UNCLASSIFIED

UNITED STATES INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE PAPER
FY 1981

ISRAEL: FY 1981 PROGRAM CASH TRANSFER

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CLASSIFICATION:

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: NE 81-2
2. COUNTRY: Israel
3. CATEGORY: Cash Transfer
4. DATE:
5. TO: Douglas J. Bennet Jr., Administrator
6. OYB CHANGE NO.:
7. FROM: Alfred D. White, Acting Assistant Administrator, Bureau for Near East
8. OYB INCREASE:
TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 395,000,000
10. APPROPRIATION – ALLOTMENT: 72-1111037 137-62-298-00-50-11
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:		U.S.:	
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:	$395,000,000	Other:	$395,000,000

18. SUMMARY DESCRIPTION

This assistance is part of a continuing assistance program to Israel. Israel's political and economic stability have been 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 payments current account deficit. It is intended to give Israel greater economic flexibility for easing some of the pressure on its economy.

Of the $785 million proposed during FY 1981, in order to retain the prerogative of Congress to determine that one-third of the funds could be provided on a loan basis, it is recommended that you approve a cash grant in an amount of not to exceed Three Hundred Ninety-five Million United States Dollars ($395,000,000), at this time, to be disbursed as follows:

> $200 Million upon execution of the Grant Agreement and satisfaction of conditions precedent and $195 Million on December 29, 1980.

19. CLEARANCES	DATE
GC:NHolmes	11-18-80
NE/PDLRBell for	11/4/80
NE/DP:BLangmaid	11/12/80
GC/NE:JKessler	11/5/80
NE/EI:GKamens	
NEA/IAI:JSpillane	11-6-80
PPC/PDPR:JEriksson	11-14-80
AA/PPC:AShakow	11/19/80
A/FM/C:TMcMahon	

(allotment subject to release of funds by OMB)

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE: Nov 21/80

TITLE: Administrator

CLASSIFICATION:

ISRAEL

FY 1981 PROGRAM ASSISTANCE PAPER

Table of Contents

		PAGE
	Preface	2
I.	Political and Economic Considerations	3
	A. Recent Background	3
	B. Current Situation	6
II.	U. S. Economic Assistance Program	7
	A. Recent Economic Programs	7
	B. FY 1981 Economic Program	9
III.	Grant Justification	10
	A. Balance of Payments	11
IV.	Loan and Grant Administration	19
	A. Procedures	19
	B. Utilization of Previous CIP and Present ESF Assistance	22
	C. FY 1981 Program Cash Transer Authorization, Obligation and Disbursement	23
V.	Recommendations	24

ANNEXES		No. of Pages
A.	Grant Agreement	5
B.	Checklist of Statutory Criteria	8
C.	Government of Israel Letter of 10/31/79	2
D.	Government of Israel Letter of 10/10/80	5
E.	Government of Israel Letter of 10/28/80	2

PREFACE

Congress has not as yet enacted an FY 1981 authorization act for A.I.D. activities. The House of Representatives and the Senate have passed two different bills, respectively, H.R. 6942 and S.2714. However, both would direct A.I.D. to obligate $785 million to Israel with all of that amount on a grant basis. The FY 1980 authorization act, however, required only that "not less than two thirds" of such funds be provided on a grant basis.

Congress has not as yet enacted an FY 1981 appropriations act for A.I.D. activities. Until December 15, 1980, or until enactment of an appropriations act for A.I.D. activities, A.I.D.'s appropriations are provided pursuant to a Continuing Resolution (Pub. L. 96-369) which is effective until December 15, 1980.

The following FY 1981 Program Assistance Paper provides the justification for the full $785 million. It is proposed, however, under the prevailing legal circumstances, that only a $395 million grant be approved at this time. It is further proposed that the entire $395 million grant be obligated, but that disbursements be made on a quarterly basis, as has occurred in prior years, with the first disbursement ($200 million) to be made upon execution of the Agreement and the satisfaction of its conditions precedent and a disbursement of $195 million to be made on December 29, 1980. A grant agreement for the $395 million is attached as Annex A.

It is proposed that at such time as the FY 1981 authorization act and either an FY 1981 appropriations act or a subsequent Continuing Resolution become law that the agreement be amended to permit the obligation and disbursement of the remaining $390 million as grant or loan funds, as Congress may then determine.

Program Committee

NE/PD:D.J. Mackell (Chairperson)
NE/EI:R. Mischeloff
GC/NE:S.E. Carlson
NE/DP:S. Chernenkoff
SER/COM/NE:R.T. Looper

I. POLITICAL AND ECONOMIC CONSIDERATIONS

Israel's political and economic stability have been 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 payments current account deficit.

