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UNCLASSIFIED

INTERNATIONAL DEVELOPMENT

COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

ISRAEL: Cash Transfer
(271-K-622)

UNCLASSIFIED

CLASSIFICATION: UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 271-K-622

2. Country: Israel

3. Category: Cash Transfer

4. Date:

5. To: M. Peter McPherson, Administrator, A.I.D.

6. OYB Change Number: N/A

7. From: Charles W. Greenleaf, Jr., Assistant Administrator, ANE

8. OYB Increase: None

To be taken from: Economic Support Fund

9. Approval Requested for Commitment of: $1,200,000,000

10. Appropriation Budget Plan Code: QESA-86-37271-KG-31 72-1161037

11. Type Funding: ☐ Loan ☒ Grant

12. Local Currency Arrangement: ☐ Informal ☐ Formal ☒ None

13. Estimated Delivery Period: N/A

14. Transaction Eligibility Date: N/A

15. Commodities Financed

N/A

16. Permitted Source		17. Estimated Source	
U.S. only	N/A	U.S.	N/A
Limited F.W.	N/A	Industrialized Countries	N/A
Free World	N/A	Local	N/A
Cash	$1,200,000,000	Other	N/A

18. Summary Description

This assistance is part of a continuing assistance program to Israel. Israel's political and economic stability continue to be deemed essential to achieving a comprehensive peace in the Middle East. U.S. assistance programs, both military and economic, tangibly reflect U.S. support and help give Israel the confidence it needs to take the risks necessary to reach a peace settlement with its Arab neighbors. The U.S. Economic Support Fund (ESF) directly supports Israel's civilian economy and helps Israel to manage its large balance of payment current account deficit. It is intended to give Israel greater economic flexibility for easing some of the pressure on its economy.

It is recommended that you approve a cash transfer grant in the amount of one billion two hundred million dollars ($1,200,000,000) to be disbursed upon execution of the grant agreement and satisfaction of the condition precedent.

Clearances (cont.):

ANE/PD:PBloom ____ Date 10/25
ANE/PD/ME:LLion ____ Date ____
ANE/DP:BSidman ____ Date 10.28.85
NEA/IAI:PWilcox ____ Date ____

ANE/PD/ME:CJPatalive:amf:10/21/85:x29102

19. Clearances	Date
DAA/ANE:RHBell	
GC:HFry	10/27/85
AA/PPC: RADerham	
M/FM: CChristensen	10/30/85
AAM/OS/ANE: MMcDaniel	
GC/ANE:RJohnson	10/31/85
ANE/MENA:RMisheloff	10/25/85

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: Marshall Brown

Date: Oct 30, 1985

Title: Counselor

AID 1120-1 (5-82)

CLASSIFICATION:

I. SUMMARY OF POLITICAL AND ECONOMIC CONSIDERATIONS

Israel's political and economic stability are essential to the U.S. foreign policy objective of achieving a comprehensive peace in the Middle East. U.S. assistance programs, both military and economic, tangibly reflect U.S. support and help give Israel the confidence it needs to take the risks necessary to reach a peace settlement with its Arab neighbors. Assistance from the U.S. Economic Support Fund (ESF) helps maintain Israel's economic stability by financing some of the foreign exchange costs of economic growth and development. However, the balance of payments deficit grew in 1984 as a result of unsustainable budgetary deficits and inappropriate domestic pricing.

Historically, large government expenditure programs and growing budget deficits have triggered excessive expansion in the domestic money supply and fueled triple digit increases in consumer prices each year. The deficits are a result of the government's efforts at maintaining a high level of social welfare and rising civilian consumption, while at the same time expending large sums for defense. The result has been inflationary pressures and persistent balance of payments deficits. Both problems were considerably exacerbated after the 1973 Arab-Israeli War by world inflation, the rise in oil prices, and increased military expenditures.

Israel's efforts at meeting the demands of both its civilian and military sectors require substantial balance of payments support despite its unique access to concessional capital flows from abroad. Israel's need for assistance in the future depends importantly on its efforts to make necessary economic adjustments, i.e., eliminate internal disincentives to investment and increases in labor productivity, and continue reductions in the percentage of resources consumed by the public sector for non-investment purposes.

II. RATIONALE FOR ECONOMIC ASSISTANCE

A. Background

Israel achieved a remarkable level of economic growth in the first 25 years of its existence. Real GDP rose at an average annual rate of 9 percent between 1952 and 1972. Gross domestic investment levels reached 30 percent of GDP. Export earnings rose at an annual rate of 12 percent between 1965 and 1972 and 9 percent in the following decade. At the same time price levels were relatively stable; until 1970 consumer prices increased at an average annual rate of 7 percent.

Since the early 1970s, economic performance has deteriorated. By the early 1980s, economic growth rates did not exceed the growth in the labor force, reflecting a stagnation in labor productivity. The rate of inflation reached triple digit levels. An increasing proportion of national savings was channelled toward the financing of current government deficits, while investment declined. Gross domestic investment dropped from 32 percent of GDP in 1972 to 21 percent in 1984.

Incomes on the other hand were protected against inflation by the widespread system of indexing most sources of income to rises in consumer prices or related exchange rate movements. In addition, relatively high levels of consumption were stimulated by deficit spending and rises in real wages.

