

# CRS Report for Congress

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## Arab League Boycott of Israel

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### Summary

The Arab League has maintained an official boycott of Israeli companies and Israeli-made goods since the founding of Israel in 1948. The United States actively opposes the boycott and works on both bilateral and multilateral fronts to end it. The U.S. government also enforces laws that prohibit U.S. firms from participating in the boycott. This report will be updated as events warrant.

The Arab League is an umbrella organization comprising 23 Middle Eastern and African countries and entities.<sup>1</sup> The League was founded in 1944, and in 1945 began a boycott of Zionist goods and services in the British mandate territory of Palestine. In 1948, following the war establishing Israel's independence, the boycott was formalized against the state of Israel and broadened to include non-Israelis who maintain economic relations with Israel or who are perceived to support it. The boycott is administered by the Damascus-based Central Boycott Office (CBO), a specialized bureau of the Arab League.

The U.S. government has often been at the forefront of international efforts to end enforcement of the boycott and to seek the Arab League's revocation of it. U.S. legislative action related to the boycott dates from 1959 and includes multiple statutory provisions expressing U.S. opposition to the boycott, usually in foreign assistance legislation. In 1965, mandatory reporting of any requests for U.S. companies to participate in the boycott was adopted. In 1977, Congress passed laws making it illegal for U.S. companies to cooperate with the boycott and authorizing the imposition of civil and criminal penalties against U.S. violators. In addition, taxpayers who cooperate with the boycott are subject to the loss of tax benefits that the U.S. government provides to exporters. U.S. regulations define cooperating with the boycott as: (1) agreeing to or actually refusing to do business in Israel or with a blacklisted company; (2) agreeing to or actually discriminating against other persons based on race, religion, sex, national origin or nationality; (3) agreeing to or actually furnishing information about business

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<sup>1</sup> Members are: Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syria, Yemen, Libya, Sudan, Morocco, Tunisia, Kuwait, Algeria, United Arab Emirates, Bahrain, Qatar, Oman, Mauritania, Somalia, Palestinian Authority, Djibouti, and Comoros. In 2003, Eritrea joined the Arab League as an observer.

relationships in Israel or with blacklisted companies; and (4) agreeing to or actually furnishing information about the race, religion, sex, or national origin of another person.

The U.S. government participates in bilateral and multilateral negotiations with Arab League members regarding the boycott. Members of Congress periodically introduce legislation condemning the boycott and calling for increased antiboycott efforts. Most recently, Representative Clay Shaw introduced a concurrent resolution (H.Con.Res. 370) expressing the sense of Congress that Saudi Arabia, which joined the World Trade Organization (WTO) in 2005, is not living up to its WTO commitments by continuing to support the boycott. The resolution passed the House unanimously on April 5, 2006.

## **Status of the Boycott and its Enforcement**

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

The Arab League does not enforce the boycott itself and boycott regulations are not binding on member states. However, the regulations have been the model for various laws implemented by member countries. Under the League's recommendations, member countries should demand certificates of origin on all goods acquired from suppliers to ensure that such goods meet all aspects of the boycott.

Overall enforcement of the boycott by member countries is sporadic. Some Arab League members have limited trading relations with Israel. The Arab League does not formally or publicly state which countries enforce the boycott and which do not. Some Arab League member governments have maintained that only the Arab League, as the formal body enforcing the boycott, can revoke the boycott. Nonetheless, adherence to the boycott is an individual matter for each Arab League member and enforcement varies by state.