A. Recent Background

In view of its very limited natural resources, Israel's economic achievements since 1948 are remarkable. In the years prior to the 1973 Arab-Israeli war, Israelis came to expect sustained and rapid growth with steadily rising real per capita income and private consumption. Israel's foreign debt, while significant, was within its capacity to service.

The 1973 war marked an economic as well as a political watershed. In its aftermath, worldwide price inflation, particularly for petroleum products, recession in the economies of Israel's major trading partners and the Government's decision to expand and modernize its defense forces confronted the country with a serious balance of payments problem. In a conscious effort to address this problem, economic growth was reduced to one or two percent a year, the lowest level in Israel's history. Nevertheless, inflation reached unprecedented levels and a large foreign trade deficit made it necessary for Israel to borrow extensively on commercial markets to cover its foreign exchange requirements. As a consequence, medium and long-term debt grew by over 70 percent in the period between January 1973 and the end of 1975. At the same time, Israel's short-term debt spiraled nearly fourfold from its 1973 level of $200 million.

The U.S. Government responded with large Foreign Military Sales and Economic Support Fund programs to help Israel finance the defense imports it badly needed and cover its trade deficit. These loans and grants have averaged about $1.8 billion annually since FY 1974.

As a result of: (1) Government-imposed austerity measures designed in part to curb import demand, (2) rapid growth in export receipts, (3) U.S. assistance and (4) private resource transfers, Israel's balance of payments picture showed marked improvement in 1976 and 1977. Thus, the trade (goods and services) deficit declined from $4.1 billion in 1975 to $2.6 billion in 1977; the civilian financing requirement2/ dropped by over $500 million to a 1977 level of $2.2 billion; foreign exchange reserves increased by approximately $400 million; and the alarming increase in short-term indebtedness was halted. It must be added, however, that these improvements were achieved at the price of continued economic stagnation. The Gross National Product rose by only 1.8 percent in 1976 and 1.5 percent in 1977, i.e. by less than the rate of population growth.

By late 1977, the Government of Israel began to stimulate the economy mainly through deficit financing of public sector expenditures. In 1978 and 1979, the downward trends in gross domestic capital formation and consumption -- private and government -- which occurred in 1976 and 1977 were reversed. The rate of economic growth accelerated to 4.8 percent in 1978 and again in 1979. It is not clear that the Israeli Government intended this much of a reflation, but until late in 1979 it did not take steps to dampen it.

2/ The Administration is seeking an additional $200 million for the same purpose in FY 1981.

As the pace of economic activity quickened, Israel rapidly approached full utilization of resources. Inflationary pressures -- which had been strong since the 1973 war despite a slack economy --intensified. For the year 1978, the cost of living index rose by about 50 percent. In 1979, the index more than doubled.

B. <u>Current Situation</u>

Late in 1979, the Government of Israel introduced a new economic austerity program designed to deal with the continuing problems of hyperinflation and balance of payments disequilibrium. The program employs tight fiscal and monetary policies plus constraints on wages to cut aggregate demand and shift resources to the export sector.

It is still too soon to reach definitive conclusions on the success of the program. Indicators for the first part of 1980 are mixed. On the one hand, the pace of private sector economic activity has clearly slowed. However, this has not as yet been translated into a dramatic decline in the rate of inflation due probably to difficulties which the Government is experiencing in making necessary budgetary adjustments. Balance of payments developments have been encouraging. Export performance is impressive, while real, non-defense imports have grown slowly, if at all. On the other hand, the terms of trade deteriorated, due in large part to dramatic increases in oil prices. The upshot is that the deficit on current account measured in nominal dollars is approximately the same as it was at this time last year.

II. U.S. ECONOMIC ASSISTANCE PROGRAM

A. Recent Economic Programs

Since fiscal year 1972, AID has been providing grant and loan assistance from the Economic Support Fund to finance non-defense commodity imports and to meet Israel's needs for cash. Initially, obligations were fairly modest ($50 million in FY 1972, FY 1973 and FY 1974). By FY 1976, they had increased to $700 million in response to Israel's growing economic problems -- a $550 million CIP loan and grant program and a $150 million cash grant. The following year the program reached $735 million, of which $300 million was in the form of a cash grant. In FY 1978 it was increased again to $785 million --$485 million in commodity import financing and a $300 million cash grant and has remained at that level since then. 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.

In FY 1979 the nature of the program changed in that, for the first time, the total amount was provided as a cash transfer. The commodity import 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 United States -- $900 million to $1.5 billion a year for the past few 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 discussing the shift to a completely cash transfer ESF program with the Government of Israel, AID noted its concerns that the shift not impact adversely on the aggregate level of Israeli imports from the U.S., or disadvantage U.S. firms in terms of their access to Israeli markets. The Government of Israel indicated that it understood our concerns, and provided written assurances covering both points.

