

Regulatory Trade Barriers in Israel Part I: Importation Regulation Failings

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This policy paper thoroughly examines the different regulatory barriers on importation and for the first time categorizes and maps out their full extent (or as fully as the available data allow). It demonstrates how government protective measures have shifted from tariffs and customs duties to standardization practices, increasing restrictive legislation and opaque internal rules and regulations.

The **first chapter** records the data, revealing that the importation of goods and services as a percentage of GDP has been steadily decreasing.

The **second chapter** examines the trade barrier in the form of standardization, standards being the technical requirements for certain products being imported, usually for health and safety reasons.

The **third chapter** looks at the reasons why the regulation of standards in Israel is deeply flawed.

The **fourth and fifth** chapter review trade barriers in the form of legislation in Israel and the failings therein.

Recommendations for the future are outlined at the end of chapters three and five and in the summary.

Summary:

Import ratio relative to population size is significantly lower in Israel than the OECD average. The decrease cannot be attributed to tariff barriers since Israel in the past years has signed more free trade agreements than in the past as well as canceled several customs duties. In contrast, non-tariff measures have grown more extensive. Although these are not easily measurable due to the difficulty in tracing them and states' questionable reliability in self-reporting, data shows the extent of these barriers in Israel to be greater than in other developed countries.

Standardization is a barrier in the form of a legal obligation for imports to conform to certain criteria. In Israel, this practice suffers the following flaws:

1. The **number** of official, legally binding (rather than voluntary) standards is **high and steadily increasing**. These standards include not only the explicit formulations signed by the minister, but also additional requirements that most are unaware of: namely, the standards mentioned within the official standard guidelines, and so elevated to the same official status. Ninety three percent of official standards incorporate such **additional standards**.
2. The **procedure** for creating standards is **dysfunctional**, despite repeated efforts at reform: most importantly, the **Standards Institution of Israel** both creates and inspects standards, which represents a **huge conflict of interest**, wherein the Institute is incentivized to expand and complicate standards as much as possible. This is precisely why this is not the arrangement in Europe or the US.

3. Despite reforms, **small importers and the public interest are not represented in the decision process**. Large importers are always interested in regulatory burdens they can afford but others cannot. The paper details why the mechanisms designed for better representation don't work. For instance, the importation representatives on the standardization committee are sent by the Federation of Israeli Chambers of Commerce, which represents the big importers. To note one such example, in the deliberation on creating standards for tampons the representatives were from Procter and Gamble and Johnson & Johnson – who unsurprisingly voted to add requirements well beyond international standards.

4. Although past reforms attempted to align Israeli standardization with European standards, Israeli standards today **adopt voluntary European standards as official ones, retain** many original Israeli standards that were created by legislation, often **create new standards**, and unnecessarily **complicate and lengthen** the standards adopted.

In addition to standardization barriers, various ministries add to the regulatory burden by formulating binding rules in **primary legislation, secondary legislation and internal procedures, rules, and regulations**. The first point of interest is the major difficulty of even finding or identifying the extent and specifics of such regulation. What can be traced shows there has been a marked rise in laws and regulations governing imports over the years. This form of trade barrier is characterized by a number of failings:

1. Forty-seven percent of legislative regulation appears in **internal procedures or guidelines**. These do not appear in official databases but rather in **obscure, convoluted locations**. The government itself has **no organized database** listing all importation requirements.

2. Internal regulation barriers are **undemocratic and unsupervised** by the legislative branch. Despite repeated attempts to lighten the regulatory burden, the people's representatives have not succeeded in implementing the people's will on the matter.

3. Although the government adopted "**smart regulation**" that incorporates an OECD recommended assessment procedure called RIA (Regulatory Assessment Impact), **internal procedural regulation can avoid the requirement** and nullify most of its impact.

4. Israeli legislation is **not aligned with international practice** through various loopholes: adopting international frameworks but changing their content, adopting outlier rather than common regulations from abroad, changing international voluntary standards to official ones, and disregarding international impact when creating new standards. This misalignment lays its own burden on importation.

Recommendations:

Readjusting public and government attention from the narrow focus on official standards to a macro-level paradigm that incorporates the full extent of the regulatory burden and seeks to resolve all the extant issues: the institutional failures, mainly decoupling the Standard Institution of Israel from inspection authority and restructuring the standardization process, and the legislative difficulties, first and foremost by mapping out all the rules and regulations in one database and further revising importation restrictions on government spending.

