MERCOSUR–Israel Free Trade Agreement: impact analysis for Argentina

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Abstract

In December 2007, after almost two years of negotiations, MERCOSUR Member States and Israel signed an agreement that establishes a free trade area. This paper analyses the concessions made and the impact these could have on Argentine foreign trade. According to the results obtained from simulations, the impact on bilateral trade would be low in the short run. Export growth could be higher or lower than that of imports, depending on the assessed scenario. Most of export growth would be accounted for by agricultural products, particularly those entering the Israeli market through tariff-rate quotas. As for imports, their increase would be driven by industrial products.

1. Introduction

In December 2007, after almost two years of negotiations,[2] Member countries of MERCOSUR and Israel signed an agreement establishing a free trade area. Although this type of agreement is mainly aimed at eliminating trade barriers and facilitating the movement of goods, this one in particular sets other complementary goals: i) to foster the necessary conditions to provide equitative competitiveness in the free trade area; ii) to substantially boost investment opportunities and increase cooperation in areas of mutual interest, iii) to create effective processes aimed at the implementation, enforcement and fulfillment of the Agreement and its joint administration; iv) to set a framework for more bilateral and multilateral cooperation aimed at increasing and strengthening the benefits of the Agreement.

Besides, MERCOSUR and Israel acknowledge the importance of the areas of investment and trade in services. Attempting to gradually build up and extend their economic relations, both parties will consider the likely modalities to start negotiations on market access with respect to investment and trade in services, in the latter case, having the WTO General Agreement on Trade in Services as a framework.

This Agreement adds to those already signed by both parties. MERCOSUR has signed free trade agreements with Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela[3], and framework Agreements with the Andean Community[4] India[5] and Mexico.[6] In turn, Israel has signed free trade agreements with Canada, the United States, Mexico and EFTA.[7]

In relation to the core issue of tariff reduction, products were classified into six categories, five with different reduction levels and stages and one with the products excluded from the Agreement, namely:

Category A: customs duties shall be eliminated when the Agreement enters into force;

Category B: customs duties shall be eliminated over a four-year period, in four equal stages, the first one taking place on the date of entry into force of this Agreement and the other three on 1 January of each successive year;

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[2] Free Trade negotiations between MERCOSUR and Israel were started in January 2006.
[3] Source: SICE (Foreign Trade Information System), http://www.sice.oas.org/default_e.asp.
[4] ECA 56.
[5] Fixed preferences agreement signed in January 2004.
[6] ECA Nº 54 and ECA Nº 55 (Agreement on the automotive sector).
[7] European Free Trade Association.

Category C: customs duties shall be eliminated over an eight-year period, in eight equal stages, the first one taking place on the date of entry into force of the Agreement and the other seven on 1 January of each successive year;

Category D: customs duties shall be eliminated over a ten-year period, in ten equal stages, the first one taking place on the date of entry into force of the Agreement and the other nine on 1 January of each successive year;

Category E: customs duties shall be subject to partial tariff preferences, which, in the case of concessions granted by Israel, also include access through tariff-rate quotas.

Excluded are: those products that will not be subject to tariff reductions. This is a usual category in free trade agreements, provided for by the World Trade Organization rules, which, in Article 24 of the GATT 1994, set forth the inclusion of "a substantial part" of trade in these agreements, which, in practice has been considered in at least 80% of bilateral trade, though there is no fixed criterion in the regulations therein.

The parties decided that once the Agreement is approved by the Israeli Parliament, it will enter into force in each Member State of MERCOSUR when their respective congresses have accomplished its approval.

Bearing in mind this tariff reduction programme, concessions made by MERCOSUR and Israel are analysed in this paper from the point of view of their impact on Argentine foreign trade. The second section introduces the evolution of trade between Argentina and Israel. Section three analyses the Israeli concession, which is described according to the tax elimination category, the tariff in force, the current trade, the potential for variation of Argentine exports and products not included in the Agreement that showed a potential for an increase in sales in case they had been included. Section four analyzes the MERCOSUR concession, which is described according to the tax elimination category, the tariff in force and the current state of trade. Lastly, section five introduces the results yielded by a partial equilibrium simulation exercise of the probable variation of Argentine exports to Israel and of Argentine imports from Israel resulting from the improvement in access to both markets, which, to conclude with, includes an assessment of the consolidated impact.

2. Argentine trade with Israel

In 2007, the value of Argentine exports to Israel was of USD 212 million, while imports[8] were USD 125 million, with a positive trade balance of USD 87 million (Table 1). The trade balance has been positive since 2001.

[8] CIF import value (including insurance and freight).

Argentine exports to Israel have been steadily growing since 1990, reaching a maximum of USD 137 million in 1997 and then decreasing to reach USD 26 million in 2002 (Graph 1). Consequently, such as Graph 2 shows, Israel's 1997 share of 0.48% in Argentine total imports dropped to 0.28%.

Table 1
Argentine trade with Israel
in millons of USD

Year	Exports	Imports	Balance
2000	64	107	-43
2001	86	76	11
2002	62	26	36
2003	100	39	61
2004	176	58	118
2005	208	80	128
2006	136	95	41
2007	212	125	87

Source: Centre for International Economy based on INDEC.

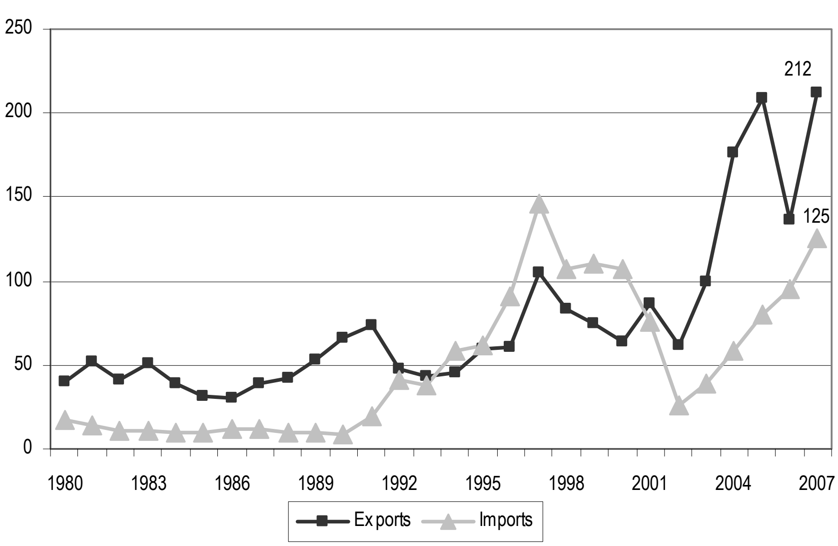
In the last five years, Argentine imports from Israel resumed their growth trend, though its share in the total figure remained at 0.28% in 2007 due to the fact that their increase was lower than that of overall Argentine imports.