In addition to ESF, the U.S. provided PL 480 Title I food for several years and has authorized several housing guarantee programs. Under other legislation, assistance has been 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.

The following amounts of military assistance have been provided: FY 1976, $1.5 billion; TQ, $200 million; FY 1977, FY 1978, FY 1979, and FY 1980, $1 billion in each year. Additionally, in FY 1979 the United States provided $3 billion to assist Israel to pay for the redeployment of military installations and personnel in the Sinai.2/ $800 million of that sum is a grant for the construciton of two air bases in the Negev; the remainder is an FMS credit.

B. FY 1981 ECONOMIC PROGRAM

Congress has not yet enacted an FY 1981 Appropriations Act for A.I.D. activities. Rather, funds for such activities are appropriated until December 15, 1980 by a Continuing Resolution. It is not known whether that legislation will be followed by another Continuing Resolution or an Appropriations Act. Both the House and Senate versions of the authorization bill would authorize $785 million on a grant basis, as opposed to the two-thirds grant/one-third loan ratio of the FY 1980 and preceding programs.

As in FY 1979 and FY 1980, the entire FY 1981 program will be in the form of a cash transfer. The change from CIP to cash transfer made in FY 1979 was designed to alleviate difficulties which the Government of Israel had encountered in utilizing available CIP funds. When Israel shifted to all cash transfer in FY 1979 the undisbursed balance in CIP funds was $301.9 million. This amount was fully disbursed in the first 9 months of 1979.

Prior to the shift in FY 1979 to a completely cash transfer ESF program AID noted its concerns in discussions with the GOI that the shift not impact adversely on the aggregate level of Israel imports from the U.S., or disadvantage U.S. firms in terms of their access to Israeli markets. The GOI indicated its understanding of the concerns and provided written assurances covering these points . In the summers of 1979 and 1980, the GOI undertook reviews of experience under the cash transfer procedures and submitted reports of its findings to A.I.D. These findings are addressed in Section IV A below.

III. GRANT JUSTIFICATION

In order to maintain economic stability, Israel has had to run a civilian trade deficit of $1.5 to $3 billion a year in recent years. Its civilian sector financing shortfall was about $2.7 billion in 1978 and $3.5 billion in 1979. Over the past few years, 40-50 percent of these amounts were covered by private transfers from abroad. The remainder was financed by revenues realized from bond issues, commercial borrowing and U.S. economic assistance.3/

3/ Foreign investment in Israel has not been significant in the post-1973 period.

As in the past, the cash transfer program proposed herein will assist Israel by providing foreign exchange needed to help meet the country's civilian foreign exchange financing requirements. This Economic Support Fund assistance remains a key factor in enabling Israel to maintain economic stability.

A. Balance of Payments

Following the 1973 war, world recession, dramatic increases in import prices (particularly for petroleum products) and the Government's decision to expand and modernize its defense forces combined to strike an economically devastating blow to a society that had been accustomed to steady growth, stability and general improvement in the quality of life.

Beyond the psychological and emotional impairment experienced by many Israelis following the 1973 Israel-Arab war, the financial costs of replacing and upgrading a modern, high technology military inventory posed serious problems of resource allocation and ability to pay. The military drain on the civilian economy was staggering in terms of both human and financial resources. In recent years defense expenditures have claimed 30 to 45 percent of the national budget and 15 to 20 percent of the total resources available to the economy.

Coupled with substantial diversion of resources to defense, the prosperity of the civilian economy was further undermined by the general slowdown of the world economy in 1974 and 1975 and a surge in oil prices. These factors led to a massive trade deficit in 1975 of $4 billion, while economic growth came to a virtual standstill.

The worsening balance of payments became the principal focus of decision makers and prompted the GOI to introduce policies ultimately designed to slacken demand for imports and stimulate production for export. Devaluation and economic slowdown were selected as the principal modalities to arrest the payments deficit. Additionally export profitability was enhanced by subsidies, special investment incentives and liberal credit.

In November 1974, Israel announced a 43 percent devaluation. Subsequently, monthly mini-devaluations were utilized to keep Israeli exports competitive in international markets (despite high rates of inflation) and to curb non-essential imports. Other specific austerity measures taken included raising prices of subsidized goods (including such essentials as bread, milk, and eggs), increasing taxes to very high levels, and reducing real public consumption.