Over the 1971-1983 period, labor market conditions were tight. Unemployment rates varied between 2.5 to 5 percent. Real wages increased at an average annual rate of 3 percent, exceeding growth in labor productivity. Consumption growth coupled with growing defense spending led to larger current account deficits. These deficits were financed both by increased U.S. assistance flows and new foreign borrowing. The annual deficit on civilian goods and services account increased from $700 million in 1972 to $4.2 billion in 1983. Use of external financing to sustain these deficits pushed the external foreign debt (including short-term and private debt) from $4 billion in 1972 to $22.7 billion at the end of 1983.

B. Developments in 1984 and the First Part of 1985

In an attempt to maintain the competitiveness of Israeli exports, the government depreciated the exchange rate against the U.S. dollar by 493 percent in nominal terms during 1984, which resulted in a nine percent depreciation in real terms. But the exchange rate appreciated in real terms against European currencies. And since Europe remains Israel's principal export market, its competitiveness deteriorated. Nonetheless, the trade balance improved somewhat as Israeli import demand slackened with overall imports declining by over 5 percent from the previous year. Moreover, a pick up in the economies of industrial countries (which increased their import demand), together with an improvement in non-diamond export prices, resulted in a large rise in exports, by 11 percent in nominal terms over the previous year and by 15 percent in real terms. Imports remained static, due to the domestic economy's low growth rate and increased restrictions on import transactions and import deposit requirements enacted at the end of 1983.

The goods and services deficit fell during the second and third quarters of 1984 by 8 percent in current dollar terms over the corresponding period a year earlier. However, during the summer months, the public's uncertainty about the outcome of upcoming elections and the future course of economic policy led to capital flight. Foreign currency reserves fell by $1.2 billion during the third quarter--$700 million in July alone--to a level of $2.6 billion at the end of September. The latter figure represented a six-year low, and corresponded to approximately two months of non-FMS financed imports at the 1984 level.

At the same time, the government seemed to back away from its previous policy of reducing excessive consumption of subsidized goods by increasing their prices to cover a larger percentage of cost. Increases in the prices of subsidized commodities dropped from a monthly average of 15 percent during the first half of the year to 9 percent per month in June and July. This, in combination with adjustments designed to offset the sharp (15 percent) drop in real wages which had occurred late in 1983, resulted in increased budgetary outlays for subsidies and rising private consumption, intensifying inflationary pressures. (A slackening in the trend toward bringing subsidized prices to more realistic levels while the exchange rate continued to depreciate in nominal terms entailed large increases in government subsidy expenditures as well as distorting relative prices.) Private consumption increased by a seasonally adjusted rate of 1 percent in the second quarter, and a further 4 percent in the third, reversing the decline starting in the first quarter of 1983. The upshot was an increase in consumer prices at an annualized rate of almost 500 percent during the second quarter and over 600 percent during the third.

To stem foreign exchange outflows and reduce inflation, the coalition government formed in September decided to: (1) cut government expenditures by $1 billion; (2) devalue the shekel by 8 percent; (3) raise prices of subsidized goods and services by 18-55 percent; (4) impose a six-month ban on imports of consumer appliances and luxuries; and (5) restrict foreign exchange purchases for foreign travel and other personal purposes. In November, the Government decided on a further $550 million budget cut and reached the first of a series of wage-price control agreements with the Histadrut (the labor confederation) and the Manufacturers' Association (representing private employers) which called for a three-month freeze in prices, profits, and tax rates. The agreement also stipulated that for November and December, wage earners would receive only two-thirds of the cost of living adjustment that would otherwise have been due.

Initially, these initiatives had a positive impact. The increase in the consumer price index, which had accelerated to over 1,000 percent on an annualized basis in the September - November period, slowed in December and January to a rate which, had it been sustained, would have resulted in annual inflation of about 70 percent, the lowest Israel has experienced since 1978. The foreign trade (goods and services) deficit dropped by one-third during the fourth quarter compared with the last three months of 1983. Foreign exchange reserves increased by $500 million owing to disbursement of the full $1.2 billion FY 1985 ESF cash transfer in October. This was partially offset by continuing outflows of foreign exchange, but at a rate which was slower than that of the preceding months.

On the other hand, the government failed to cut the budget as intended due to application of the price freeze to subsidized goods and services. As domestic costs continued to rise, owing particularly to increasing nominal labor costs and exchange rate depreciation, budget expenditures for subsidies rose correspondingly, more than offsetting whatever savings were achieved in other expenditure categories.

By January 1985, it was clear that the Government's economic program would need to be strengthened. While the price freeze was generally observed, domestic costs were rising, squeezing profits. Hard hit businesses were threatening to cut production if they were not granted some relief, and spot shortages began to develop. Additionally, government expenditures at the end of 1984 were running at a pace which, had they been sustained over the full Israeli fiscal year (April 1-March 31), would have exceeded the amount originally budgeted by $1.8 billion or 12 percent. Moreover, tax receipts were falling short of anticipated levels. The budget deficit was estimated to be in excess of 25 percent of GNP.

While the price freeze masked the underlying inflationary pressures, it did not address the basic factors causing the distortions in the economy.

The Government's response during the first part of 1985 was to "buy time" by continuing to control wages and prices by administrative means while making some structural changes in the economy. A second package of wage-price controls was put into effect at the end of January.