In turn, Argentine exports to Israel grew considerably in the period ranging from 2002 to 2005, when they surpassed USD 200 million. After falling by more than USD 70 million in a year, they reached their maximum value of USD 212 million in 2007, although this last increase was not reflected in a greater Israeli share in Argentine total exports, which amounted to 0.52% in 2005 and 0.38% in 2007. The maximum share levels were observed at the beginning of the eighties and the nineties.

Graph 1

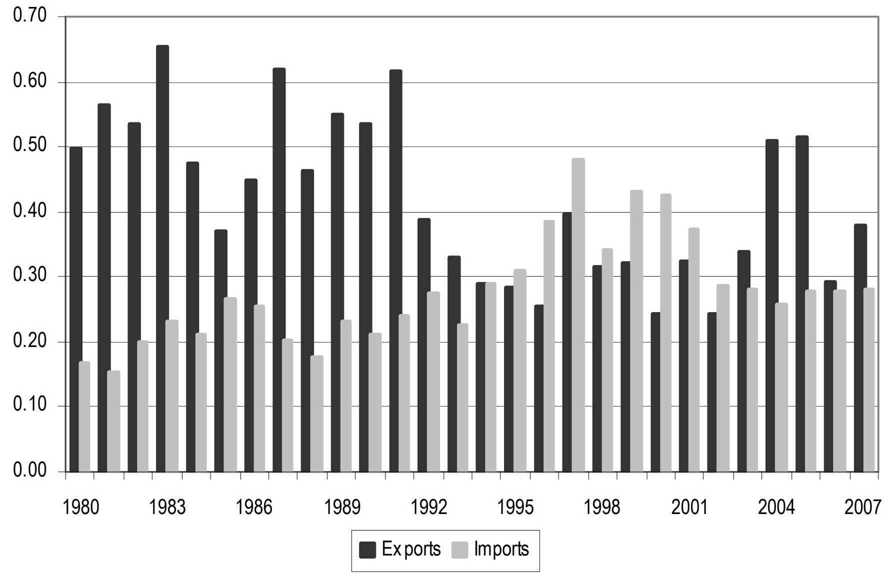
Evolution of Argentine trade with Israel

in millions of USD



Source: Centre for International Economy based on INDEC.

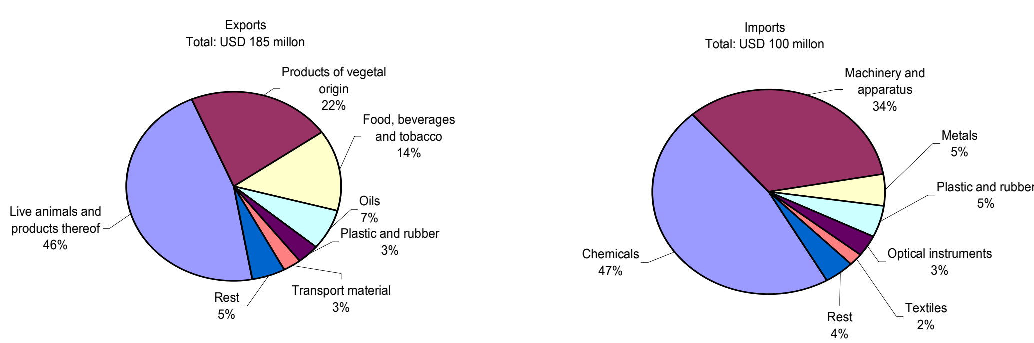
Graph 2
Israel's share in Argentine foreign trade
in percentage



Source: Centre for International Economy based on INDEC.

During the last three years, products from the Agrifood sector—Food, beverages and tobacco, Products of plant origin, Oils and Live animals and Products of animal origin—concentrated 89% of sales to Israel with an average USD 164 million export value during the 2005-2007 period (Graph 3). The most notable products within this item were Meat and Cereals.

Graph 3
Sectoral composition of Argentine trade with Israel
2005-2007 average, in percentage



Source: Centre for International Economy based on INDEC.

In turn, the main product imported by Argentina from Israel was Chemicals—Fertilizers—at USD 47 million and a 47% share in total imports. Another item showing an important participation was Machinery and Apparatus—Radar apparatus—with a 34% share (almost USD 34 million).

3. Israel concessions to MERCOSUR

Israel's list of concessions to MERCOSUR classified the entire tariff universe (8,866 lines at the 8-digit Israeli nomenclature) to 7 categories according to the treatment each product shall receive in order to access its market: 1) immediate elimination of the tariff in force; 2) elimination of tariff over a four-year period; 3) elimination of tariff over an eight-year period; 4) elimination of tariff over a ten-year period; 5) concession of partial preferences; 6) tariff-rate quota; 7) excluded from the Agreement.

Table 2 shows that 75% of tariff lines shall be entitled to access Israeli markets without paying tariffs upon entry into force of the Agreement and that 10% of them shall be excluded.

Israel granted tariff-rate quotas for 32 tariff lines to the four MERCOSUR countries. For other 54 positions, Israel granted quotas only to Paraguay and/or Uruguay. Argentina and Brazil received different treatment for these products: partial preference for 3 and the remaining 51 were excluded.

Table 2

Classification of the agreement into categories

	Category	Number of positions	Share in %
1	Immediate elimination	6,674	75
2	Tariff elimination over a 4-year period	1,061	12
3	Tariff elimination over a 8-year period	136	2
4	Tariff elimination over a 10-year period	0	0
5	Concession of partial preference	43	0
6	Tariff-rate quota	32	0
7	PY and/or UY* tariff-rate quota	54	1
8	Excluded from the agreement	866	10
	Total	8,866	100

* Positions for which Israel granted a tariff-quota to Paraguay and/or Uruguay and excluded Argentina and Brazil from the Agreement or granted them a preference.

Source: Centre for International Economy.

The positions excluded correspond to products within the Agrifood and fisheries sector (Chapters 1 to 24 of the Harmonized System) where 6 Chapters concentrate 63% of the positions excluded: Fish (16%), Preparations of fruits and vegetables (14%), Vegetables (12%), Fruits (11%) and Meat (10%).

3.1. Analysis according to trade and tariff in force

Since there are no trade statistics available at an 8-digit line of the Israeli nomenclature, analysis of the Israeli list of concessions was carried out at the subheading level—6 digits of the Harmonized System. As a consequence, the analysis is limited to 5,219 subheadings. The data used correspond to 2006 since they are the latest Israeli trade statistics available by subheading.

In 2006, Argentina recorded exports to Israel at USD 136 million; which accounted for 0.3% of total Argentine exports (Table 3).

