

TALKING POINTS: U.S.-ISRAELI FREE TRADE AREA
ANTI-DEFAMATION LEAGUE/FOOD MARKETING INSTITUTE

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- 1934 Congress instituted a new approach to trade: the Reciprocal Trade Agreements committed the United States to liberalizing international trade in order to create more American jobs.
- Trade agreements negotiated since then have provided millions of jobs and growth opportunities for US workers and firms.
- 50 years later we are about to embark on a new type of trade agreement: a bilateral free-trade area with Israel.
- Originally suggested by Israel in 1981, it began to take concrete form last November during Prime Minister Shamir's trip to Washington.
 - Representatives from both governments continue to negotiate.
 - The International Trade Commission and the Office of the US Trade Representative have investigated possible negative economic impact.
 - The Finance Committee has reported a bill (S. 2746) authorizing formal negotiations.

What is a Free Trade Area?: A reciprocal and mutually beneficial agreement to eliminate tariffs and other trade barriers on virtually all elements of trade.

Benefits for the U.S.?

- 1983 trade figures show a trade deficit of nearly \$70 million.
- With the high value of the dollar, the loss of export markets in debt-ridden developing countries and unfair foreign trade practices that figure could double for 1984.
- A reduced budget deficit will enhance our competitiveness: lower interest rates create more realistic exchange rates; continued economic recovery stimulates recoveries among our trading partners, reopening export markets to us.
- We enjoy a favorable balance of trade with Israel--one of our three largest trading partners in the Middle East--but staging-in of the free trade agreement with the EC over the next five years threatens our competitiveness.

- 40-45% of our exports to Israel are subject to tariffs. Elimination of these will benefit our exporters.
 - For example, Israel imported approximately \$300 million in US agricultural products in 1983, compared with \$50 million in exports to this country.
- In contrast--approximately 90% of Israel's exports enter duty-free under the GSP or normal zero-duty rates given Israel's technologically advanced economy, highly skilled and paid workers, its specialization and small productive capacity, it is doubtful that imports could surge to injurious levels.
- Banking, insurance, tourism and other service firms will also benefit.

Benefits for Israel

- Israel requires assured markets. The political realities of the Middle East preclude normal trading relations with its neighbors and the Arab boycott dissuades others from trading with Israel.
- 30% of Israel's GNP goes to defense.
- The GSP's conditions and limitations on imports and uncertain future does not assure trading stability.

Why the Delay?

- If political will exists on both sides and there are tangible economic benefits for both--why the delay and the need for extensive negotiations?
- Long-term economic benefits to both producers and consumers are clear, but there is no way to avoid short-term economic dislocations. Negotiators work to minimize these dislocations.
- Congress, which ultimately approves the agreement, reviews the results of the negotiations to ensure that US interests are protected.
- Foremost concerns: fears of certain import-sensitive industries and traditional organized labor opposition to import-liberalizing agreements. Processed tomatoes, and other horticultural products, bromine chemicals and jewelry are examples of products seeking exemptions.

- For the Israelis: politically and economically sensitive subject of subsidies and protection of sectors of their own fragile economy. 14 year staging-in of Western Europe FTA reflects these concerns.
- Issues on both sides are difficult and will involve tough decisions, but they are not unusual or unique.

Conclusion

- The fundamental benefit: Israel is not only one of our major trading partners in the Middle East, it is our closest friend.
- Israel's survival cannot be predicated on military readiness alone.
- The FTA reflects our commitment to Israel and our involvement in its future.
- As Chairman of the Finance Committee I am committed to the establishment of a Free Trade Area that reflects our commitment to Israel and our commitment to the American worker and the American producer through more business and more jobs.

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AGRICULTURE TALKING POINTS

Food Price Outlook

- o Despite high cost of farm programs in 1983, food prices have been a major cause of low inflation in recent years. Farmers are going to receive income from government programs if it does not come from the marketplace.
- o Recent estimates place the 1984 winter wheat harvest at near 2.0 billion bushels. Despite acreage cutbacks, total wheat production could be 2.5-2.6 billion bushels; corn could be above 8.0 billion bushels.
- o Cost of basic food commodities is likely to remain at current low levels through 1984 and into 1985.

1985 Farm Bill

- o At least 20 new studies and initiatives are underway to find a better farm program for 1985. All are welcome, but any "watershed" or "breakthrough" will depend more on economic conditions during the farm bill debate.
- o Expected tightening of credit by rural banks, combined with weak or falling land values, could create "crisis" atmosphere in U.S. agriculture by early 1985. Difficult to craft "long term" policies.
- o Republican Platform Committee open to new ideas. Need to look at tax code and impact on farm investment. Need to look at longer term credit, land conservation policies.

Impact on Food Marketing Institute (FMI) Members

- o Short-term outlook for low farm and wholesale prices is good news for retailers and consumers, but will not be healthy in the long run.
- o Agriculture-dependent industries need to show concern over chronic problems of farmers by supporting long-range approaches such as deficit reduction, credit, conservation and export incentives for agriculture.