C. Recent Economic Performance

1. GNP and Its Components

Real gross national product in 1984 was almost unchanged from the previous year, increasing by 1.6 percent in real terms. Per capita GNP was just under $5,500. There were, however, significant changes in its components. The relative importance of exports increased from 26 percent of total resources in 1983 to 30 percent in 1984.

In addition, private consumption declined, (exclusive of defense imports) and public consumption was unchanged in real terms. Major factors were the decline in real wages, a substantial decline in the value of the public's liquid asset holdings as a consequence of the stock market crash at the end of 1983 and a reduction in public sector consumption. Moreover, gross domestic investment dropped sharply--by 9.2 percent.

2. Inflation

The consumer price index rose by 445 percent in 1984, compared to 191 percent in 1983. Indexation of liquid financial assets to the domestic price level or to a hard currency is a particularly important factor contributing to high inflation rates. For many purposes these assets serve as money. Thus, while indexation protects the real value of the public's liquid holdings, it also deprives the authorities of an effective means of controlling growth of the monetary aggregates.

3. Fiscal Budget

For the Israeli fiscal year 1984/85, the budget deficit was projected to be approximately $1.8 billion (8 percent of GNP) after taking account of U.S. Government military and economic grants. Over 60 percent of that amount ($1.1 billion) was to be financed by net credits from the Bank of Israel. However, subsidy expenditures exceeded the amounts budgeted, particularly in the months immediately preceding the election and the last quarter of 1984. Domestic and foreign interest payments also exceeded the amounts budgeted by significant amounts. These developments were not offset by increases in domestic revenues. The budget deficit thus grew to over $2.5 billion (11 percent of GNP). Financing of the budgetary overruns was derived almost exclusively from borrowing from the Bank of Israel. For the full year, the latter totalled approximately $1.9 billion.

The Government of Israel has given considerable emphasis in recent months to reducing the budget deficit. A major obstacle is the difficulty in reducing the large defense component, ranging from 21 to 26 percent of GDP over the last five years. Interest payments on both domestic and foreign debt, excluding debt to the Bank of Israel, takes 14 percent of GDP. Much of the balance is made up of wages, subsidy payments and transfers, all of which have strong domestic constituencies.

The budget for the 1985/86 fiscal year which began on April 1 called for a decline in outlays for subsidies of approximately 30 percent from estimated expenditure levels for the preceding year. Total budget expenditures were projected to decline by about $750 million (5 percent). Domestic revenues and U.S. assistance outlays were both projected to increase, leaving a deficit of $1.1 billion (less than 5 percent of GNP). However, central bank borrowing was not projected to decline from the 1984/85 level.

Efforts to deal with inflation via fiscal restraint also include two significant pieces of legislation. The first strengthens the hand of the Finance Ministry in enforcing budgetary discipline. The other is designed to gradually increase the independence of the Bank of Israel, which heretofore has been required by law to advance to the Government whatever sums it might need to finance the budget deficit. The full effect of this latter piece of legislation will not be felt for a few years, but it is a potentially important tool in the fight against inflation.

Recently, the Government has taken a further step to increase the scope for monetary policy by abolishing new liquid dollar-linked accounts (so-called PATAM) and prohibiting deposit of additional sums into existing accounts. These accounts shelter liquidity in private hands from the impact of government monetary policy. They had become a sizeable part of the money supply, and were not under the control of the monetary authorities. (In mid-1984, PATAM deposits as a percentage of total financial assets doubled to 18 percent, compared with only 9 percent at the beginning of 1983.

4. Balance of Payments

The balance of payments deficit on current account declined from $2.3 billion in 1983 to $1.5 billion in 1984 despite an increase in defense imports of some $440 million. A $600 million increase in goods and services exports, a large increase in U.S. Government grant financing (economic and military), and a $400 million decline in non-defense imports were the major factors. Export growth was facilitated by the decline in domestic demand (which released resources for export production) and the strengthening in demand for Israeli exports from its industrial trading partners as Western European economies recovered from the recession. Industrial exports other than diamonds accounted for most of the export surge. Metals, electronics and chemicals were the fastest growing sectors.

The decline in consumer goods imports was especially sharp (31.3 percent). Investment goods imports also declined (10.8 percent), reflecting the decline in domestic investment levels. On the other hand, imports of production inputs rose by nearly 7 percent, presumably to accommodate the needs of export oriented industries.

No balance of payments data are yet available for 1985. Partial year trade statistics show a trend toward improvement in the current account, but at a slower rate than in the latter part of 1984. Seasonally adjusted merchandise exports for the first half of 1985 were up by 5.8 percent in dollar terms over the comparable period in 1984. Non-defense merchandise imports during the same period fell by 3.8 percent.

Net medium and long-term capital inflows fell by over $1 billion in 1984, more than offsetting the decline in the current account deficit. The major factors were large declines in private investment and medium and long-term commercial borrowing. The resulting deficit was financed by short-term borrowing by the Government and a $600 million decline in international reserves. The latter stood at $3.06 billion as of December 31, 1984, approximately 2.6 months of non-FMS financed imports of goods and services at the 1984 level. By mid-1985, reserves had fallen another 20 percent to $2.4 billion. The continued decline in reserve levels , despite improvements in the trade account remains unexplained. It may derive from continued capital flight and/or a decline in private capital flows. (Israeli bond sales to U.S. institutional investors dropped sharply at the end of November, 1984 as a result of news reports of a proposed deferment on repayments of U.S. debt service amounts.)