In 1976 and again in 1977, significant progress was made toward the goal of reestablishing balance of payments equilibrium. The goods and services deficit which had reached $4 billion in 1975 was reduced to $2.6 billion in 1977. More importantly in terms of assessing the need for concessional financing, the civilian financing requirement dropped by over $500 million to a 1977 level of $2.2 billion. These changes were the result of a substantial increase in total exports (48 percent over the two year period) and much slower growth (19 percent) in non-defense imports.

In 1978 and 1979, the progress achieved in the preceding two years was reversed. By the latter year, the goods and services deficit reached $3.75 billion, $1.2 billion higher than it had been in 1977. For 1978, the bulk of the increase is attributable to a 50 percent surge in military imports.4/ In 1979, the deterioration continued despite the fact that defense imports returned to their 1977 level. Thus, for the two year period taken as a whole, the reversal resulted almost entirely from developments in the civilian sector. A dramatic increase in Israel's oil import bill was the single most important factor, accounting for one-half the increase in the deficit, this despite the fact that the volume of fuel imports grew very little. The revolution in Iran deprived Israel of its largest and cheapest source of supply, forcing it to buy much of its oil in the very expensive spot market. The acceleration in the pace of economic activity also contri-

4/ Since payments for FMS financed imports are not necessarily made when the goods arrive in Israel, these data are not entirely suitable for assessing the impact of imports on Israel's external financial position.

buted to the deterioration as non-defense imports rose by an average of 9.2 percent per annum in real terms. On the other hand, export growth -- although still impressive due to favorable price movements -- declined from 24 percent in 1977 to a 20 percent per annum average in 1978 and 1979. In volume terms, export growth averaged 3.5 percent a year for 1978 and 1979 in contrast to 11.5 percent in 1977 and 16 percent in 1976 as buoyant domestic demand induced some producers to sell their products in the domestic market.

For the first part of 1980, it appears that Israel's non-defense, merchandise trade deficit was slightly lower than it was last year. Exports for the first eight months of the year increased by 26 percent in terms of current dollars. Exports of textiles, clothing and leather goods, and chemicals, rubber and plastic products were particularly impressive. The strong growth pattern of the metals, machinery and electronics sector established in recent years also continued. Although information is still sketchy, it is likely that the renewed export vitality is traceable to the steps taken by the Government of Israel in late 1979 and early 1980 to curb domestic demand and shift resources into production for export.

While exports grew impressively in the first months of 1980, the real volume of non-defense, merchandise imports declined. In fact, non-oil imports actually declined in terms of nominal dollars despite double digit dollar inflation. Again, economic austerity is the primary reason. Domestic demand is down, and tight monetary conditions have resulted in a reduction in inventories.

Data on services and unilateral transfers are available for the first quarter of 1980 only. No discernible trends are evident.

Capital inflows for the first quarter of 1980 were much lower than they were for any quarter of 1979. Sharp declines in private, short-term borrowing and monetary sector liabilities account for the shift. The former may reflect reduced requirements for trade credits (due to a relatively low import level) and measures taken by the Government to discourage speculative capital inflows which tend to sustain the value of the Israeli shekel, cheapening imports and eroding export profitability. No ready explanation is available for the shift in monetary sector liabilities, although there is some evidence that it may reflect seasonal factors. In any event, no firm conclusions should be reached on the basis of data for such a short period of time.

While capital account data are too fragmentary to reach hard and fast conclusions about trends in individual items, we note that Israel's foreign exchange reserves continued to increase in the first half of 1980. By July 31 they had reached \$3.4 billion, a \$400 million increase over December 31, 1979. Thus, it appears that capital inflows (including U.S. aid) continue to be more than sufficient to cover the current account deficit. For 1980, we anticipate a civilian goods and services deficit the same size at that of last year ($2.6 billion). As usual, this outcome could be upset by factors which are difficult to predict. The budget outcome is particularly important. The strength of domestic demand is significantly affected by the size of budgetary outlays and sources of financing for them. Although the Israeli fiscal year is more than half over, final budget decisions have not been taken, and information about revenues and expenditures for the first part of the year are sketchy. Another factor bearing on the current account outcome for 1980 is the size of inventories in relation to domestic demand. As noted, it appears that stringent monetary policy plus slack demand accounted for significant inventory disinvestment early this year. Of course, this cannot continue indefinitely. Whether or not it is reversed, and if so by how much depends upon the strength of public and private demand as well as credit policy and interest rates. Again, information is sketchy.

Looking to 1981, the outlook is further clouded by the difficulties which any democratic government faces in trying to carry out a painful but necessary program of economic readjustment while at the same time campaigning (against strong opposition) for reelection. A second important imponderable is the effect of the Iraq-Iran conflict on world oil prices. If that conflict turns out to be a protracted one, stocks on hand in major consuming countries could be drawn down, putting upward pressure on world prices.

