Quantitative Restrictions
Consultations Committee

DRAFT REPORT ON THE CONSULTATION
UNDER ARTICLE XII: 4(b) WITH ITALY

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Italy under paragraph 4(b) of Article XII.

2. The Committee had before it:
   (a) a basic document prepared by the secretariat in collaboration with the Italian authorities describing the system and methods of the balance-of-payments import restrictions in operation in Italy. The document also contains a statement under Part II - "Effects on Trade", submitted by the Italian authorities;
   (b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Italy.
5. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its recent consultation with Italy concluded on 24 April 1957. The results of the Fund's consultation with Italy are reproduced in document QRC/4.

6. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of Italy. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Italy which was concluded on April 24, 1957. This documentation has been distributed to the members of the Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with Italy under Article XIV of the Fund Agreement and particularly to paragraph 4 and to the following sentence in paragraph 5:
'The Fund believes that Italy could undertake further relaxation of dollar restrictions and welcomes Italy's intention to do so as soon as practicable as well as to endeavor to eliminate bilateral arrangements.'

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Italy. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of Italy

7. The full text of the opening statement of the representative of Italy is appended to this report in Annex I, and is summarized in the following paragraphs.

8. Since the war Italy's foreign trade has been characterized by a close relationship between the domestic economy and international economic conditions. Between 1948 and 1956 the volume of Italian imports and exports increased at an average annual rate exceeding 10 per cent, compared with the rate of 7 per cent for world trade, 8 per cent for OEEC imports and about 11 per cent for OEEC exports. Imports of foods increased more slowly
and imports of manufactures slightly faster than imports as a whole. In regard to exports, the advance was particularly marked in the sector of semi-finished products and finished products.

9. During the immediate post-war years, as a result of reconstruction needs and of the difference between internal and world prices, there was a considerable increase in the trade deficit. This deficit was met out of important contributions from abroad in the form of special assistance, in particular from the United States Government.

10. The Government from the outset viewed the problem of balance-of-payments difficulties as an exchange and price problem rather than as a matter for administrative controls. This attitude was made clear as early as March 1946, with the establishment of the system of foreign exchange accounts embodying 50 per cent in freely convertible currencies. Subsequently, further steps were taken in the exchange field such as those relating to clearing arrangements and arrangements with the sterling area which between 1947 and 1948 led to the establishment of a single exchange rate for the lira with orderly cross-rates, the dollar parity being determined according to market conditions. As these measures preceded similar restoration of sound exchange rates in other countries, the use of swing credits provided for in various bilateral agreements caused some distortions in the movement of Italy's foreign trade and in investments and domestic consumption. These distortions were corrected through the devaluation measures taken in the autumn of 1949.

11. In the field of quantitative restrictions, however, the restoration of a market economy proceeded at a slower rate. Such a course was followed because it was considered the most appropriate course to meet the difficulties resulting from temporary disparities in prices and productivity as between various countries and from the different levels in the currency reserves of the various countries. A particularly restrictive policy had to be applied in respect of the dollar area in order to meet the dollar shortage. The problem of balance-of-payments difficulties appeared therefore to be a problem of trade restrictions in general with varying degrees of severity depending upon the monetary areas
concerned. Generally speaking, Italy, on account of the very nature of her foreign trade in which essential imports and non-essential exports predominate, opposed the concept of quantitative restrictions. The policy adopted in this field aimed at the gradual elimination of quantitative restrictions as the balance-of-payments situation permitted and at the accumulation of sufficient exchange reserves for the purpose of meeting possible temporary difficulties without having to reestablish quantitative controls. In other words, import restrictions are not regarded as a normal instrument for exchange policy but as a method which is to be abandoned as soon as structural equilibrium of the balance-of-payments has been fully achieved. To appreciate the Italian policy in this field, one has therefore to take account not only of the level of the present restrictions but also of the fact that relaxation of restrictions is not a reversible process.

12. At the time of the Korean crisis the trade deficit was permitted to rise from about $160 million (f.o.b.) in 1950 to about $750 million in 1952 without reducing liberalization. From 1953 until now imports have increased at an annual rate of about 8.5 per cent, (f.o.b.), but exports have increased at a greater rate (about 12.5 per cent), so that the trade deficit declined from $750 million in 1952 to about $660 million in 1955 and $705 million in 1956. This increase in imports is accounted for by raw materials (about two-thirds), by finished products (approximately 21 per cent) and by foodstuffs (13 per cent). Exports of finished products increased by about 50 per cent, raw materials (mostly iron and steel) by 30 per cent and foodstuffs by some 20 per cent. Exports in the metalworking engineering groups and metallurgical groups have increased significantly as a result of the modernization of equipment and the establishment of important iron and steel plants in Italy or because of the pressure of foreign demand for investment goods.

13. As far as services are concerned, tourism and shipping earnings have increased considerably during the last few years. Incomes from unilateral
transfers have steadily increased as a result of increases in migrants' remittances and private donations and because of a decline in expenditure on account of reparations. Concerning current transactions, the deficit fell from $540 million in 1953 to $245 million in 1955 and subsequently to $220 million in 1956. However, as special foreign assistance is tapering off and in view of the fact that the net inflow of loans and investment of foreign capital is normally less than the above-mentioned deficit, structural equilibrium has not yet been reached.