There are indications that some member countries publicly support the boycott while continuing to quietly trade with Israel. According to Doron Peskin, head of research at InfoProd, a consulting firm for foreign and Israeli companies specializing in trade to Arab states, "the Arab boycott is now just lip service."<sup>2</sup> This sentiment has been echoed by Arab officials, albeit anonymously. One official commented to the Egyptian newspaper *Al-Ahram* that, "boycotting Israel is something that we talk about and include in our

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<sup>2</sup> Orly Halpern, "Arab Boycott Largely Reduced to 'Lip Service,'" *Jerusalem Post*, February 28, 2006.

official documents but it is not something that we actually carry out — at least not in most Arab states.”<sup>3</sup>

Others note that enforcement of the boycott waxes and wanes with the level of intensity of the Israeli-Palestinian issue and that currently interest in boycott enforcement among Arab countries may be increasing. A possible harbinger of increased boycott activity was a March 2006 meeting of the Organization of the Islamic Conference in Saudi Arabia which brought together officials from several Middle Eastern foreign ministries to discuss measures, regulations, and conditions for boycotting Israeli products.<sup>4</sup>

Some states and entities have formally ended the boycott, or at least some aspects of it. Egypt (1979), the Palestinian Authority (1993), and Jordan (1994) signed peace treaties or agreements that ended the boycott.<sup>5</sup> Mauritania, which never applied the boycott, established diplomatic relations with Israel in 1999. In addition, Algeria, Morocco, and Tunisia do not enforce the boycott.<sup>6</sup> In 1994, the member countries of the Gulf Cooperation Council (GCC) — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates — announced that they would only enforce the primary boycott and in 1996, recognized that total elimination of the boycott is a necessary step for peace and economic development in the region. However, U.S. companies continue to receive requests to cooperate with the boycott from GCC member countries.

Since the boycott is sporadically applied and ambiguously enforced, its effectiveness, measured by capital or revenue denied to Israel by companies adhering to the boycott, is difficult to measure. The effect of the primary boycott appears limited since intra-regional trade is small.<sup>7</sup> Nonetheless, there is some limited trade between Israel and its Arab neighbors. In 2004, according to the Manufacturers Association of Israel (IMA), Israeli exports to Arab countries (mainly Egypt, Jordan, and the Palestinian Authority) totaled \$192 million.<sup>8</sup> Enforcement of the secondary and tertiary boycotts have decreased over time reducing their effect. This can be seen by a 1996 study that looked at the effect of the Arab boycott on the Israeli economy through the automobile market. Following a relaxation of boycott enforcement in the late 1980s through the early 1990s, foreign countries began exporting cars to Israel for the first time. The study found that if the

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<sup>3</sup> Dina Ezzat, “Boycott Israel? Not so simple,” *Al-Ahram Weekly Online*, April 11-17, 2002.

<sup>4</sup> “World Islamic body meets to discuss boycott of Israeli goods,” *BBC Monitoring Middle East*, March 14, 2006.

<sup>5</sup> Egyptian-Israeli peace treaty, March 26, 1979, Article III, paragraph 3; Treaty of Peace between the State of Israel and the Hashemite Kingdom of Jordan, October 26, 1994, Article 7, Section 2, paragraph a; Declaration of Principles, September 10, 1993.

<sup>6</sup> *2006 National Trade Estimate Report on Foreign Trade Barriers*, United States Trade Representative, March 31, 2006.

<sup>7</sup> For an overview of intra-regional trade, see Hassan Al-Atrash and Tarik Yousef, “Intra-Arab Trade: Is it Too Little?,” World Bank Working Paper WP/00/10, January 2000.

<sup>8</sup> “Exports from Israel Up, Up, Up!,” *Bridges for Peace*, June 27, 2005. U.S. efforts to increase trade in the region include the Qualified Industrial Zone (QIZ) program, which allows goods jointly produced by Israel and either Jordan or Egypt to enter the United States duty free. See CRS Report RS22002, *Qualifying Industrial Zones in Jordan and Egypt*, by Mary Jane Bolle, Alfred Prados, and Jeremy M. Sharp.

boycott had continued to be enforced, and these cars did not enter the Israeli market, the Israeli car market would have been 12% smaller leading to a \$790 price increase per car. Total welfare loss for the study year, 1994, would have been \$89 million.<sup>9</sup> Thus it appears that since intra-regional trade is small, and that the secondary and primary boycotts are not aggressively enforced, the boycott does not currently have an extensive effect on the Israeli economy.