Half of the subheadings entered Israel duty free[9] ; while Argentine exports to such market were concentrated in this group—78% representing USD 106 million in 2006—(Table 3). Most of the remaining half of the subheadings were subject to an *ad valorem* tariff lower than 20%, and a few of them, to a tariff equal to or higher than 20% or a specific tariff.[10]

Table 3
Classification by tariff level

Tariff in force	Number of subheadings	Argentine exports (2006) to Israel	Argentine exports (2006) to the World	Argentine exports to Israel/Argentine exports to the World
		millions of USD		share in %
0	2,587	106	23,527	0.4
>0 and <10	1,171	16	14,302	0.1
≥10 and <20	1,200	6	2,483	0.2
≥20	99	6	3,300	0.2
specific tariff	162	2	1,909	0.1
Total	5,219	136	45,520	0.3

Source: Centre for International Economy.

When classifying all subheadings depending on whether Argentina exports to Israel or not, it can be noticed that most of them do not record any sales (Table 4). In 2006, there were sales to Israel in 766 subheadings. That year, Bovine meat exports (USD 44 million), Maize (USD 20 million) and Soya beans (USD 14 million) stood out. These products accounted for 58% of Argentine sales to Israel.

Table 4
Classification by current trade

Exports to Israel	Number of subheadings	Argentine exports (2006) to Israel	Argentine exports (2006) to the World
		millions of USD	
= 0	4,453	0	20,176
> 0	766	136	25,345
Total	5,219	136	45,520

Source: Centre for International Economy.

To summarize, an important part of current exports would not benefit from the Agreement, and sales are concentrated in few subheadings, where trade could more likely increase in the short run.

3.2. Analysis according to the potential for export variation

Products were classified according to the following indicators for the analysis of subheadings depending on their potential for increase in exports:

1. *Degree of trade complementarity with the partner*. By means of the trade complementary index (TCI)[11] the degree of coincidence of the Argentine export standard with Israel's import structure can be checked. When the TCI is higher than 1, the product shows trade complementarity and, as a consequence, a greater potential to increase its exports

[9] The average tariff for the positions in each subheading was used, pursuant to what Israel submitted during negotiations with MERCOSUR.
[10] It is worth remembering that specific tariffs grant more protection to local products, especially when the prices of import products diminish.
[11] The TCI results after combining a country's export specialization—which is measured by the ratio between the share of the product in the country's exports and the share of the product in the world imports—with the other country's import specialization that is measured by the ratio between the share of the product in the country's imports and the share of the product in world imports.

in view of an improvement in access conditions. Average Argentine exports and Israeli imports during the 2002-2005 period were used to calculate this indicator.

2. *Current level of exports.* A product with a good level of current total exports shows greater integration into the world and more possibilities of benefiting from preferences to access other markets. The threshold of exports taken was USD 1 million.

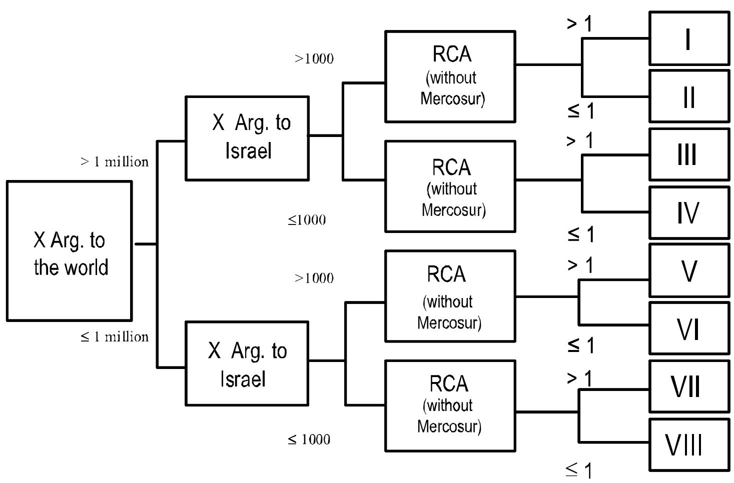
3. *Classification of the partner as current customer*. The potential for an increase in exports is bigger if there have been exports in the last two years—in this case taking USD 1,000 as the minimum threshold—since it is easier to increase sales of those products that have succeeded in accessing a market, even in spite of existing trade barriers. Average Argentine exports to Israel during the 2002-2005 period were used.

4. *Competitiveness excluding MERCOSUR*. If a product has revealed comparative advantage in exports even excluding sales to MERCOSUR, it is believed to be in better competitiveness conditions in third markets. This has been estimated using the index of revealed comparative advantages without MERCOSUR) (RCA without MERCOSUR).[12]

Consequently, those products subject to tariffs lower than 10% were separated first. Those presenting no complementarity (TCI lower than 1) were separated subsequently. The rest were divided into 8 categories according to indicators 2, 3 and 4, as shown by the following diagram. Here category I is the one with the highest potential for increase in exports and VIII the one with the lowest potential.

Diagram 1

Degree of potential increase for exports



Note: subheadings with tariffs ≥ 10% and complemetarity higher than 1
Source: Centre for International Economy.

This classification was made at the level of the subheadings—6 digits of the Harmonized System—which is the highest level of disaggregation at which both countries' tariff nomenclatures are comparable. Since the list of concessions is at the level of the positions—8 digits—the degree of potential increase for exports in each position was assigned on the basis of that of the subheading that encompasses it.

[12] The RCA without MERCOSUR is calculated as the product's share in Argentine extra MERCOSUR exports divided by the share of the product in world imports.

Table 5 shows that only 70 subheadings are in one of the 8 categories with more potential for an increase in exports, although they recorded Argentine exports at almost USD 10 million. According to 2006 data, most of exports (90%) have a tariff lower than 10%—78% of them are duty free. Consequently, the potential increase in the overall value of exports to Israel after a tariff reduction is not very high, which does not hinder the possibility of important increases for some products.

Table 5
Israel offer by category of potential increase for exports

Category	Number of subheadings	Argentine exports (2006)		Argentine exports to Israel/Argentine exports to the World
		to Israel	to the World	
		millions of USD		share in %
I	22	9	2,741	0.3
II	3	0	87	0.1
III	22	0	358	0.0
IV	11	0	178	0.0
V	2	0	3	4.3
VI	0	0	0	0.0
VII	4	0	4	0.0
VIII	6	0	6	0.0
tci < 1	1,229	3	2,405	0.1
tariff < 10%	3,758	122	37,829	0.3
specific tariff	162	2	1,909	0.1
Total	5,219	136	45,520	0.3

Source: Centre for International Economy.