Total outstanding external debt increased by $625 million during 1984 to a year end level of $23.4 billion. Only 17 percent is short-term, while well over one-half represents concessional loans provided by the U.S. Government and holders of Israeli bonds. However, almost one-half of the increase in the total debt recorded in 1984 was short-term; almost all of this amount was government borrowing to cover balance of payments deficits.

Debt service payments rose by $400 million in 1984 to a total of $4 billion--$3 billion in interest payments ($2.7 billion in 1983) and $1.1 billion in amortization of medium and long-term loans ($1 billion in 1983). Debt service obligations required expenditure of approximately 29 percent of the foreign exchange Israel received from exports of goods and services plus unilateral transfers (28 percent in 1983, 31 percent in 1982, and 27 percent in 1981). It thus appears that Israel's debt service burden remains heavy, but is not sharply increasing.

D. Current Status and Outlook for the Israel Economy

The Government's economic stabilization efforts through the first half of 1985 produced uneven results during the first seven months of the year. The rate of inflation approached the average monthly increases in the first half of 1984. Part of this increase is accounted for by increases in prices of officially subsidized goods and services. These rose by about 12 percent per month on average. Prices of non-controlled goods and services rose much more than the 3 to 5 percent per month forecast at the beginning of the year.

In part, the difficulty in controlling domestic prices during this period may have been an inevitable consequence of correcting distortions caused by the long-term control of basic subsidized commodities.

On average, real wages fell in the first quarter of 1985 to about the same level as in the last quarter of 1983. (The real wage rate in the private sector fell somewhat more than public sector wage levels.)

Some improvement in the external accounts occurred. For the first eight months of the year, the trade gap narrowed by 27 percent vis a vis the same period a year ago. Imports dropped by about 6 percent and exports rose at the same rate. Most of the improvement in the export figures seems to have come from increased volume. Exports in real terms increased by some 4 percent in the first quarter of this year. It is still too early to tell whether this improvement has continued and whether the lower import figure reflects the government's policy of decreasing demand or a continuation of lower international commodity prices.

Other economic data reflect only marginal improvements. Foreign exchange reserves declined in the first six months of 1985 by over $600 million, and increased only slightly in the two succeeding months. Expansion in domestic liquidity was modest in comparison with 1984, while interest rates dropped somewhat.

These mixed results indicated that the impact of the government's efforts in early 1985 fell short of what was needed to stabilize the economy over the longer term. Among the additional efforts needed were further budgetary cuts to reduce the deficit to levels financable without recourse to inflationary credit creation by the central bank; reductions in public sector employment to ease pressure on wages and shift resources to the tradeable goods sector; further measures to delink incomes and financial assets from the domestic inflation rate; and maintenance of exchange rates which will foster export competitiveness.

With these objectives in mind, the cabinet approved a new program at the end of June. The basic elements are:

(1) increases in prices of subsidized goods and services ranging from 25 to 100 percent,

(2) increases in the prices of most other goods and services of 17 percent,

(3) a three-month price freeze (subsequent to the above mentioned increases),

(4) a 14 percent increase in wages payable on August 1 to partially compensate workers for May and June increases in the consumer price index,

(5) additional increase in nominal wages of 12 percent payable on September 1 (which is a one-time only payment and will not be added to wage rates for the purpose of calculating future cost of living adjustments), 4 percent each on December 1 and January 1, and 3.5 percent on February 1, the latter three increases to be in addition to regular cost of living adjustments to wages to be paid simultaneously,

(6) reductions in the public service workforce (the levels and timing of which are to be agreed upon later),

(7) increases in various taxes, the most important of which is an 8 1/3 percent supplemental tax on the incomes of companies and self-employed persons applicable to the 1985 tax year,

(8) reductions in expenditures of government ministries totaling approximately $530 million on an annual basis,

(9) an 18.8 percent devaluation of the shekel, after which the dollar/shekel exchange rate is to be stabilized for a time at IS1500 = $1, and

(10) abolition of foreign currency linked deposits (PATAM) which mature in less than one year.

The government hopes that the program will be instrumental in effecting a sizeable reduction in private consumption and the government deficit, thereby releasing resources for use in export oriented industry and containing inflationary pressures. At the same time, it is expected that export profitability will be maintained at reduced cost to the treasury. It is expected that real private disposable income will be reduced by the cut in subsidies on consumer goods and services, the upward adjustments in various taxes and fees and, most importantly, the adjustments in wages which will significantly reduce the purchasing power of paychecks. In this regard, it is important to note that the wage provisions in the program call for upward adjustments which are substantially less than those which would have been paid in the normal course under the wage indexing agreements previously in force. It is anticipated that these adjustments will only partially compensate for inflation, although the latter is expected to fall as the program takes effect.

Reductions in subsidies and other government expenditures in combination with increases in taxes and fees should also reduce public deficit financing requirements. The latter, according to budget projections were, for the most part, to have been met by inflationary advances from the Bank of Israel. The provision in the program prohibiting new deposits to liquid foreign currency linked accounts may be an important first step in increasing the scope for use of monetary policy as in anti-inflationary tool.

Lastly, the devaluation was clearly indicated in view of the need to narrow the current account deficit and restore confidence.

