of 3 different categories: unlimited duty-free access, duty-free tariff-rate quotas (TRQs), or preferential tariffs, which are set at least 10 percent below Israel's most-favored nation rates.

TECHNICAL BARRIERS TO TRADE / SANITARY AND PHYTOSANITARY BARRIERS

Technical Barriers to Trade

Israel has developed a comprehensive and complicated regulatory system that regulates local production as well as imports of agricultural goods. This regulatory system is developed and managed by agencies from several different ministries such as the Ministry of Economy (Standards Institute of Israel), Ministry of Health (Food Control Services), and the Ministry of Agriculture (Veterinary Services and the Plant Protection Service). The Israeli regulatory system often adheres to the European regulatory standard, which results in added costs to U.S. exports to Israel.

Sanitary and Phytosanitary Barriers

Negotiations continue on a mutually-agreed protocol that would allow market access for U.S. beef and beef products. Israel's Veterinary Service is currently reviewing the latest proposed health certificate, and has informed the United States that they are preparing an "import protocol," since U.S. beef does not meet

Israeli maximum residue level (MRL) requirements. With an approved health certificate, the USDA estimates U.S. beef exports could potentially reach \$120-150 million annually with full market access, in addition to \$25-\$30 million of live cattle for fattening.

IMPORT POLICIES

Agriculture

U.S. agricultural exports that do not enter duty free under WTO, FTA, or ATAP provisions face restrictions, such as a complicated TRQ system and high tariffs. These products include higher value goods that are sensitive for the Israeli agricultural sector, such as dairy products, fresh fruits, fresh vegetables, almonds, wine, and some processed foods. According to industry estimates, the elimination of levies on processed foods, including a broad range of dairy products, could result in increased sales by U.S. companies in the range of \$30 million to \$55 million. The removal of quotas and levies on dried fruits could result in an increase in sales by U.S. exporters of up to \$12 million. U.S. growers of apples, pears, cherries, and stone fruits estimate that the elimination of Israeli trade barriers would lead to an increase of \$5 million to \$15 million in export sales of these products. Industry estimates that full free trade in agriculture could also result in U.S. cheese exports increasing significantly. Similarly, industry estimates that removing levies on food product inputs used in U.S.-based restaurant chains operating in Israel could save these chains millions of dollars annually and lead to their expansion in Israel.

Customs Procedures

Some U.S. exporters have reported difficulty in claiming preferences for U.S. goods entering Israel under the FTA, specifically related to the presentation of certificates of origin to Israeli customs authorities. Although the U.S. Government has engaged in discussions with Israel to clarify and resolve this issue, no resolution had been reached.

GOVERNMENT PROCUREMENT

Israel has offset requirements that it implements through international cooperation (IC) agreements. Under IC agreements, foreign companies are required to offset government contracts by agreeing to localization commitments to invest in local industry, co-develop or co-produce with local companies, subcontract to local companies, or purchase from Israeli industry. Israel is a signatory to the WTO Agreement on Government Procurement (GPA). Since January 1, 2009, the IC offset percentage for procurements covered by Israel's GPA obligations has been 20 percent of the value of the contract; for procurements excluded from GPA coverage, the offset is 35 percent, and for military procurements the offset is 50 percent.

U.S. suppliers suspect that the size and nature of their IC proposals can be a decisive factor in close tender competitions, despite an Israeli court decision that prohibits the consideration of offset proposals in determining the award of a contract. Small and medium-sized U.S. exporters are often reluctant to commit to make purchases in Israel in order to comply with the IC requirements, and, as a result, their participation in Israeli tenders is limited. As part of the revised GPA, which entered into force in 2014, Israel committed to phase out its offsets on procurement covered by the GPA.

In addition, the inclusion of unlimited liability clauses in many government tenders discourages U.S. firms from competing. When faced with the possibility of significant legal costs for unforeseeable problems resulting from a government contract, most U.S. firms are forced to insure against the risk, which raises their overall bid price and reduces their competitiveness.

The United States-Israel Reciprocal Defense Procurement Memorandum of Understanding (MOU), extended in 1997, is intended to facilitate defense cooperation in part by allowing companies from both countries to compete on defense procurements in both countries on as equal a basis as possible, consistent with national laws and regulations. The MOU, which has benefited Israeli defense industries by opening up the U.S. procurement market to Israeli products, has not significantly opened the market for U.S. suppliers interested in competing for Ministry of Defense (MOD) procurements funded by Israel.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

The United States removed Israel from the Special 301 Report in 2014. Israel has passed patent legislation that satisfies the remaining commitments Israel made in a Memorandum of Understanding (MOU) from 2010 concerning several longstanding issues regarding Israel's intellectual property rights (IPR) regime for pharmaceutical products. These issues included improving data protection, the terms of patents for pharmaceutical products, and provisions on the publication of patent applications in Israel.

The United States remains concerned with the limitations of Israel's copyright legislation and its interpretation of its commitments for data protection on biologic pharmaceuticals. Israel has continued enforcement efforts over IPR infringement.

SERVICES BARRIERS

Telecommunications

Only two selected private Israeli broadcast TV channels and a few private radio stations are allowed to carry advertising. There are a few designated broadcast channels that received broadcast licenses and advertising privileges in exchange for certain local investment commitments. Israeli law largely prohibits other broadcast channels, both public and private, from carrying advertisements. Foreign channels that air through the country's cable and satellite networks are permitted to carry advertising aimed at a foreign audience.

Israel does not have an independent regulator for the telecommunications sector. In most cases, the Ministry of Communications is the lead agency for telecommunication issues.

ELECTRONIC COMMERCE

While Israel is one of the world's leaders in internet and technological innovation it ranks very low among OECD countries in the use and availability of internet services. Several barriers exist that deter e-commerce including higher online prices than retail stores, lack of variety, internet security, and complicated delivery methods which sometimes add hidden or unexpected fees and charges to merchandise purchased outside of Israel.

There are two laws which govern electronic consumer contracts: Standard Form Contract Law and the Consumer Protection Law. A comprehensive electronic commerce bill was published in 2008 but was not passed by the Parliament. Israel's Electronic Signature Bill legislated in 2001 regulates signatures on electronic media. Loopholes in the law allow the consumer to decline to pay for any merchandise for which he or she did not physically sign, which serves as a disincentive to the establishment of online businesses. The Ministry of Justice maintains a register of entities authorized to issue electronic certificates attesting to the signature of the sender of an electronic message. The Registrar of Databases, which falls under the authority of the Ministry, requires that any firm or individual holding a client database secure a license to do so.