

ANNEX 4
[Commitment on Subsidies]

Dear Ambassador Brook:

Our two governments have just concluded a historic agreement establishing a Free Trade Area between Israel and the United States of America.

One of the fundamental objectives of the agreement is to remove trade barriers and other non-tariff distortions to trade, including the elimination of export subsidies. In furtherance of these objectives, I am honored to propose the following agreement by the Government of Israel with regard to major programs which contain or have contained export subsidy elements.

I am pleased to inform you that the Government of Israel will accede to the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade no later than the effective date of this Agreement.

In the meeting of July 11, 1984 between Minister Patt and yourself it was agreed that export subsidy elements exist in the following major programs for encouraging exports maintained by Israel:

Programs for financing exports or processing for exports

- (a) Export Shipment Fund
- (b) Export Production Fund
- (c) Imports for Export Fund
- (d) Medium Term Capital Goods Export Credits

I am honored to inform you that the Government of Israel commits itself, pursuant to Article 14 of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade (the Subsidies Code), and relating to exports of products other than certain primary products¹, not to institute any new export subsidy programs, and not to increase the level of subsidization² in

¹ Certain primary products. shall be defined in accordance with footnote 29 to Article 9 of the Subsidies Code.

² Level of subsidization" shall be defined, for the purposes of this letter, as the percentage point spread between the lending rates for each program and the rates which the Government of Israel (or special institutions controlled by and/or acting under the authority of the Government of Israel) actually has to pay for the funds so employed (or, if applicable, would have to pay if it borrowed on international capital markets in order to obtain funds of the same maturity and denominated in the same currency as the program funds) .

these programs above their level as existed on July 11, 1984, and to eliminate the subsidy elements in these programs as follows:

- With regard to the Export Shipment Fund and the foreign currency portion of the Export Production Fund, the Government of Israel will continue its current practice of providing no export subsidy elements.
- With regard to local currency financing under the Export Production Fund, Israel will freeze the export subsidy element for four years from the date of accession to the Subsidies Code, and will eliminate the export subsidy element by six years from the date of accession to the Subsidies Code.
- With regard to the Imports for Export Fund, Israel will freeze the export subsidy element for one year from the date of accession to the Subsidies Code, and will eliminate the export subsidy element by two years from the date of accession to the Subsidies Code.
- With regard to the Medium Term Capital Goods Export Credits or any other officially-sanctioned export financing with a maturity of two years or more, Israel will apply the interest rates provisions of the Arrangement on Guidelines for Officially Supported Export Credits of the Organization for Economic Cooperation and Development for any loans granted on and after the effective date of this Agreement.

On and after April 1, 1985, neither Party shall impose requirements to export as a condition for receiving any type of investment incentive.

It is understood that the parties will consult upon request of either party, or whenever special circumstances so require including balance of payments circumstances concerning the functioning of this agreement.

Sincerely,