The sustainability of the wage adjustment and foreign exchange provisions of the program, and the effect of the program on balance of payments developments over the coming months depends critically on whether the inflation rate drops rapidly and remains low, as the Israeli Government expects. Clearly, there is a limit to the willingness of Israelis to accept reductions in their living standards, and those limits could be exceeded if inflation does not abate sufficiently. Similarly, adverse developments in the balance of payments--both the current and capital accounts--can be expected if inflation persists while the nominal dollar/shekel exchange rate is maintained at IS1500 = $1. Were that to happen, pressures for another devaluation would quickly mount. At some point they would doubtless be accommodated, but not before Israel's external financial accounts were damaged.

The critical variables which will determine whether inflation will be reduced sharply and quickly enough to make the program sustainable involve fiscal and monetary policy. In short, the government will have to reduce its deficit significantly and rapidly, and finance the residual in the least inflationary way possible.

There is a danger that the government will continue relying heavily on price-wage controls rather than on sound budgetary, monetary, wage and exchange rate policy to maintain price stability and external equilibrium. We are also unsure whether the government will provide incentives to increase economic efficiency and growth beyond the current crisis. While recent policies have encouraged a shift of resources to the export sector, many of the structural weaknesses which are responsible for poor economic performance remain: work disincentives from high marginal tax rates, and rapid shifts and turnabouts in government economic policies, which together with an extensive network of government regulations impede investment, associated productivity growth and the development of capital markets.

In summary, it appears that the Government has embarked on a program designed to deal with Israel's long standing problems of inflation and external disequilibrium in a serious way. The success of the program depends chiefly upon bringing down the rate of inflation , and keeping it down without reversing economic policy signals. That in turn will be determined largely by the course of fiscal and monetary policy. The temporary wage-price freeze put into effect will at best only suppress inflation for a time, but is no substitute for a well thought out, fully implemented program designed to significantly reduce the Government's deficit financing requirements and provide positive incentives to increased private sector investment. The adequacy of the fiscal program and the government's willingness to fully implement it remain open questions.

III. U.S. ECONOMIC ASSISTANCE PROGRAM

A. Recent Economic Assistance Program

Since fiscal year 1972, A.I.D. has provided grant and loan assistance from the Economic Support Fund to finance non-defense commodity imports and to meet Israel's needs for foreign exchange. Initially, obligations were fairly modest. By 1976, they had increased to $700 million in response to Israel's growing economic problems. It remained at the $700-800 million level until FY 1984 when it was increased to $910 million. In FY 1985, it was increased again to $1.2 billion (exclusive of the $750 million disbursed from the $1.5 billion in supplemental assistance appropriated that year). From FY 1976 through FY 1980, approximately two-thirds of the ESF program was provided on a grant basis; the remainder was on concessional loan terms. The terms of the package were changed to all grant in FY 1981.

In FY 1979, the CIP financing element was eliminated to alleviate difficulties which the Government of Israel had encountered in utilizing available funds. Despite the high volume of Israel's non-military imports from the U.S. ($900 million to $1.6 billion a year for the past several years), Israel had considerable difficulty in collecting the necessary documentation on a sufficient volume of transactions to ensure timely disbursement of all available CIP funds. The problem arose because of Israel's traditional lack of government control over private sector transactions. The result was that undisbursed CIP funds totaled approximately $300 million as of September 30, 1978.

In addition to ESF, the U.S. provided PL 480 Title I food for several years and authorized several Housing Guarantee Programs for Israel. Under other legislation, assistance was provided to help Israel settle new immigrants from the Soviet Union and other countries. During FY 1975, a $20 million grant for a Joint U.S.-Israel Desalination Project was authorized. This project was completed in 1983.

This FY 1986 assistance will be in the form of a cash transfer. Since its purpose is to help Israel finance current, non-defense balance of payments deficits, rapid disbursement of these funds is required. A cash transfer enables quick disbursements.

IV. GRANT ADMINISTRATION

A. Procedures

Since FY 1979, all economic assistance to Israel (PL 480 and ASHA excepted) has been provided as cash transfers, linked at the aggregate level to U.S. non-defense exports to Israel.

In August 1985, the Congress, at the request of the Administration, appropriated $1.5 billion in supplemental economic assistance for Israel to be disbursed during FY 85 and FY 86 as cash grants. The first $750 million tranche was disbursed in September. The timing of future disbursements is to be based exclusively on achievement of programmatic benchmarks related to economic performance mutually agreed upon by the United States and Israeli Governments.

Provision of assistance to Israel in the form of cash grants is normally conditional upon receipt of satisfactory Israeli Government assurances that Israel will import from the United States non-defense goods at least equal in dollar value to our level of economic assistance obligations. The Government of Israel has also provided assurances that U.S. exporters will continue to enjoy equal access to Israeli markets and that Israel will follow procedures worked out in cooperation with the United States for bulk shipments of grain on dry bulk carriers. Written assurances covering these subjects have been received by A.I.D. for this cash transfer.

B. Utilization of Economic Support Fund (ESF) Assistance:

From July 1, 1974, through September 30, 1985, A.I.D. provided a total of $10,155 million of Economic Support Funds (formerly Security Supporting Assistance) to the Government of Israel. As of September 30, 1985, $9,405 million has been disbursed.