14. In 1956 foreign governmental assistance and off-shore expenditure reached about $140 million, while the net inflow of foreign capital in the form of loans and investments amounted to $137 million. As a result of current transactions, movements of capital and foreign governmental assistance and taking account of less important special earnings, net availabilities in foreign exchange increased by about $110 million both in 1956 and 1955.

15. The foregoing analysis indicates that in the short-term, Italy has no balance-of-payments difficulties. However, this analysis cannot possibly substantiate a similar conclusion regarding the structural and long-term situation. Furthermore, account has to be taken of the fact that instalments for the reimbursement of foreign loans will increase in future and that the elasticity of demand for raw material imports in relation to national income tends to increase as a result of Italy's increasing needs for raw materials and energy and because full utilization of productive capacity has been reached in certain branches of industry. The outstanding quantitative restrictions are retained mainly in order to meet any balance-of-payments difficulties that may arise, until structural equilibrium is achieved and to avoid reimposing restrictive measures.

16. It might be objected that, in view of the very high degree of OEEC liberalization, and in view also of the fact that 75 per cent of the balances with those countries are eventually settled in gold or in dollars,
the need for continuing discrimination as between the two areas is not very apparent. But the degree of liberalization could be harmonized through an extension of dollar liberalization and the re-imposition of restrictions in respect of OEEC countries. Such course might result, however, in disturbances of market or productive conditions which would not be justified, the more so as the measures concerned would only be temporary since it is intended gradually to achieve the fullest possible freedom of trade. It seems, therefore, that this alternative should be rejected and that dollar liberalization should be increased to the greatest extent permitted by the balance-of-payments situation. Moreover, at the present time measures are being studied to extend the range of products which may be freely imported from the dollar area. If a final decision is taken in Rome in the next few days, more detailed information regarding the new liberalization list could be given to the Committee at these consultations. The proposed new liberalization measures will constitute another important step towards the elimination of quantitative restrictions on dollar goods.

17. It is also noteworthy that while the decline in imports from the dollar area continued until 1954, a marked recovery has become apparent in the last two years. The trade deficit with the United States and Canada, expressed in f.o.b. values, rose from 160 million in 1954 to 218 in 1955 and 254 in 1956, although there was a marked increase in exports. The balance for ordinary current transactions showed a surplus of 15 million in 1954, and a deficit of 18 million in 1956. Since the dollar area has become marginal sources of supply for certain raw materials which are essential for the development of Italian production, they tend to benefit fully from increases in our national import demand. If the current evolution of world economic conditions continues, Italy's dollar trade balance may therefore again be submitted to strains and stresses, particularly in view of the fact that there are signs at present even at international level that a certain dollar scarcity is developing.
18. The Italian representative then turned to the problem of currency reserves. Foreign exchange holdings had been practically reconstituted over a period of thirty months, from September 1947 to January 1950, when they reached a level equivalent to $900 million. From 1948 to 1950, economic policy was mainly directed at strengthening internal monetary stability, and at laying the foundation for a balanced development of foreign trade. From 1950 on, currency reserves were fluctuating until the end of 1956 when they reached a net level of $1,109 million. Since 1950 also Italian policy was directed towards the progressive elimination of restrictions. Evidence of this policy may be seen at the time of the Suez Canal crisis, when in the three-month period from November to January, Italy used $134 million of its own reserves, as compared with only $21 million in the corresponding period of the previous year.

19. From 1949 to the present time, reserves have fallen considerably in relation to the country's import needs. In 1949 Italy's reserves were sufficient to cover imports for 6.9 months; in 1956 the ratio of reserves to imports decreased to 4.4 months. With regard to the absolute increase in Italian exchange reserves, which was about $110 million in both 1955 and 1956, it should be recalled that Italy had earnings, mainly of an exceptional nature, of about $200 million in 1955 and $160 million in 1956. It can be foreseen that the exceptional earnings on account of unrequited aid and off-shore purchases (170 million in 1955, 113 million in 1956) will be terminated in the near future.

20. As to the relation between the amount of reserves and the debtor position of the country, while it is true that Italy has re-established its own currency reserves at a relatively high level, it is also true that her debtor position vis-à-vis foreign countries is particularly important because of the existence of pre-war debts, the conclusion of new medium- and long-term loan arrangements, foreign investments in Italy and, finally, because of short-term debts of credit institutions. Italy must therefore maintain exchange reserves at a level comparatively higher than that of countries which are in a better debtor position.
21. In conclusion, the Italian representative said that although the balance-of-payments and reserve situation was relatively satisfactory in the short term, his Government was not yet in a position to abolish quantitative import restrictions completely. He hoped that the Committee would bear in mind that internal investment needs tended considerably to exceed the rate of formation of new capital, because of the need to cope with unemployment; so that care must always be taken to prevent this tendency from having adverse repercussions on the Italian balance of payments.