In summary, the economic measures taken by Israel in the years immediately after the 1973 war which were designed to curb import demand and stimulate export growth were remarkably successful. Renewed emphasis on economic growth during 1978 and 1979, together with the surge in oil prices and the requirements of the Sinai redeployment have reinforced inflationary pressures and contributed to a deterioration in the balance of payments current account. Nevertheless, increasing unilateral transfers and capital imports (including U.S. aid) more than offset the current account deficit, resulting in an increase in reserves to comfortable levels. For 1980, it appears that the current account deficit will be roughly the same size as last year despite oil prices which are running about 50 percent higher on the average than those of last year. This outcome could be affected by fiscal and monetary measures about which we have only fragmentary information. Capital inflows continued to be sufficient to finance the current account deficit during the first half of 1980. For 1981, the balance of payments will continue to be affected by government efforts to manage aggregate demand and to encourage production for export. The Iran-Iraq conflict could adversely affect the outcome if it proves to be protracted.

The following table sets forth estimates of Israel's 1979 civilian balance of payments accounts.

ISRAEL: CIVILIAN BALANCE OF PAYMENTS

	CY 1979 (Millions of US $)
A. Financing Requirements	
Imports (civil only)	-10,733
Exports	8,126
External Debt Maturities	- 893
Subtotal	- 3,500
B. Sources of Finances	
Unilateral Transfers	1,409
Net Foreign Investment	- 102
Bond Borrowing	410
Long and Medium Term Loans	541
Total Sources	2,258
C. Financing Gap	- 1,242
D. U.S. Economic Assistance	1,020
E. Surplus/Deficit on Civilian Account	- 222 5/

5/ Excludes short-term borrowing and SDR allocations. Foreign exchange reserves increased by over $400 million in 1979.

IV. Loan and Grant Administration

A. Procedures

Prior to FY 1979, AID provided both commodity import financing and cash grants for Israel. The CIP was on a reimbursable basis. To obtain reimbursement, the Government of Israel submitted to AID certain documentation evidencing the foreign exchange costs of the eligible imported commodities. Such documentation became an administrative burden to AID and the GOI in accounting for private sector procurement under the CIP, particularly after the GOI further relaxed its internal economic controls. The result was a serious lag in the rate of expenditure of available CIP funds. This interfered with achievement of the purposes of the assistance, i.e., to help finance a balance of payments deficit. To alleviate this problem, a decision was taken to provide all economic assistance (PL 480 and ASHA excepted) on a cash transfer basis linked at the aggregate level to U.S. non-defense exports to Israel.

The Government of Israel agreed with this approach and, for FY 1981 (Annex E) and each of the preceding two years (Annex C, for 1980), has assured AID, in writing that it would take all necessary steps to ensure that 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, and that U.S. suppliers would not be disadvantaged by the termination of the CIP.

Regarding Israeli Government procurement of large capital equipment items which U.S. suppliers might furnish, we were assured that special measures would be taken by the GOI as necessary to assure that U.S. suppliers could compete on terms at least as favorable as those offered by prospective third country suppliers. Additionally, the GOI agreed to continue importing from the U.S., corn, wheat, soybeans and other agricultural products purchased on government account at levels approximating those of the past few years, with due allowance for Israel's requirements for such goods and capacity to store them.

Concerning the transportation of goods imported from the U.S., the GOI gave assurances that it would continue to follow established procedures for bulk shipments of grain on dry-bulk carriers. These procedures were worked out with GOI, AID and Maritime Administration participation to assure a fair share of the market for American carriers.

In the summers of 1979 and 1980, the Israeli Government reviewed its experience under the cash transfer procedures. A report of the findings of its most recent review was presented to AID in a GOI letter of October 10, 1980 (Annex D).

From the partial year data of Israel's imports from the U.S., which are attached to this letter, and which have been endorsed by the U.S. Department of Commerce, it is reasonable to conclude that (1) Israel's non-defense imports from the U.S. exceeded the level of U.S. economic assistance obligated during FY 1980; (2) Israel continued to import corn, wheat, soybeans, and other agricultural products, purchased on GOI account at levels approximating those of the past few years; and, (3) U.S. exporters were not disadvantaged by the shift to a cash transfer only program.

Regarding transport of bulk shipments of grain, the following summarizes the procedures agreed to by the Israel Supply Mission (ISM), Maritime Administration (MARAD) and AID:

Without being obligated to accept proferred tonnage, the ISM is free to negotiate for U.S. flag vessels as frequently as necessary. However, if a given month's bulk carrier requirements have not been met through negotiation, ISM will issue a freight tender during the first seven days of the month. AID will be advised of issuance of the tender and will review and obtain MARAD's concurrence on fairness and reasonableness of U.S. flag rates offered. ISM will be expected to accept all U.S. tonnage determined to be offered at fair and reasonable rates.