TABLE I

July 1, 1974 - September 30, 1985 ESF Funding for Israel (in billions of dollars)

Program	Grant	Loan	Total
Commodity Import	1.100	.755	1.855
Cash Transfer	7.780	.520	8.300
Total	8.880	1.275	10.155

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

MEMORANDUM

TO: ANE/PD/ME, Charles J. Patalive

FROM: ANE/PD/ENV, Stephen F. Lintner, SFL
Environmental Coordinator

SUBJECT: Israel - FY 1986 ESF Cash Transfer, (271-K-622), Environmental Clearance

The proposed cash transfer is exempt from environmental review under the "Categorical Exclusion" provisions of 22 CFR 216, "A.I.D. Environmental Procedures".

cc:
GC/ANE/NE, Rodney Johnson
ANE/MENA, Russell Misheloff
AID Affairs Officer, U.S. Embassy Tel Aviv, Scott Loney

Draft: ANE/PD/ENV:SFLintner, 10/25/85, Doc. 0043B

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1985 Continuing Resolution Sec. 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

It has not been so determined.

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

Israel is not known to be in violation of this section.

CC/ANE has reviewed the International Security and Development Cooperation Act of 1985 (Pub. L. 99-83), and has advised that nothing contained therein would in any way prohibit or restrict the proposed cash transfer to Israel.

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3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

Israel is not known to be in violation of this section.

4. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?

No. Assistance will not be so provided.

5. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

Israel is not known to be in violation of this section.

6. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

There is an Investment Guarantee Agreement between the U.S. and Israel.

7. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

(a) Israel is not known to have taken such actions.

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

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8. FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds?

No.

9. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, as reported in the Annex Report on implementation of FAA Section 620(s).

10. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No, Israel has not severed diplomatic relations.

11. FAA Sec. 620(u) What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

To the best of our knowledge, Israel is not in arrears on its U.N. obligations.

12. FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual group which has committed an act of international terrorism?

No.

Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No.

13. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

14. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

We have no knowledge that Israel has delivered or received such items or detonated such a devise.

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15. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

No.

15. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?

Not Applicable.

16. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No. It has not been determined that Israel has engaged in a consistent pattern of opposition to the foreign policy of the United States.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

Not Applicable.

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

20

2. <u>Economic Support fund Country Criteria</u>

<u>FAA Sec. 502B</u>. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human righits record that furnishing such assistance is in the national interest?

No. It has not been determined that Israel is engaged in a consistent pattern of gross violations of internationally recognized human rights.

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3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B, a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend n the funding source for the progra

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec. 653(b)

   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

   (a) Committees have been notified in accordance with normal Agency procedures.

   (b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

   (b) Yes.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   No further legislative action is required within Israel.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

   No.

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4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

   Funds will help finance Israels imports and generally assist its economy.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

   U.S. private trade and investment will benefit to the extent U.S. goods are purchased with the funds.

6. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

   Not Applicable.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

   Not Applicable.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

   (a) FAA Sec. 531. How will this assistance support promote economic or political stability?

   The purpose of this assistance is to support the economy and political stability of Israel.

2. Nonproject Criteria for Development Assistance

   Not Applicable.

3. Nonproject Criteria for Development Assistance (Loans only) — Not Applicable.

4. Additional Criteria for Alliance for Progress — Not Applicable.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT ADMINISTRATOR

OCT 29 1985

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/PPC, Richard Derham

FROM: AA/ANE, Charles W. Greenleaf, Jr.

SUBJECT: Israel - FY 1986 ESF Cash Transfer Grant, 271-K-622

PROBLEM: Your approval is required for the authorization of the $1.2 billion FY 1986 ESF cash transfer grant to Israel.

DISCUSSION: On October 1, 1985, the President signed House Joint Resolution 388, the Continuing Resolution for FY 1986. OMB has apportioned, and the Treasury has allotted the $1.2 billion the Act makes available to Israel from the FY 1986 ESF account. The legislation provides that the cash transfer must occur within the first 30 days of the fiscal year, that is, by October 30, 1985.

When the decision was first made to change our assistance from a commodity import program to a cash grant, there were Congressional and other agency concerns that the shift from a commodity import program to a cash transfer program might cause an adverse impact on the total amount of non-military exports from the United States to Israel. To address this and other concerns, the Embassy of Israel, as in previous years, has furnished two letters to A.I.D. The Embassy of Israel letter of assurance (Tab C) and the Embassy of Israel 1985 report on the quantity and value of Israel's imports from the U.S. (Tab D) have been reviewed by Treasury, Commerce, the Maritime Administration and OMB. Based upon these reviews and our own, we conclude that:

> Israel's non-military FY 1985 imports from the U.S. exceeded the level of U.S. economic assistance that year (the Supplemental Appropriation Act of 1985 did not require the inclusion of the funds supplied by that Act in this calculation);
>
> Israel has continued to purchase U.S. corn, wheat, soybeans, and other agricultural products at approximately the levels established during the past few years;

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Israel has followed acceptable procedures for selection of dry bulk carriers for grain shipments; and

U.S. exporters have not been disadvantaged by shifting ESF transfers to Israel from a commodity import program to a cash transfer program.

RECOMMENDATION: That you approve the $1.2 billion cash transfer grant to Israel by signing the attached PAAD. The full amount of the grant will be disbursed to Israel's bank account shortly after signature of the grant agreement by the AA/ANE and the Economic Minister for the Embassy of Israel.