## **U.S. Activity to End the Arab League Boycott of Israel**

The U.S. government officially opposes the boycott and works to end its enforcement. For many years, language has been included in the foreign operations appropriations acts concerning the boycott. Section 535 of *the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006* (P.L. 109-102), states that: (1) it is the sense of Congress that the Arab League boycott is an impediment to peace in the region and to United States investment and trade in the region; (2) the boycott should be revoked and the CBO disbanded; (3) all Arab League states should normalize relations with Israel; and (4) the President and the Secretary of State should continue vigorously to oppose the boycott and encourage Arab states to assume normal trading relations with Israel. U.S. embassies and government officials raise the boycott with host country officials, noting the persistence of illegal boycott requests and the impact on both U.S. firms and on the countries' ability to expand trade and investment.

The U.S. government also works to end the boycott through negotiating bilateral trade agreements and through WTO accession agreements. In 2005 and 2006, respectively, Bahrain and Oman agreed to drop the boycott as a provision of their free trade agreements (FTA) with the United States. The United States is also negotiating an FTA with the United Arab Emirates, and their enforcement of the boycott has been a contentious issue during the negotiations. Finally, Saudi Arabia officially dropped the boycott as a condition of joining the World Trade Organization in December 2005. However, it appears that these countries may continue to sporadically enforce the boycott despite their pledges to abandon it. U.S. companies continue to receive requests to participate in the boycott from all of these countries, and Saudi Arabia has discussed increasing boycott efforts against Israel despite their WTO obligations.<sup>10</sup>

**U.S. Antiboycott Laws.** The United States passed antiboycott legislation in the late 1970s to discourage U.S. individuals from cooperating with the secondary and tertiary boycotts.<sup>11</sup> These laws are currently included in the Export Administration Act

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<sup>9</sup> Chaim Fershtman and Neil Gandal, "The Effect of the Arab Boycott on Israel: The Automobile Market," Tel Aviv University, January 1996.

<sup>10</sup> CRS Report RS21846, *U.S.-Bahrain Free Trade Agreement*, by Martin A. Weiss; CRS Report RL33328, *Proposed U.S.-Oman Free Trade Agreement*, by Mary Jane Bolle; and CRS Issue Brief IB93113, *Saudi Arabia: Current Issues and U.S. Relations*, by Alfred B. Prados. See also CRS Issue Brief IB82008, *Israel: Background and Relations with the United States*, by Carol Migdalovitz.

<sup>11</sup> Although U.S. legislation and practices were designed to counteract the Arab League boycott of Israel, in practice, they apply to all non-sanctioned boycotts.

of 1979 (EAA) and the Ribicoff Amendment to the Tax Reform Act of 1976 (TRA).<sup>12</sup> The export-related antiboycott provisions are administered by the Department of Commerce and prohibit U.S. persons from participating in the boycott. The Internal Revenue Service (IRS) administers tax-related antiboycott regulations that deny tax benefits to U.S. taxpayers that participate in the boycott.

**Export-Related Antiboycott Legislation.** Regulations included in section 8 of the EAA prohibits any U.S. person or company from complying with an unsanctioned foreign boycott and requires them to report requests to comply with a boycott they have received. Such requests must be reported quarterly to the Department of Commerce's Office of Antiboycott Compliance (OAC) in the Bureau of Industry and Security (BIS). These regulations are implemented in part 760 of the Department of Commerce's Export Administration Regulations (EAR).

The EAA prescribes penalties that may be imposed for violation of the antiboycott regulations. Civil penalties for violating the antiboycott provisions are a maximum fine of \$10,000 per violation and a potential loss of export privileges for a period of time. Particularly egregious cases may be referred to the Department of Justice for criminal prosecution. Criminal penalties imposed for each violation can include a fine of up to \$50,000 or five times the value of the exports involved, whichever is greater, or imprisonment for up to five years, or both. Willful violations, where the violator has knowledge that the items are also intended for any country to which exports are restricted for national security or foreign policy purposes, are punishable by fines up to \$250,000 or imprisonment for up to ten years.