3.3. Agri-products and other products excluded from the Agreement

Products excluded are in the sector of the Agrifood and Fisheries. Out of a total of 5,219 subheadings, 728 correspond to this sector. The Israeli list of concessions contemplates the immediate elimination for all non agrifood products, that is, those in chapters 25 to 97 of the Harmonized System.[13]

The classification of agricultural products was made at the level of the subheadings. Since some subheadings encompass 8-digit positions that receive different treatment in the Israeli list, it was not always possible to allot a single category to each subheading. In order to reduce these problems, subheadings with positions in the categories of tariff elimination were considered of total tax reduction or elimination, since they only differ in the tariff elimination periods. They could not be classified in those cases in which the subheading contains products belonging to different categories with at least one in the category of concession of partial preferences, quota or excluded, that were included in a category denominated “undefined”.

[13] Only four non-agrifood products were excluded: Ovoalbumin (dried and others), lactalbumin, and other albumins.

The Agri-sector exported USD 122 million to Israel in 2006, almost 90% of all foreign sales (Table 6). Subheadings with total elimination (positions with immediate tariff reduction or elimination, in 4, 8 and 10 years) concentrate the highest share of exports (USD 94 million). Fourteen subheadings encompass products that are granted quotas, although 11 of them are within the category undefined since they encompass products belonging to different categories. Out of the 728 subheadings, 357 were excluded.

Table 6
Israel's offer: Agri-food according to elimination category
by subheading

Category	Quantity	Argentine exports (2006)		Argentine exports to Israel/Argentine exports to the World
		to Israel	to the World	
		millions of USD		share in %
Total elimination (1-2-3-4)	282	94	6,100	1.5
Concession of partial preference (5)	14	13	6,091	0.2
Excluded (8)	357	12	4,416	0.3
Tariff-rate quota	3	0	170	0.0
Undefined*	72	4	4,053	0.1
Total	728	122	20,830	0.6

Note: Numbers between brackets correspond to the categories in Table 2.

* 14 subheadings that encompass products with quotas were included among the undefined since they encompass products with different categories.

Source: Centre for International Economy.

The excluded agrifood products with better chances of increasing their exports are those facing tariffs of at least 10% and which Argentina has already exported to the world: a total of 172 subheadings comply with these two criteria and contribute with slightly less than USD 3 million of Argentine sales to the Israeli market.

In turn, 11 out of those 172 subheadings show trade complementarity between Argentine exports and Israeli imports (TCI >1) (Table 7). As a whole, they recorded Argentine sales to Israel of USD 703 thousand in 2006, 88% of which correspond to Milk, in spite of the high tariff on it. Argentina has an average share in overall Israeli imports of 7% and 12% in that product and in Fresh apples respectively.

Table 7
Products excluded with the greatest potential for increase in exports: Classified at the subheading level

Subheading		Category	Argentine exports (2006)		Total imports from Israel 2006	Israeli tariff-quota*
			to Israel	to the World		
			thousands of USD			
40221	Milk and cream	I	619	472,162	8,864	159
81330	Dried Apples	I	50	4,063	411	20
81310	Dried apricots	V	28	1,536	2,978	20
81340	The rest of fruits	I	6	3,469	1,225	20
100820	Millet	VII	0	967	316	10
81210	Cherries	VIII	0	371	331	20
200979	Apple juice	III	0	53,888	4,189	37
350290	Albumins and their by-products	III	0	4,712	512	10
40210	Milk and cream in powder	III	0	48,245	8,753	102
110520	Flakes, granules and "pellets" of potatoes	III	0	5,117	2,945	14
71220	Dried onions	IV	0	1,591	2,567	12
			703	596,120	33,091	

* Six-digit average tariff of the eight-digit positions.

Source: Centre for International Economy.

4. MERCOSUR concessions to Israel

Israel list of concessions made by MERCOSUR classified the entire tariff universe (9,750 lines at the MERCOSUR 8-digit nomenclature) into 6 categories according to the treatment received by each product in order to access its market: 1) immediate elimination of the tariff in force; 2) elimination of tariff over a four-year period; 3) elimination of tariff over an eight-year period; 4) elimination of tariff over a ten-year period; 5) concession of partial preferences; 6) tariff-rate quota; 7) excluded from the Agreement.

In Table 8 it can be observed that 96% of tariff positions—9,700—would enter MERCOSUR duty free (adding the first four categories) and the rest will either receive partial preferences or be excluded. Three items concentrate 43% of the excluded positions: Clothing (17%), Automobiles and parts thereof (14%) and Several products of the chemical industries (13%).

Table 8
Classification of the agreement into categories

	Category	Number of positions	Share in %
1	Immediate elimination	2,395	24.6
2	Tariff elimination over a 4-year period	894	9.2
3	Tariff elimination over an 8-year period	3,413	35
4	Tariff elimination over a 10-year period	2,656	27.2
5	Concession of partial preference	49	0.5
6	Excluded from the agreement	343	3.5
	Total	9,750	100

Source: Centre for International Economy.

On the basis of the 8-digit trade statistics of the MERCOSUR nomenclature, the tariff positions were segmented according to the tariff in force on Israeli products when accessing the MERCOSUR market.

In 2006, Argentina recorded imports[14] from Israel at USD 89 million, accounting for 0.3% of total Argentine imports (Table 9). When accessing the country, 7% of products and imports from Israel are duty free. Similarly, 86% of the remaining products are subject to a tariff lower than 20%—these products' imports represent 91% of purchases to Israel—and only 7% of the products and 2% of imports were subject to a tariff equal to or higher than 20%.

Table 9
Classification by tariff level

Tariff in force	Quantity	Argentine (FOB) imports in 2006		Argentine imports from Israel/ Argentine imports from the World
		from Israel	from the World	
		millions of USD		share in %
0	666	6	3,158	0.2
>0 and <10	2,592	42	4,854	0.9
≥10 and <20	5,762	39	19,209	0.2
≥20	730	2	4,901	0.0
Total	9,750	89	32,123	0.3

Source: Centre for International Economy based on Indec.

In the classification of all the positions of the offer according to whether any imports from Israel were recorded in 2006, it can be seen that there were no imports from Israel during most of that year (Table 10), when there were imports of 763 positions. The products that stood out as imports from that market were Chemicals (organic and inorganic ones) Machinery, Apparatus and Electric material, and Tools and implements. The addition of the 15 first imported products (represented by these items) reached half of Argentine imports from Israel in 2006.

[14] FOB imports (do not include insurance and freight). In order to assess the potential impact on Argentine foreign trade, FOB import values were used to abstract insurance and transportation costs from the simulation results.

Table 10
Classification by current trade

Imports from Israel	Number of 8-digit positions	Argentine exports (2006)	
		from Israel	from the World
		millions of USD	
= 0	8,987	0	24,092
> 0	763	89	8,030
Total	9,750	89	32,123

Source: Centre for International Economy.