Attachments:
Tab A - Program Assistance Approval Document (PAAD)
Tab B - Draft Grant Agreement
Tab C - Embassy of Israel Letter dated October 22, 1985
Tab D - Embassy of Israel Letter dated October 23, 1985

ANE/PD/ME:CJPatalive:10/25/85:632-9102:Doc 0047B

Clearance:
GC:HFry ______________ Date 10/29/85

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A.I.D. Grant No: 271-K-622

COPY

AGREEMENT

BETWEEN

THE GOVERNMENT OF ISRAEL

AND

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

ACTING THROUGH

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Dated: October 30, 1985

Agreement, dated October 30, 1985 between the Government of Israel ("Israel") and the Government of the United States of America, acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties."

ARTICLE I

The Grant

To support the economic and political stability of Israel, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to Israel under the terms of this Agreement not to exceed One Billion Two Hundred Million United States Dollars ($1,200,000,000) (the "Grant").

ARTICLE II

Condition Precedent to Disbursement

SECTION 2.1. Condition Precedent to Disbursement

Prior to the disbursement of the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, Israel will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., a

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statement of the name of the person holding or acting in the office specified in Section 5.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 2.2 Notification

When A.I.D. has determined that the condition precedent specified in Section 2.1 has been met, it will promptly notify Israel.

SECTION 2.3. Terminal Date for Condition Precedent

If the condition specified in Section 2.1 has not been met within ninety (90) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Israel.

ARTICLE III

Disbursement

SECTION 3.1. Disbursement of the Grant

After satisfaction of the condition precedent, A.I.D. will deposit in a bank designated by Israel the sum of One Billion Two Hundred Million United States Dollars ($1,200,000,000).

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SECTION 3.2. Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the date A.I.D. makes deposit to the bank designated by Israel in accordance with Section 3.1.

ARTICLE IV

Special Covenants

SECTION 4.1. No Use for Military Purpose

It is the understanding of the Parties that the Grant will not be used for financing military requirements of any kind, including the procurement of commodities or services for military purposes.

SECTION 4.2. Use Only Within Pre-1967 Boundaries

Program uses of the Grant shall be restricted to the geographic areas which were subject to the Government of Israel's administration prior to June 5, 1967.

ARTICLE V

Miscellaneous

SECTION 5.1. Communications

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To Israel: Economic Minister
Embassy of Israel
3514 International Drive, N.W.
Washington, D. C. 20008

To A.I.D.: Director, Office of Project Development
Bureau for Asia and Near East
Agency for International Development
Washington, D. C. 20523

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of written notice.

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SECTION 5.2. Representatives

For all purposes relevant to this Agreement, Israel will be represented by the individual holding or acting in the office of Economic Minister, Embassy of Israel, and A.I.D. will be represented by the individual holding or acting in the office of Director, Office of Project Development, Bureau for Asia and Near East, each of whom, by written notice, may designate additional representatives for all purposes.

The names of the representatives of Israel, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 5.3. Amendment

This Agreement may be amended by the execution of written amendments by the authorized representatives of both Parties.

(32)

IN WITNESS WHEREOF, Israel and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

GOVERNMENT OF ISRAEL

By: Dan Halperin
Title: Economic Minister
Embassy of Israel

UNITED STATES OF AMERICA

By: Charles W. Greenleaf Jr.
Title: Assistant Administrator
Bureau for Asia and
Near East

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

October 22, 1985

Mr. Charles Greenleaf
Assistant Administrator
Bureau for Asia & Near East
Agency for International Development
Washington, DC 20523

Dear Charlie:

You will recall that in conjunction with the shift of the U.S. economic assistance program to Israel from commodity import financing to cash transfer, the Government of Israel provided certain assurances regarding the impact of the shift on U.S. exports to Israel and access of U.S. suppliers to Israeli markets.

In particular, the Government of Israel undertook to:

a) take all steps to insure that, during the U.S. fiscal year 1979, the dollar level of Israel's non-defense imports from the United States would be at least equal to the level of U.S. economic assistance obligations during that year, that U.S. suppliers would not be disadvantaged by the termination of the CIP, and that the level of cash transfers made to Israel does not cause an adverse impact on the total amount of non-military exports from the United States to Israel.

b) regarding the carriage of goods imported from the U.S., continued to follow procedures which had been followed up to that time for bulk shipments of grain on dry bulk carriers.

In conveying these assurances, we also indicated, in an illustrative way, steps which we had decided to take to fulfill our commitments. In this regard, we indicated that:

a) regarding Israeli Government procurement of large capital equipment items which U.S. suppliers might furnish, special measures would be taken as necessary to assure that they can compete on terms at least as favorable as those offered by prospective third country suppliers, and

b) the Government of Israel would continue importing from the United States grains and other agricultural products purchased on government account at levels approximating those of the past few years, with due allowances for Israel's requirements for such goods and capacity to store them.

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On behalf of my government, I would like to take this opportunity to renew the aforementioned commitments for U.S. fiscal year 1986 and to indicate that we will continue to implement the illustrative measures for carrying out these commitments as numerated above.

In the summer of 1986, the Government of Israel will undertake another review of experience under the cash transfer procedures. A report of our findings will be provided to the United States by September 1, 1986.