At the end of each shipping month, ISM will submit a detailed report to AID with an explanation of any discrepancy. Also, ISM will submit two rated bills of lading for each U.S. flag vessel accepted. After review, AID will confirm its acceptance of ISM's report in writing.

The Israelis have regularly canvassed the U.S. market in an attempt to charter U.S. bulk carriers. AID has monitored this procedure and is confident that the Government of Israel is accepting all U.S. carriers which offer at fair and reasonable rates.

In the summer of 1981, the GOI will undertake another review of experience under the cash transfer procedures and report findings to the United States by September 1, 1981.

There is no AID Mission in Israel and implementation and monitoring of this program will be the responsibility of AID's Near East Bureau.

B. Utilization of Previous CIP and Present ESF Assistance

From FY 1975 through FY 1980 AID has made available to the GOI $4.2 billion in ESF (formerly SSA) and it has all been disbursed as of the end of FY 1980.

FY 1975 through FY 1980

(Billions of Dollars)

Commodity Import:		
Grant:	$1.1	
Loan:		.755
Program Cash Transfer:		
Grant:	1.815	
Loan:		.520
TOTAL	$4.190	

C. FY 1981 Program Cash Transfer Authorization, Obligation and Disbursemer

At this time, it is proposed that A.I.D. authorize in FY 1981 an ESF cash transfer in the amount of $395 million. A cash transfer agreement in the amount of $395 million will be negotiated and signed with the Israeli Government upon authorization. This amount will be a grant, and will be disbursed as follows, $200 million to be released upon execution of the transfer agreement and satisfaction of conditions precedent and $195 million on December 29, 1980. A decision as to the timing for authorization, obligation and disbursement of the remaining $390 million, and the terms of assistance for that portion of the program, will be made at a later date. The only conditions precedent to disbursement involve designation of an authorized representative together with a specimen signature of such representative.

V. Recommendation

It is recommended that a $395 million cash transfer be authorized for Israel with the remaining $390 million to be authorized later in FY 1981. Timing of authorization and disbursement and recommended terms of assistance are indicated in section IV C above.

ANNEX A

CONFO[illegible]

A.I.D. Grant No:
271-K-615

AGREEMENT

BETWEEN

THE GOVERNMENT OF ISRAEL

and

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

acting through

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Dated: December 3, 1980

AGREEMENT, dated the 3rd day of December 1980 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".

WHEREAS, A.I.D. intends to provide a total of Seven Hundred Eighty-five Million United States Dollars ($785,000,000) as cash assistance to Israel during Fiscal Year 1981, subject to the funds being made available by the Congress and the mutual agreement of the Parties to proceed, and

WHEREAS, Congress has not made the entire amount of such funds available at this time,

NOW THEREFORE, the Parties hereto agree as follows:

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 Three Hundred Ninety-five Million United States Dollars ($395,000,000) (the "Grant").

ARTICLE II

Conditions Precedent to Disbursement

SECTION 2.1. Conditions Precedent

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 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 conditions precedent specified in Section 2.1 have been met, it will promptly notify Israel.

SECTION 2.3. Terminal dates for Conditions Precedent

If all of the conditions specified in Section 2.1 have 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 conditions precedent, A.I.D. will deposit in a bank designated by Israel the sum of

Two Hundred Million United States Dollars ($200,000,000). Thereafter, on December 29, 1980, A.I.D. will deposit in such bank the sum of One Hundred Ninety-five Million United States Dollars ($195,000,000).

SECTION 3.2. Date of Disbursement

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

ARTICLE IV

Special Covenants

SECTION 4.1. No Use for Military Purposes

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 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
1621 22nd Street, N.W.
Washington, D.C. 20008

To A.I.D.: Director, Office of Project Development
Bureau for 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.

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 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 of the Parties.

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: ____________

Title: ____________

UNITED STATES OF AMERICA

By: ____________

Title: Acting Assistant Administrator Bureau for Near East

COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?	No. The Department of State has not so determined.
2. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	It has not been so determined.
3. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not dominated or controlled by the international Communist movement?	Yes.
4. FAA Sec. 620(c). If assistance is to the 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.
5. 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.
6. FAA Sec. 620(a), 620(f), 620D; FY 80 App. Act. Sec. (511, 512, and 513.) Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos or Vietnam? Will assistance be provided to Afghanistan or Mozambique without a waiver?	No. No. No.