5. Impact of the Free Trade Agreement on Argentine trade

The potential for an increase in trade can be noticed when checking the tariff profile of bilateral trade. Almost half of the subheadings and 77.6% of Argentine exports to Israel were duty free when accessing such market—Bovine meat and Maize being the most noticeable, accounting for 48% of total exports—,whereas 22.4% of the subheadings and 11.9% of trade are subject to tariffs higher than 0% but lower than 10% (Table 11).

In the case of Argentine imports from Israel, 6.8% of products and 6.6% of imports are duty free when accessing Argentina; and 26.6% of products and 47.5% of imports are subject to tariffs lower than 10%.

Table 11
Tariff profile of Argentine trade with Israel
percentage distribution by trade in 2006

Tariff in force	Exports to Israel		Imports from Israel	
	products	exports	products	imports
0	49.6	77.6	6.8	6.6
>0 and <10	22.4	11.9	26.6	47.5
≥10 and specific	28.0	10.5	66.6	45.9

Source: Centre for International Economy.

In order to assess the impact that the Agreement could have on Argentine foreign trade, a partial equilibrium simulation exercise was performed, where Argentine export flows to Israel as well as import flows from Israel are modified in view of the change in relative prices generated by the tariff variation.

To that aim, two scenarios were simulated: the least favourable and the most favourable. In the least favourable scenario, it was assumed that per each percentage point of tariff reduction, current trade with Israel grows 1 point (tariff elasticity = 1). In the most favourable scenario, it was assumed that per each percentage point of tariff reduction, current trade with Israel grows 3 points (tariff elasticity = 3).

The following assumptions were taken into account for the exercise:

i) a tariff reduction in Israel will generate an increase in Israeli import demands from Argentina that will be fully provided for by means of an Argentine export supply without discriminating how much constitutes a net increase in Argentine exports and how much constitutes a relocation of sales from other destinations.

ii) a reduction in Argentine tariffs will give rise to an increase in Argentine imports that might be fully supplied for by exports from Israel. It does not discriminate whether there is a shift in purchases from other suppliers or if it constitutes a net increase in total Argentine imports.

iii) there is trade variation only in products traded during the base year. Consequently, there is no simulation of the trade that could take place in those products that did not record any bilateral trade flow in 2006.

iv) products with a non-*ad valorem* tariff were not included, since the simulation demands tariffs expressed in percentages.

The impact on exports to Israel is shown in the first place, and then the impact on imports from Israel.

5.1. Potential impact on Argentine exports to Israel

In order to assess this impact, the partial equilibrium exercise performed consisted in simulating a total reduction in tariffs for all products, even those that have been excluded from this Agreement. This would give an idea of the most positive effect of a total reduction in tariffs still in force to access the Israeli market (according to the model used) for Argentine products. This exercise was performed using values 1 and 3 for the tariff elasticity. A valuation exercise performed on products traded through a quota is subsequently introduced.

Products are grouped into three major categories: defined included, defined excluded and undefined (Table 12). This division is used due to the fact that differences between Argentine and Israeli lists at an 8-digit level made it necessary to work at a 6 digit level—subheading—in order to reconcile the Israeli offer with Argentine export figures. This aggregation poses the inconvenience already mentioned which is that many subheadings include 8-digit positions that can receive different treatment regarding tariff reduction. Consequently, those "defined", whether included or excluded, are subheadings that encompass products receiving the same treatment; if, within those defined and included there are subheadings with products of different categories but where all of them receive some form of concession, said subheadings were included in the sub-category of "non-separable"; if the subheading encompasses products included and excluded from the Agreement, they were placed under the category of "undefined"[15]. In the exercise for the undefined, the variation simulated for exports might be overestimated if the 8-digit products with no tariff elimination or reduction encompass an important part of trade in the subheading, or the increase in sales might be underestimated if those products with tariff reduction or elimination represent the biggest part of exports to Israel for said subheading.

The subheadings encompassing those products traded through a quota that, in 2006, accounted for 30%—USD 1.5 million—of exports in that category, and 1% of total exports to Israel can be found under the "undefined" category.

In the case of those defined included in the category with a specific tariff, Israel's concession will take 22 of those 23 products to a 0% tariff upon entry into force of the Agreement. For the remaining product (Bovine meat) MERCOSUR is granted a concession equal to 50 % of the Most Favoured Nation (MFN) tariff.

Table 12 reflects the relative impact that the overall tariff reduction would have on Argentine exports to Israel, according to the different treatment of tariff reduction or elimination offered by Israel to MERCOSUR. It can be observed as follows:

i) the results indicate that the changes in trade will not have a significant impact on overall Argentine exports to Israel. In the most favourable scenario and without the defined excluded subheadings, total exports would increase by 3%, that is, USD 3.88 million, on the basis of exports to Israel at almost USD 128 million in 2006. In the same scenario though with the defined excluded subheadings, the increase would be by 9% (USD 12.4 million). This is due to the following facts:

a) three fourths of current sales will not vary after the Agreement since they already access the Israeli market duty free (current zero-Tariff category).

b) besides, the tariffs in force for the simulated products are not high—reaching an average 8.4%—and many of these products are not exported from Argentina to Israel, which also influences the magnitude of the impact of the tariff change.

c) these results do not include the likely exports through tariff-rate quotas, which are presented in Table 15.

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[15] On the basis of the analysis of the correspondence between the Argentine and the Israeli nomenclatures and of trade in the various products involved, some undefined cases could be corrected, placing those subheadings that were originally undefined in the "defined" category.

ii) the greatest potential growth in Argentine exports would be for those products that were excluded from the Agreement. Said products correspond to the agricultural chapters.

Table 12
Changes in Argentine exports to Israel
in thousands of USD and percentages

Categories	Exports from Argentina to Israel in 2006		Changes in exports			
			Least favourable scenario		Most favourable scenario	
	quantity subheading	thousands of USD	thousands of USD	% change	thousands of USD	% change
Defined included	4,812	122,876	751	1	2,252	2
Current zero tariff	2,585	105,722	0	0	0	0
Immediate elimination	2,167	10,798	496	5	1,487	14
Elimination over a 4- to 8-year period	12	218	26	12	78	36
Partial preference	6	4,287	184	4	553	13
With a specific tariff	23	968	n.a.	n.a.	n.a.	n.a.
Tariff-rate quota	14	63	n.a.	n.a.	n.a.	n.a.
Non-separable**	5	821	45	5	134	16
Undefined*	75	5,082	543	11	1,629	32
Without a speciff tariff	68	4,924	543	11	1,629	33
With a specific tariff	7	158	n.a.	n.a.	n.a.	n.a.
Defined excluded	332	8,297	2,848	38	8,544	115
With *ad valorem tariff*	205	7,412	2,848	38	8,544	115
With a specific tariff	127	885	n.a.	n.a.	n.a.	n.a.
Total						
Without defined excluded	4,887	127,958	1,294	1	3,881	3
With defined excluded	5,219	136,255	4,142	3	12,425	9

* This category includes those products that, at 8 digits, have different elimination schedules, and for which it was not possible to determine a single schedule at the disaggregation level due to the fact that the information had to be aggregated at 6 digits. To that aim, they were divided between those subheadings that contain products with a specific tariff and those that do not.
** This group is constituted by subheadings made up of the combination of the different groups of the Defined included category.
Least favourable scenario: Tariff elasticity = 1.
Most favourable scenario: Tariff elasticity = 3.
n.a.: not applicable.
Source: Centre for International Economy.