Over the past few years, the level of Israel's non-defense imports from the United States has grown as indicated in the report we submitted to AID on October 22, 1985. My government anticipates additional increases in the coming year, and, as before, is prepared to discuss with appropriate U.S. Government officials what reasonable steps it could take to make American sources of supply more attractive to Israel importers.

Sincerely,

Dan Halperin

Dan Halperin
Minister (Economic Affairs)

DH:ht

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EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

October 23, 1985

Mr. Charles Greenleaf
Assistant Administrator
Bureau for Asia & Near East
Agency for International Development
Washington, DC 20523

Dear Charlie:

Further to the understanding between the Agency for International Development and the Government of Israel, a review of Israel's experience under the Cash Trnasfer Program was undertaken during the summer of 1985. I am pleased to provide you with a report of this experience in this letter.

Pursuant to the assurances that were given to AID, the dollar level of Israel's non-defense imports from the United States during fiscal year 1985, exceeded the level of U.S. economic assistance during that year. The current policy of the Government of Israel calls for leveling imports and increasing exports as a measure to reduce the current deficit in the balance of payments. U.S. suppliers were clearly not disadvantaged by this policy nor by the termination of the Commodity Import Program. This can readily be seen from the tables attached hereto as tables I and II. Table I shows the comparative imports of 21 separate items (including grains). Table II shows comparative imports of 4 grains. Both tables cover the years 1980 through the first half of 1985.

As in previous years, the Government of Israel continued to take measures to assure the competitiveness of U.S. capital equipment suppliers. Imports of U.S. manufactured machinery and electric equipment to Israel during 1984 totaled $619 million, an increase of $36 million over the previous year. Imports of U.S. Optical Photography, Medical Equipment to Israel during 1984 totaled $115 million, an increase of $21 million over the previous year.

Imports of grains from the United States continued to increase further in 1984. Grain imports in 1984 exceeded those in 1983 by 75,000 long tons. The total volume of grain shipment in 1984 reached 1.7 million long tons.

Overall, exports from the United States to Israel during 1984 reached a level of $1.77 billion. These figures underscore the effectiveness of the Cash Transfer Program in terms of increased opportunities for U.S. suppliers.

U.S. bulk carriers have benefited as well. Procedures were worked out for the Agency for International Development and the Maritime Administration transportation experts for employing U.S. bulk carriers of grain to Israel. Suitable American-flag vessels were used to the extent available. The market share of U.S. bulk carriers have reached the desired mark of 50%.

Our experience under the Cash Transfer Program has demonstrated the effectiveness of the Program vis-a-vis the Commodity Import Program, in terms of providing opportunities to U.S. suppliers of export to Israel. We are pleased that these results bear out the confidence that AID and other U.S. Government agencies placed in us in shifting from the Commodity Import Program to the Cash Transfer Program.

In the future, as has been done in the past, the Government of Israel will take the necessary measures so that U.S. suppliers will not be disadvantaged by the termination of the Commodity Import Program.

Sincerely,

Dan Halperin

Dan Halperin
Minister (Economic Affairs)

DH:ht

Attachments

Table I

IMPORTS OF GOODS FROM THE U.S. (C.I.F.)

MILLIONS OF U.S. DOLLARS

1978-1984
January-June 1985

	1980	1981	1982	1983	1984	I - VI 1984	I - VI 1985
Animals and Products of Animals	7	0	8	9	7	4	3
Plants and Products thereof	396	455	382	375	383	189	177
Oils and Fats of Animals	6	6	3	2	4	1	2
Processed Foods Beverages, Tobacco	23	31	28	32	33	17	11
Minerals	3	3	4	3	6	4	2
Chemical Products	80	84	88	79	81	43	36
Rubber and Plastics	43	39	39	38	36	20	17
Processed Leather & Furs	3	4	5	5	2	1	4
Wood and Products thereof	4	5	3	4	4	2	2
Paper and Cardboard	36	52	49	49	58	29	22
Textiles and Products thereof	37	65	45	34	37	18	26
Footwear	1	1	1	2	1	1	0

Table I - cont'd.

	1980	1981	1982	1983	1984	I - IV 1984	I - IV 1985
Articles of Stone, Cement, Ceramic	9	10	11	11	14	6	8
Precious Stones	138	43	42	41	50	24	36
Metals	105	124	105	82	105	47	69
Machinery & Electric Equipment	440	486	522	583	619	296	319
Vehicles, Aircraft and Vessels	136	120	102	248	176	136	47
Optical Photography, Medical Equipment	61	75	79	94	115	52	76
Miscellaneous	4	6	7	5	4	2	3
Works of Art	12	4	0	3	3	2	2
Unclassified Commodities	5	7	19	24	35	12	8
TOTAL IMPORTS	1,549	1,630	1,542	1,723	1,773	904	880

Table II

IMPORTS OF GRAINS FROM THE U.S.

(Thousands of Long Tons)
1978-1984
1985 (Jan.-Sept.; Forecast)

	1980	1981	1982	1983	1984	1985 Jan.-Sept.	1985 (forecast)
WHEAT	388	392	556	379	563	314	499
CORN	658	456	477	389	216	289	335
SORGHUM	304	463	335	434	585	270	405
SOYBEANS	426	445	488	469	382	332	422
	1776	1756	1856	1671	1746	1205	1661

Remark: In the last three years small quantities of soybeans and feedgrains were privately imported for re-export purposes, terefore were exempted from the 50% U.S. flag requirement.