7.	FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or agression?	The President has not determined that Israel is engaged in such conduct.
8.	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?	No.
9.	FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	There is an investment guaranty program between the U.S. and Israel.
10.	FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, a. has any deduction required by the Fishermen's Protective Act been made? b. has complete denial of assistance been considered by AID Administrator?	Israel has not taken any such actions.
11.	FAA Sec. 620; FY 80 App. Act Sec. (518.) (a) Is the government of the recipient country in default for more than six months on interest or principal of any AID loan to the country?	No.
	(b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?	No.
12.	FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of 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 annual Section 620(s) report.

13. 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.
14. 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?	To the best of our knowledge, Israel is not in arrears in its UN obligations.
15. FAA Sec. 620A, FY 80 App. Act, Sec. (521.) Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? Has the country granted sanctuary from prosecution to any individual or group which has committed a war crime?	No. No.
16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?	No.
17. 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 detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty?	We have no knowledge that Israel has delivered or received such items or detonated such a device
B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY	Not Applicable.
1. Development Assistance Country Criteria.	
2. Economic Support Fund Country Criteria.	
a. FAA Sec. 502B. Has the country (a) engaged in a consistent pattern of gross violations of internationally recognized human rights or (b) made such significant improvements in its human rights record that furnishing such assistance is in the national interest?	(a) No.
b. FAA Sec. 533(b). Will assistance under the Southern Africa program be provided to Angola, Mozambique, Tanzania, or Zambia? If so, has President waived prohibition against the assistance by determining that such assistance will further U.S. foreign policy interests?	No.

c. <u>FAA Sec. 609</u>. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Not Applicable.

d. <u>FY 80 App. Act Sec. (510.)</u>. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

No.

e. <u>FAA Sec. 620B, P.L. 94-329 Sec. 406</u>. Will ESF be furnished to Argentina or Chile?

No.

NONPROJECT ASSISTANCE CHECKLIST

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 non-project assistance;

Included in FY 1981 Congressional Presentation.

(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%)?

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 knowledge that such action is required.

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.

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.

As the funds are being provided to promote the economic and political stability of Israel, it is anticipated that they will help finance Israel's imports and generally assist its economy.

5. <u>FAA Sec. 601(b)</u>. 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, and indirectly.
6. <u>FAA Sec. 612(b); Sec. 636(h)</u>. 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. <u>FAA Sec. 612(d)</u>. Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	No.

B. <u>FUNDING CRITERIA FOR NONPROJECT ASSISTANCE</u>

1. <u>Nonproject Criteria for Security Supporting Assistance</u>	
a. <u>FAA Sec. 531</u>. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?	The purpose of this assistance is to support the economic and political stability of Israel. Yes.
2. <u>Nonproject Criteria for Development Assistance</u>	Not Applicable.
3. <u>Nonproject Criteria for Development Assistance (Loans only)</u>	Not Applicable.
4. <u>Additional Criteria for Alliance for Progress</u>	Not Applicable.

ANNEX C

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

Mr. Joseph C. Wheeler
Assistant Administrator for
Near East
Agency for International
Development
Department of State
Washington, D.C. 20523

October 31, 1979

Dear Mr. Wheeler:

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

In particular, the Government of Israel undertook to:

a) take all necessary 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, and that U.S. suppliers would not be disadvantaged by the termination of the CIP, and

b) regarding the carriage of goods imported from the United States, continue 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 corn, wheat, soybeans 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.

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

On behalf of my government, I would like to take this opportunity to renew the aforementioned commitments for U.S. fiscal year 1980 and to indicate that we will continue to implement the illustrative measures for carrying out these commitments as enumerated above.

In the summer of 1980, the Israeli Government 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, 1980.

Over the past year, the level of Israel's non-defense imports from the United States has grown as indicated in the report we submitted to you on October 2, 1979. 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 Israeli importers.

Sincerely,

Dan Halperin
Minister
(Economic Affairs)

ANNEX D

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
וושינגטון

October 10, 1980

Mr. Bradshaw Langmaid
Acting Assistant Administrator
for Near East
Agency for International Development
Washington, D.C.

Dear Mr. Langmaid,

Further to the understanding between the Agency for International Development and the Government of Israel, a review of Israel's experience under the Cash Transfer Program was undertaken during the summer of 1980. We are pleased to provide you with a report of this experience in this letter.

Persuant to the assurances that were given to AID, the dollar level of Israel's non-defense imports from the United States during fiscal year 1979, exceeded the level of U.S. economic assistance during that year. Although, the current policy of the Government of Israel calls for a reduction of imports and an increase of 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 5 grains. Both tables cover the years 1975 - 1979; January - June 1980.

