

Israel and Switzerland as EC-Outsiders:
Similarities and Dissimilarities

Lecture by Philippe Lévy, Director General
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I must confess that somehow I am sitting here with mixed feelings: On one hand, I am of course very happy to be here among friends; on the other hand, the presence here of my former colleague and friend Jean-François Riccard makes me somehow anxious because he knows much more about the subject than I do. But I hope that he will not hesitate to correct me.

I am particularly pleased to be here today, as I indeed believe in the future of the economic relations between Israel and Switzerland. It is perhaps not known well enough that these relations have developed quite satisfactorily over the years. Switzerland is today per capita the most important importer of Israeli products in the world. But there is certainly also a wide potential in the future: The two economies are somehow complementary and Israel is more and more becoming a high-tech country offering new opportunities. It seems to be a rule in economic life that the more economies are similar, the more intensive the trade is between them. The best example is the Federal Republic of Germany and Switzerland.

Before entering into the subject, I would like to make two further preliminary remarks.

The first one on an permanent although tabu theme, which is the boycott of the Arab League. It is well known that ignorance creates false impressions - and it is in fact my own experience over the years that most Swiss industrialists and managers of enterprises in the field of services do not know what all this is about and many of them have unfounded fears. The question is whether this is also one of the tasks of a Chamber of Commerce promoting trade between Israel and another country - to deal with the Arab boycott. Well, whatever is done, it is my profound feeling that one should act in a discreet manner and one should not forget that for many small and medium size enterprises in Switzerland the Arab region is either not interesting or considered as too hazardeous.

A last preliminary remark which somehow leads already to the main subject: The operation linked with the fact of less favorable treatment of Swiss exports to Israel in comparison with goods from the Community and the United States. For me, this operation is a very bad example of enterpreneurial behaviour. We all knew what was going to happen from January 1, 1989; there was certainly no lack of informations given by the Chamber of Commerce and by the Authorities in Bern. But the problem was ignored or neglected firstly by the enterprises concerned and then of course automatically also by those who should represent their interests vis-à-vis the Authorities in Bern. I am very glad that actions have now been undertaken, though very late, I hope not too late.

Now let me enter the subject of the comparison between the status of Israel and the status of Switzerland vis-à-vis the European Communities. As I have mentioned in the title of my brief exposé, there are a number of similarities and a number of dissimilarities.

Let me start with the similarities or even commonalities. Certainly, both the Swiss and the Israeli economies are very much dependent on their trade with the European Communities. As far as

Switzerland is concerned, it is of course mainly due to geographical reasons; as far as Israel is concerned, it is in the first instance for political reasons.

Both countries have reacted comparatively early to the phenomenon of the creation of the European Communities, of what is called today the Internal Market. As far as Switzerland is concerned, in fact the reactions started already at the time when the Treaty of Rome was signed. The so-called "Maudeling negotiations" in Paris should have led to the creation of a large free trade area in Western Europe. These negotiations failed. Then came, in 1960, the construction of the European Free Trade Association as a sort of fighting instrument against the Community, which led 12 years later to the conclusion of the still existing Free Trade Agreements between the Community and the EFTA countries. These free trade agreements became a full reality in 1977. Industrial products traded between the two entities do not pay any customs duties and this is partly also true for processed foodstuffs.

Israel concluded a first agreement with the Community in 1970. In 1975 the Agreement on cooperation and free trade which is still in existence was negotiated. It is fully applicable since the beginning of 1989.

Another commonality is constituted by the fact that both in Switzerland and in Israel, although actions were taken pretty soon as far as custom duties were concerned, what has for long and perhaps too long been largely ignored is what the specialists call the "integration of the second and the third generation". By second generation we mean those elements which also influence trade in industrial goods, like government procurement practices or technical standards, protection of intellectual property etc. By the third generation integration one means other fields than trade in industrial goods: trade in services, capital movements and free movements of persons. For a very long time efforts made by the Community in these fields were very slow. Since the acceptance of the White Book on the completion of the internal market one is

proceeding at a much faster pace. These efforts and therefore the discrimination potential for outsiders, like Switzerland and Israel, were ignored. In the meantime efforts have been made and the competent people both in the economy and in the Government are aware of the problems. I had interesting talks in Jerusalem at the beginning of this year with my former Israeli colleagues about the ways these problems could be overcome.

Now let us turn for a while to the differences between the situations of Switzerland and of Israel vis-à-vis the Community.

First, there is a difference in the content of the Free Trade Agreements. The Free Trade Agreements concluded by Switzerland mainly cover industrial goods. While this is to some extent also true for the Agreement concluded by Israel, the Community has made quite substantial concessions to Israel in the field of agricultural products. In fact, some 80% of Israeli agricultural products get more favorable treatment, some 70% pay less duty in the Community than third countries exports, the advantage being 50% or more of the applicable customs duty. Israel has also made concessions to the Community in the field of agriculture.

There are some potential conflicts between the Community and Israel as far as the application of the Free Trade Agreement is concerned. The Community pretends that Israel is discriminating EC exports as far as fiscal elements are concerned and there are also some complaints about import licences which have been refused.

A second difference lies in the much stronger dependence of Israel as far as agricultural exports are concerned. If I base myself on figures which are perhaps not fully up to date 90% of the exports of Israel's citrus fruit production go to the Community, 76% of fruit preserves, 75% of vegetable preserves, 84% of tomatoes exports etc.