In the separation by item, it can be noticed that (Table 13):

i) 71% of the potential variation of exports—without defined excluded—is due to the agricultural products, in keeping with the high share (90%) of the agri-sector in Argentine exports to Israel; with those defined excluded, the agri-sector represents 91% of the potential variation in exports.

ii) in the most favourable scenario, agricultural exports could grow between 2% and 9%, while non-agricultural exports would do so by approximately 8%.

iii) since there are no excluded products in non-agricultural items, they do not pose the difficulty of having undefined subheadings.

Table 13
Changes in Argentine exports to Israel by item
in thousands of USD

Categories	Agri- Exports from Argentina to Israel in 2006	Agri- Least favourable scenario	Agri- Most favourable scenario	Non-agri- Exports from Argentina to Israel in 2006	Non-agri- Least favourable scenario	Non-agri- Most favourable scenario
Defined included	109,057	371	1,112	13,819	380	1,140
Current zero tariff	99,829	0	0	5,893	0	0
Immediate elimination	2,873	116	347	7,926	380	1,140
Elimination over a 4- to 8-year period	218	26	78	0	0	0
Partial preference	4,287	184	553	0	0	0
With a specific tariff	968	n.a.	n.a.	0	n.a.	n.a.
Tariff-rate quota	63	n.a.	n.a.	0	n.a.	n.a.
Non-separable**	821	45	134	0	0	0
Undefined*	5,082	543	1,629	0	0	0
Without a speciff tariff	4,924	543	1,629	0	0	0
With a specific tariff	158	n.a.	n.a.	0	n.a.	n.a.
Defined excluded	8,287	2,848	8,544	9	0	0
With *ad valorem tariff*	7,412	2,848	8,544	0	0	0
With a specific tariff	875	n.a.	n.a.	9	n.a.	n.a.
Total						
Without defined excluded	114,139	913	2,740	13,819	380	1,140
With defined excluded	122,426	3,762	11,285	13,829	380	1,140

* This category includes those products that, at 8 digits, have different elimination schedules, and for which, it was not possible to determine a single schedule at the disaggregation level due to the fact that the information had to be aggregated at 6 digits. To that aim, they were divided between those subheadings that contain products with a specific tariff and those that do not.
** This group is constituted by subheadings made up of the combination of the different groups of the Defined included category.
Least favourable scenario: Tariff elasticity = 1
Most favourable scenario: Tariff elasticity = 3
n.a.: not applicable
Source: Centre for International Economy.

Table 14 shows the products with the highest increase in exports in the least favourable and most favourable scenarios. In both cases, Grapefruit juice and Orange juice present the highest absolute growth, with increases in their sales of USD 448 thousand and USD 326 thousand in the least favourable scenario, and USD 1.3 million and USD 977 thousand in the most favourable scenario respectively. Lemon Juice, Peanuts, Maize oil, Soya oil and Wheat are other products recording relevant increases.

Table 14
Subheadings with the highest increases in Argentine exports to Israel
Least and most favourable scenarios
in thousands of USD and percentages

Subheading	Argentine exports to Israel in 2006 in thousands of USD	Change in exports			
		Least favourable scenario		Most favourable scenario	
		thousands of USD	% change	thousands of USD	% change
200929 Grapefruit juice	1,793	448	25.0	1,345	75.0
200911 Orange juice	1,302	326	25.0	977	75.0
200939 Lemon juice	1,621	194	12.0	583	36.0
200811 Peanuts	974	169	17.3	506	52.0
151529 Maize (corn) oil, other than crude	2,717	109	4.0	326	12.0
150790 Soya oil, other than crude	2,531	101	4.0	304	12.0
100190 Wheat excluding durum and maslin	402	100	25.0	301	75.0
870421 Motor vehicles for the transportation of goods less than or equal to 5 tons	2,980	95	3.2	284	9.5
200799 Preparations of fruit	938	94	10.0	281	30.0
170490 Sugar confectionery not containing cocoa	752	90	12.0	271	36.0

Note: only includes subheadings encompassing 8-digit positions included in the Israeli offer to MERCOSUR
Least favourable scenario: Tariff elasticity = 1
Most favourable scenario: Tariff elasticity = 3
Source: Centre for International Economy.

Included in the simulation in Table 15 are those products which were not exported from Argentina to Israel in 2006 but which, however, might start to record some trade as a result of the Agreement.

To that aim, Israel's share in 2006 overall Argentine exports was taken for each section of the Harmonized System, and it was considered that sales to Israel of each subheading will have the same share in the total exported of that subheading as exports from the section said subheading belongs to. This method was called "share in the section".

This calculation was applied to products that were traded and not traded in 2006. For simulation purposes, in the case of products that recorded trade, the result yielding the highest value between the method of "share in the section" and of tariff elasticity equal to 1 was the one used. This constitutes a combined scenario.

In Table 15 it can be observed that:

i) the greatest potential growth of Argentine exports would be in those products with immediate tariff reduction or elimination. These products belong to the Agricultural Chapters and, to a lesser extent, to Ores and Organic and inorganic chemicals.

ii) the results show that without the excluded defined subheadings, exports would increase by 14%, that is, USD 17.8 million, on the basis of exports to Israel at almost USD 128 million in 2006. With the defined excluded subheadings, the increase would be of 19% (USD 26.3 million).