As in previous years, the Government of Israel continued to take measures to assure the competitiveness of U.S. capital equipment suppliers. For example, imports of U.S. manufactured vehicles and aircraft continued to increase; during 1979 imports of these products to Israel totaled $256.5 million, an increase of $110 million over the previous year. Likewise, imports of U.S. manufactured machinery and electric equipment to Israel, during 1979, totaled $378.6 million, an increase of $104 million over the previous year.

Imports of grains from the United States continued to grow during 1979 and are expected to grow further in 1980. Grain imports in 1979 exceeded those in 1978 by $39.6 million. Current estimates indicate that the total value of grain shipments in 1980 will reach $323.9 million.

Overall, exports from the United States to Israel during

1979 reached a level of $1.5 billion, an increase of approximately $370 million over 1978. 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 with 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 Government of Israel, however, continues to study means to maximize the use of such vessels.

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 for 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 a 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 yours,

Dan Halperin
Minister (Economic Affairs)

Table I

IMPORTS FROM THE U.S. (U.S. Millions of $)
CIF PORT

	1975	1976	1977	1978	1979	Jan.-June 1980
Animals & products of animals	11.5	4.9	4.9	4.2	9.9	2.5
Plants & products thereof	361.0	327.8	336.7	315.2	352.2	187.2
Oils & fats of animals	6.9	4.5	2.2	4.2	11.9	3.6
Processed foods, beverages, tobacco	12.1	10.2	16.4	12.3	13.8	8.4
Minerals	6.6	3.0	3.4	2.9	2.2	1.5
Chemical products	43.0	53.5	52.2	61.3	93.7	42.4
Rubber & plastics	15.2	12.9	13.6	21.4	35.7	21.0
Processed leather & fares	5.1	4.1	4.1	3.4	6.3	1.7
Wood & products thereof	21.7	3.3	1.4	1.5	2.7	2.4
Paper & cardboard	34.1	33.4	26.1	21.4	35.8	13.8
Textiles & products thereof	21.2	24.4	25.6	31.3	47.7	19.3
Footwear	0.3	0.4	0.6	0.6	0.7	0.4
Products of stones, ceramics & glass	3.9	3.7	3.7	6.3	7.7	4.7

Table I

IMPORTS FROM THE U.S. (U.S. Millions of $)
CIF PORT

	1975	1976	1977	1978	1979	Jan.-June 1980
Precious stones	41.7	49.7	86.4	91.7	83.7	80.7
Metals	69.7	45.4	40.9	59.1	75.3	44.5
Machinery & electric equipment	196.5	189.2	202.1	274.3	378.7	208.5
Vehicles, aircraft & vessels	108.5	82.2	119.1	146.1	256.6	59.3
Optical photography, medical equipment	28.7	27.7	32.4	45.9	59.0	29.8
Misc.	2.8	2.6	2.1	3.8	4.0	13.6
Works of art	1.8	2.2	1.5	7.1	2.8	0
Unclassified commodities	8.9	3.7	4.4	4.8	15.4	4.9
Total	1001.2	888.8	981.1	1125.6	1495.8	750.2

Table II

IMPORTS FROM THE U.S. - GRAINS
(000's ommitted)
F.O.B. SHIP

	1975	1976	1977	1978	1979	Jan.-June 1980
Wheat	82,303	60,826	46,994	68,724	91,840	22,484
Corn	32,253	31,094	40,582	42,786	27,296	31,574
Soybeans	94,930	91,271	112,534	95,601	117,638	48,317
Sorghum	77,838	76,321	68,772	64,393	66,955	22,255
Soy Oil	7,836	3,864	1,878	4,195	11,579	2,307
Total	295,160	263,376	270,763	275,699	315,310	127,122

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

October 28, 1980

Mr. Alfred D. White
Assistant Administrator for
Near East
Agency for International
Development
Washington, DC 20523

Dear Mr. White,

You will recall that in conjunction with the shift of the U.S. economic assistance program to Israel from commodity import financing to a cash transfer, the Government of Israel provided certain assurances regarding the impact of the shift on U.S. exports to Israel, bulk shipments of grain from the United States, 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 1980, 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 nonmilitary exports from the United States to Israel.

b) regarding the carriage of goods imported from the United States, continue 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

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EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

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 corn, wheat, soybeans 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.

On behalf of my government, I would like to take this opportunity to renew the aforementioned commitments for U.S. fiscal year 1981 and to indicate that we will continue to implement the illustrative measures for carrying out these commitments as enumerated above.

In the summer of 1981, 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, 1981.

Over the past year, 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 10, 1980. 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 Israeli importers.

Sincerely,

Dan Halperin
Minister
(Economic Affairs)