A further difference between the two Free Trade Agreements lies in the fact that the Free Trade Agreement with Israel contains a

number of elements one does not find in the Free Trade Agreements concluded by Switzerland. First, Israel got some financial assistance until 1986. The value of it is about 40 Million Ecus. Then there are industrial cooperation projects in a number of sectors, like medical equipment, the participation of EC companies in ISRATECH, information technology, participation of Israel in some technological fairs in Britain and in France, water utilization, cooperation in research and development between the European Commission and the Israel National Council for Research and Development in the field of environment, bio-technology and materials. Finally, Israel got also access to the EC data banks.

May I here briefly open a bracket and say just two sentences about the other Free Trade Agreement Israel has concluded more recently with the United States. On the one hand, it is very similar to the traditional Free Trade Agreements. There are nevertheless some important and interesting supplements to the traditional structure. The Free Trade Agreement between the USA and Israel also covers public procurement, trade in services, direct investment, protection of intellectual property, to mention some of these additional elements.

Returning to the situation vis-à-vis the Community, there is one element which is more a commonality than a difference: both vis-à-vis Switzerland (and vis-à-vis the EFTA countries in general) and vis-à-vis Israel, one must note I would not say a lack of willingness by the EC to cooperate but certainly some hesitations. The reasons might be different. As far as Switzerland and the other EFTA countries are concerned probably the main reason is the attitude that, if Switzerland (or the EFTA countries) wants to be partners in the joint effort in Western Europe, they have the possibility to become a member of the Community. There is obviously a certain negative attitude in the Community vis-à-vis a policy which consists of what we call in German "Rosinen-picken", taking out the good parts of the cake and leaving the rest for others. Vis-à-vis Israel the reasons are certainly different, they are to be sought in the field of politics, but perhaps even more in a certain fear of creating dangerous

precedents. One should nevertheless not forget that no country in the Middle-East has such intensive, such far-going agreements with the Community and with the United States. And as far as the relationship between Israel and Switzerland is concerned, one should also not forget that Switzerland treats Israeli exports like it treats export of an average developing country, that means that Israel still benefits fully of the Swiss System of Generalized Preferences. Basing oneself purely on economic grounds, one can have doubts whether Israel should still get these preferences, because it has reached a stage of economic development which is not fulfilling any more the purpose of the System.

May I conclude these brief remarks by some thoughts about the future.

Although difficulties will certainly remain, I am rather optimistic both for Israel and for Switzerland as far as the development of their relationship with the Community is concerned. One very important condition to fulfill is, however, an active and positive integration policy. Things will not happen by themselves.

There are a number of promising developments very recently, among which I would like to mention the new doctrine which President Jacques Delors outlined in his speech in Strasbourg on January 17, 1989. Basically, President Delors' ideas seem to be the following: The Community does not want any further enlargement, does not want any new members at least, I would say, until the second half of the 1990's. That means that existing or forthcoming candidates like Turkey, Austria, possibly Norway would not succeed, at least not before the year 2000 or even beyond. As a sort of alternative Delors offers more cooperation: more intensive cooperation in already existing fields of cooperation and a new cooperation in new fields. I think it is important for outsiders like Switzerland and Israel to react positively and perhaps go further than just reacting, by presenting themselves new ideas.

Of course, Switzerland is perhaps in a slightly better position because of its EFTA membership. One should certainly not overestimate EFTA, but it is obvious that the Community has recently discovered and is therefore giving more weight to this organization.

Both for Israel and Switzerland there are possibilities which exist and which are not used or not fully used up to now. I may just mention a number of European institutions at governmental or quasi-governmental level, like CEN and CENELEC in the field of industrial standards. One could also mention CEMT in the field of ground transportation and there is a European organization too in the field of air transportation etc. The question may also be why Israel should not use EFTA as a doorstep or even the Council of Europe.

Of course, this should be done in a discreet, pragmatic manner. The political situation right now is such that I do not think that a large political operation would lead to success. But the question can really be asked whether Israel as the only democracy in the Middle East should not get what Yugoslavia got from EFTA more than twenty years ago. Other entrées to be used are economic associations existing within the Community, like UNICE, like branch associations in all possible industrial and service sectors. Another instrument which can be used are Parliamentarians and Politicians, especially the Members of the European Parliament who often feel frustrated because their influence is limited. One should nevertheless not underestimate them.

It is my definite opinion that in all these problems we should less be guided by feelings (and therefore avoid one-shot operations like Solidarity Conferences) and choose instead a pragmatic, businesslike approach. I think that both Switzerland and Israel are well prepared to follow such course of action.

One last word about the role of Chambers of commerce. One should also not underestimate the influence of a Chamber of commerce. In addition to what it is doing by helping exporters and importers,

furnishing information etc. it can also be used as an instrument for lobbying. Jean-François Riccard will certainly not object when I say that civil servants in general and those in Berne in particular are usually so burdened by work that they do not try to find new problems to be solved. So the only way to have them act is to make interventions. I can say by experience that once an intervention has been made the whole set up begins to move and one can indeed hope that results will be achieved. I note therefore with great interest that such a demarche was made recently in connection with the problem of the less favorable treatment of Swiss exports to Israel and I hope that satisfactory solutions will be found soon in negotiations between the two Governments. I think this would be a source of great satisfaction for all of us and in particular for our Chamber of commerce.

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