Table 15
Changes in Argentine exports to Israel
in thousands of USD and percentages

Categories	Exports from Argentina to Israel in 2006		Changes in exports Combined Scenario*	
	quantity subheading	thousands of USD	thousands of USD	% change
Defined included	4,812	122,876	16,193	13
Current zero tariff	2,585	105,722	31,842	30
Immediate elimination	2,167	10,798	15,615	145
Elimination over a 4- to 8-year period	12	218	212	97
Partial preference	6	4,287	232	5
With a specific tariff	23	968	n.a.	n.a.
Tariff-rate quota	14	63	n.a.	n.a.
Non-separable**	5	821	134	16
Undefined***	75	5,082	1,629	32
Without a speciff tariff	68	4,924	1,629	33
With a specific tariff	7	158	n.a.	n.a.
Defined excluded	332	8,297	8,544	115
With *ad valorem tariff*	205	7,412	8,544	115
With a specific tariff	127	885	n.a.	n.a.
Total				
Without defined excluded	4,887	127,958	17,822	14
With defined excluded	5,219	136,255	26,366	19

* In order to include in the simulation the potential change in those products not recording trade between Argentina and Israel in 2006, Israel's share in Argentine exports to the world in each section of the Harmonized System in 2006 was taken, and it was considered that sales to Israel in each subheading will have the same share in the total exported of this subheading as exports of the section to which said subheading belongs to. This method was called "share in the section" . This calculation was applied to products that were traded and not traded in 2006. In the case of traded products the result yielding the highest value between the "share in the section" method and the tariff elasticity equal to 1 was used.
** This group is constituted by subheadings made up of the combination of the different groups of the Defined included category.
*** This category includes those products that, at 8 digits, have different elimination schedules, and for which, it was not possible to determine a single schedule at the disaggregation level due to the fact that the information had to be aggregated at 6 digits. To that aim, they were divided between those subheadings that contain products with a specific tariff and those that do not.
n.a.: not applicable
Source: Centre for International Economy.

Frozen shrimps and prawns, with an increase in sales to Israel of USD 7.8 million, is the item presenting the highest potential increase in exports in the combined scenario (Table 16). Other products with important increases in sales are Aquatic invertebrates and Soya flour.

Among those products which were not exported to Israel in 2006 but which could be are Soya oil, Sunflower oil and Polymers of ethylene.

Table 16
Subheadings with the highest increases in Argentine exports to Israel
Combined Scenario
in thousands of USD and percentages

Subheading	Argentine exports to Israel in 2006 in thousands of USD	Change in exports combined scenario	
		thousands of USD	% change
30613 Shrimps, prawns and the like, frozen	108	7,828	7,281.7
150710 Soya oil	0	7,456	n.a.
30799 Aquatic invertebrates, fresh or chilled	1	3,659	446,767.3
230400 Soya flour	6,063	3,367	55.5
40900 Natural honey	3	3,309	101,414.6
870323 Motor vehicles > 1500 cm3 but ≤ 3000 cm3	4	2,316	55,564.5
30379 Frozen fish	171	2,131	1,248.7
30729 Scallops, including queen scallops and mollusks, fresh or chilled	4	1,777	42,502.1
151211 Sunflower oil	0	1,709	n.a.
390190 Polymers of ethylene in primary forms	0	1,036	n.a.

Note: only includes subheadings encompassing 8-digit positions included in the Israeli offer to MERCOSUR
Least favourable scenario: Tariff elasticity = 1
Most favourable scenario: Tariff elasticity = 3
n.a.: not applicable
Source: Centre for International Economy.

For those products with quotas, a valuation exercise was performed on the quota by calculating its gross value, that is, by multiplying the allocated volume by the average export price. This calculation assumes: i) that the whole quota volume shall be demanded; ii) that all the allocated volume shall be sold; iii) that the price at which it shall be sold will be similar to the one used; iv) since there is no quota distribution between MERCOSUR Member States, the allocation is fixed on the basis of the share of Argentine exports in overall exports of each product analysed from the four MERCOSUR Member States to the world.

From this exercise it can be derived that (Table 17):

i) the gross value of quotas is slightly above USD 11 million. As exports of these products were of USD 826 thousand in 2006, sales could increase almost thirteen fold.

ii) the most important products are Wheat—of which sales would increase from USD 123 thousand in 2006 to over USD 6 million if the quota could be covered—and Wheat flour—a product that was not exported in 2006.

iii) exports with a quota could add, in the best of cases, a little less than USD 10 million to the overall export increase introduced in Tables 12 and 13. This would make total exports increase by between 9 and 11 percentage points, depending on the simulated scenario.

Table 17
Gross value for Argentina of the quotas offered by Israel

product [a]		quota for MERCOSUR (in tons)	(%) Argentine share in MERCOSUR quota [b]	Argentine quota (in tons)	average price Argentine exports to the world 2004-2006 (USD/ton.) [c]	quota gross value (USD)	Argentine exports to Israel 2006 (in USD)
		(1)	(2)	(3 = 2 * 1)	(4)	(5 = 3 * 4)	(6)
30269	Other fish, fresh or chilled	200	50	100	853	85,620	0
040291 and 040299	Condensed milk	50	0.03	0	1,409	21	0
40900	Natural honey	200	76	153	1,470	224,822	0
70990	Sweet corn (vegetable)	300	32	97	287	27,904	0
71320	Chickpeas	400	99	398	782	311,095	50,131
80300	Bananas or plantains	100	0.04	0	217	9	0
80450	Guavas, mangoes and mangosteens	300	0	0		0	0
80711	Watermelons, fresh	100	3	3	173	440	0
80720	Papaws (papayas), fresh	100	0	0		0	0
80810	Fresh apples	500	68	341	463	158,089	0
90411	Pepper, neither crushed/ground	50	0.01	0	3,221	19	0
100110 and 100190	Wheat	50,000	90	45,085	137	6,166,867	123,522
110100	Wheat flour	10,000	72	7,224	228	1,644,744	0
110220	Maize flour	200	45	91	198	17,976	33,313
120600	Seeds of sunflower	300	36	109	592	64,355	0
160413 and 160414	Prepared sardines and tuna	300	0.04	0	3,911	432	0
160419 and 160420	The rest of fish preserves	150	39	58	1,840	106,986	16
160430	Caviar and caviar substitutes	50	0	0		0	0
160540	Other crustaceans, preserved	150	77	116	6,834	789,976	0
200590	Vegetables, preserved	600	72	431	782	336,799	968
200799	Other preparations of fruits	800	78	621	854	529,740	618,863
200840	Pears, preserved	500	99	497	539	268,085	0
200870	Peaches, preserved	500	94	472	724	341,923	0
200980	Other fruit juices	300	42	126	790	99,194	0
	Total					11,175,097	826,813

Notes:
a. In order to bring into line the MERCOSUR nomenclature with the Israeli nomenclature, products were used at the level of subheadings.
b. The share of the quota for Argentina was made on the basis of its share in MERCOSUR exports of each product to the world, 2004-2006 average.

c. When in a quota there is more than 1 product, the price of the product most imported by Israel to the world is used, assuming that it should be the one having the greatest share in that quota; in these cases, it coincides with the one most exported by Argentina to the world.
Source: Centre for International Economy based on INDEC and Comtrade.