The Commerce Department reports that between October 2004 and September 2005, U.S. individuals reported 1,037 requests for boycott information from 20 countries, including both members and non-members of the Arab League (**Table 2**). The UAE is the largest requester of compliance with the boycott with 408 requests during the time period.

**Table 2. Boycott Requests Received by U.S. Companies**  
(October 2004 - September 2005)

Country	Number of Requests to Comply with the Secondary and Tertiary Boycotts
United Arab Emirates (UAE)	408
Other (Algeria, India, Iran, Malaysia, Nigeria, Oman, Pakistan, Tunisia, and Yemen)	251
Lebanon	84

<sup>12</sup> Section 8 of The Export Administration Act of 1979 (P.L. 96-72; 50 U.S.C. app. §2407) has expired but its provisions are continued under the authorization granted to the President in the National Emergencies Act (NEA) (P.L. 94-412; 50 U.S.C. §1601-1651) and the International Economic Emergency Powers Act (IEEPA) (P.L. 95-223; 50 U.S.C. app. §2407), most recently under Executive Order 13222 signed August 17, 2001 (66 F.R. 44025, August 22, 2001). Export regulations are at 15 C.F.R. 760.1 et seq. The Ribicoff Amendment to the Tax Reform Act of 1976 (P.L. 94-455) added section 999 to the Internal Revenue Code of 1986, as amended (26 U.S.C. §1 et seq). Tax regulations are at 26 C.F.R. §7.999-1.

Country	Number of Requests to Comply with the Secondary and Tertiary Boycotts
Qatar	65
Saudi Arabia	62
Kuwait	55
Syria	51
Bahrain	22
Libya	22
Iraq	8
Egypt	5
Jordan	4
<b>Total</b>	<b>1037</b>

**Source:** Department of Commerce.

In 2005, the Commerce Department reported closing cases against five companies for violations of U.S. antiboycott laws. The violations included furnishing prohibited business information to boycott-enforcing countries and failing to report boycott-related requests. The civil penalties ranged from \$6,000 to \$22,5000 and totaled \$57,500. In addition, it appears that one criminal penalty was imposed: a \$500,000 fine on Maine Biological Labs for complying with the boycott and other violations of IEEPA.

**Tax-Related Antiboycott Legislation.** The Ribicoff Amendment to the TRA added section 999 to the Internal Revenue Code. This section denies various tax benefits normally available to exporters if they participate in the boycott. In addition, the IRS requires U.S. taxpayers to report operations in, with, or related to countries that the Treasury Department includes on their annual list of countries that may require participation in an international boycott, and with any other country from which they receive a request to participate in a boycott.<sup>13</sup>

Denying tax benefits to U.S. firms that participate in the boycott appears to be an effective antiboycott strategy. According to one study, U.S. legislation reduces overall participation in the boycott by U.S. taxpayers by between 15 and 30%.<sup>14</sup> However, the effectiveness of U.S. antiboycott tax legislation may diminish since the U.S. government is reducing export tax benefits that are available to U.S.-based companies due to complaints brought to the WTO by the European Union.<sup>15</sup>

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<sup>13</sup> The current list is Bahrain, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and Yemen. "List of the Countries Requiring Cooperation with an International Boycott, Department of the Treasury," Department of the Treasury, 69 F.R. 242, December 17, 2004.

<sup>14</sup> James R. Hines, Jr., "Taxed Avoidance: American Participation in Unsanctioned International Boycotts," *NBER Working Paper 6116*, July 1997.

<sup>15</sup> See CRS Report RS20746, *Export Tax Benefits and the WTO: The Extraterritorial Income Exclusion and Foreign Sales Corporations*, by David L. Brumbaugh.