5.2. Potential impact on Argentine imports from Israel

In order to assess this impact, a partial equilibrium exercise was performed using the same methodology as in the case of exports. The tariff elasticity values used were also 1 and 3.

As can be observed in Table 18, the results indicate that the effect on exports from Israel to Argentina is greater than that observed in the previous case. The greatest impact on exports from Israel to Argentina would be given by those products with a 4- to 10-year tariff elimination schedule. Absolute growth of total Argentine imports from Israel would reach, in the most favourable scenario, almost USD 23 million if excluded products were left aside thus representing 29% of current imports. This amount is USD 19 million higher than that observed for Argentine exports to Israel in the same scenario.

Table 18
Changes in Israel's exports to Argentina
in thousands of USD and percentages

Categories	Exports from Israel to Arg in 2006*	Changes in exports			
		Least favourable scenario		Most favourable scenario	
	thousands of USD	thousands of USD	% change	thousands of USD	% change
Current zero tariff	5,867	0	0	0	0
Immediate elimination (Cat. A)	7,884	158	2	473	6
Elimination over a 4- to 10- year period (Cat. B, C and D)	65,085	7,497	12	22,491	35
Partial preference	19	0	0	1	0
Excluded	10,068	887	1	2,661	1
Total					
Without excluded	78,854	7,655	10	22,965	29
With excluded	88,923	8,542	10	25,627	29

* Argentine FOB imports from Israel were taken as if they were Israel's exports to Argentina
Least favourable scenario: Tariff elasticity = 1
Most favourable scenario: Tariff elasticity = 3
Source: Centre for International Economy.

Table 19 shows the products with the highest increases in imports in the least favourable and most favourable scenarios. In both cases, Superphosphates and Interchangeable plates or sticks of cermet present the highest absolute increases, with rises in their imports of USD 662 thousand and USD 546 thousand in the least favourable scenario and USD 1.9 million and USD 1.6 million in the most favourable scenario respectively. Endosulfan, Irrigators and irrigation systems and Therapeutic and prophylactic drugs are other products that underwent important increases.

Table 19
Subheadings recording the highest increase in Argentine imports from Israel
in thousands of USD and percentages

Subheading	Argentine imports from Israel in 2006 in thousands of USD	Change in imports			
		Least favourable scenario		Most favourable scenario	
		thousands of USD	% change	thousands of USD	% change
31031030 Superphosphates with phosphorus pentoxide content (P2O5) > 45 %	11,041	662	6.0	1,987	18.0
82090011 Interchangable plates or sticks of cerment	3,410	546	16.0	1,637	48.0
29209021 Endosulfan	2,591	311	12.0	933	36.0
84248129 Irrigators and irrigation systems, excluded by sprinkling	2,008	281	14.0	843	42.0
30049099 Therapeutic and profilactic drugs	3,505	280	8.0	841	24.0
85299019 Parts of radio or television apparatus	3,249	260	8.0	780	24.0
85252090 Transmission apparatus for radio-telephony/radio-telegraphy/radio-broadcasting or television	1,603	256	16.0	769	48.0
54024110 The rest of yarn other than high tenacy/textures yarn	1,582	253	16.0	759	48.0
84151011 Window/ wall type air-conditioning machines self-contained/split-system	1,155	208	18.0	624	54.0
40116100 New pneumatic tyres, of rubber, having a herringbone/sim. tread of a kind	1,296	207	16.0	622	48.0

Note: only includes 8-digit positions included in the MERCOSUR offer to Israel
Least favourable scenario: Tariff elasticity = 1
Most favourable scenario: Tariff elasticity = 3
Source: Centre for International Economy.

5.3. Consolidated impact

To conclude with, this section introduces the consolidated results of the simulation of Argentina's trade balance with Israel. To that aim, there is a comparison of the simulated scenarios with 1 and 3 tariff elasticity. These scenarios were analysed both for exports and for imports.[16]

The summary of the analysis performed is presented in Table 20, where it can be seen that:

i) the Agreement encompasses almost all the bilateral trade: the products excluded represent only 6% of the value of Argentine exports to Israel and 11% of imports; nevertheless, approximately 80% of Argentine sales to Israel during the year 2006 would not benefit from the Agreement since they currently enter Israel duty free. In turn, more than 80% of 2006 Argentine imports originating from Israel will become duty free, since the tariffs applied on them will be eliminated (either immediately or in a staged manner).

ii) Argentine exports to Israel of products with tariff reduction or elimination would grow between USD 1.3 million (6%) and USD 3.9 million (17%), depending on the scenario, to which USD 10.3 million must be added as a result of sales through new tariff-rate quotas for agricultural products. This results in a total between USD 11.6 million (8%) and USD 14.2 million (10%).

It is worth noting that in those products that undergo tariff elimination and would not access via quotas, 2006 Argentine exports to the world were of USD 12.01 billion, whereas in products with a quota they were of USD 1.91 billion;

iii) imports from Israel would increase by slightly more than USD 7 million (9%) at least and up to almost USD 23 million (26%);

iv) the bilateral trade balance would increase by almost USD 4 million in the least favourable scenario and would decrease by USD 8.7 million in the most favourable scenario.

Table 20
Changes in Argentine trade with Israel

	Trade with Israel		Change in trade			
			Least favourable scenario:		Most favourable scenario:	
	thousands of USD	share in %	thousands of USD	% change	thousands of USD	% change
Argentine exports						
products with current tariff = 0	105,751	77	0	0	0	0
products with current tariff > 0, no quotas	22,205	16	1,293	6	3,880	17
products with current tariff > 0, with quotas	827	1	10,348	1,252	10,348	1,252
excluded products	8,299	6	0	0	0	0
Total	137,082	100	11,642	8	14,229	10
Argentine imports						
products with current tariff = 0	5,867	7	0	0	0	0
products with current tariff > 0	72,988	82	7,655	10	22,965	31
excluded products	10,068	11	0	0	0	0
Total	88,923	100	7,655	9	22,965	26
Trade Balance	48,159		3,987	8	-8,737	-18

Note: Only contemplates the change in sales of traded products.
Least favourable scenario: Tariff elasticity = 1
Most favourable scenario: Tariff elasticity = 3
Source: Centre for International Economy.

In all cases it is worth noting that it does not simply consist in a change in relative prices on the basis of a tariff reduction. The Agreement also implies having the certainty that tariffs applied to bilateral trade shall not be modified. This greater certainty and previsibility, apart from favouring bilateral trade in the short term, are at the same time favouring investment and an increase in the productive capacity to export to this new trade partner's market.

16 The results of the potential change in those products not traded in 2006 are not used, since the simulation for import variation could not be performed. This was due to the lack of compatibility between the Israeli tariff nomenclature and the MERCOSUR Common Nomenclature at the necessary disaggregation level.