Balance-of-Payments Position and Prospects

22. Members of the Committee expressed appreciation for the thorough and informative statement by the Italian representative outlining the economic development of Italy since the war and the policy which his Government had followed in regard to import restrictions. The international economic position of Italy was developing favourably and exports and imports were expanding rapidly concurrently with the growth of the national product. The intention of the Italian Government to reduce and eliminate its budget deficit over the next few years would certainly contribute to these satisfactory developments. It was noted that the current account deficit had been in the neighbourhood of $200 million in the past few years. Italy had, on the other hand, built up an overall surplus of approximately one billion dollars and accumulated sufficient foreign exchange to cover some four months of imports. This was in fact a better reserve position than that of some other western European countries and even some countries in the dollar area. Accordingly, it seemed that Italy would be in a position to reduce remaining restrictions.

23. The Italian representative pointed out that while the level of foreign exchange reserves had risen this improvement had been accompanied by an increase in Italy's international indebtedness, and was partly due to special non-recurrent foreign exchange revenues including foreign governmental assistance, off-shore commitments, and income from military services. There was a permanent inflow of foreign capital which tended to remain at a level between $150 million and $200 million. With increasing expenditures
of foreign exchange needed to service this capital, possibilities for financing deficits in the balance on current accounts by foreign investments would gradually diminish.

24. The Italian representative further stated that if there had been an appreciable increase in the absolute level of foreign exchange, imports had progressed even faster. In 1949 Italy possessed foreign exchange reserves equivalent to more than six months' imports. At that time the corresponding figure for the OECD countries was 4.8 months. While by the end of 1956 the OECD partners had accumulated sufficient reserves to cover imports during 4.9 months, the Italian foreign exchange resources had failed to rise as rapidly as imports and covered only 4.4 months of imports. Italy's reserves position had therefore, in fact, deteriorated. Prospects for increased exports were, notwithstanding the expansion of investments, not very bright. The projection of the growth of the national incomes of the OECD countries made by the OECD indicated that the annual rate of expansion would decline from 5 per cent to 3 per cent. Such development would adversely affect Italian exports which were mainly composed of less essential goods. To this must be added that the Italian economy was nearing the stage where no idle production capacity was left so that any further increase in production would henceforth be accompanied by greater increases in imports. Shortage of energy resources would also be conducive to more considerable imports of oil products and coal and thereby contribute to a rise in the demand for imports. As long as the Italian Government was faced with the problem of unemployment, it could not be said that true equilibrium had been achieved in the balance of payments. In order to avoid excessive demand, it had been necessary to limit investments to the financing capacity provided by national and foreign savings. The equilibrium thus achieved could not, however, be considered as fully satisfactory or, therefore, structurally adequate, since it was not linked to a balanced position for supply and demand of manpower within the country. Accordingly, it was not reasonable to request extensive liberalization measures simply on the basis of apparent equilibrium conditions in international payments.

25. Concern was expressed by representatives from the dollar area at the fact that OECD liberalization for private imports was nearing 100 per cent while the liberalization applicable to the dollar area amounted to some 40 to 57 per cent (depending on the country concerned) on the basis of private trade in 1953 and
to 60 per cent when calculated according to 1955 imports. They wondered whether this discrepancy between the levels of restrictions applicable to the two areas, which was substantially larger than that applied by some other OEEC countries, was still justified. Furthermore, the EPU settlements system afforded only a 25 per cent credit which must ultimately be settled in dollars or gold. The international payments position was rapidly moving to a situation where inconvertibility of currencies, on which discriminatory treatment to imports from certain countries was once based, was replaced by de facto convertibility. In these circumstances if Italy had found it possible to achieve nearly 100 per cent liberalization vis-à-vis one area, similar imports could also be admitted from other sources without necessarily involving additional drains on foreign exchange holdings. Indeed the net effect of such measures might only be a diversion of imports away from one area in favour of another.

26. In reply, the Italian representative explained that the difference in treatment applied to imports from the EPU area and the dollar countries was due largely to historical reasons and agreed that there were no longer reasons to maintain such a large degree of differentiation. However, if the Committee admitted that Italy still needed to maintain some import restrictions because conditions for structural balance had not yet obtained and could therefore not proceed to the straightforward elimination of all restrictions, it would also agree that it would not be wise for Italy to de-liberalize some imports from the EPU countries in order to free more imports from the dollar area thereby abolishing all discrimination. The orderly development of production and trade in Italy and abroad required that the restrictions which applied more severely to dollar goods be abolished gradually within the limitations imposed by the balance-of-payments position. This was precisely what the Italian Government intended to do. The Canadian representative said that it was no part of his contention that imports from the OEEC area should be de-liberalized in order to achieve non-discrimination. The point was that Italy's payments and reserve position appeared to be such as to permit a substantial reduction in discrimination through further dollar liberalization.

27. Two members of the Committee welcomed the announced intention of the Italian Government to extend the liberalization vis-à-vis the dollar area thereby reducing discrimination against dollar imports. Such measures, were in conformity with the Fund's decision and the international obligations which Italy had
undertaken under the General Agreement and would furthermore foster the stability, growth and competitiveness of the Italian economy by exposing it, not only to the competition of OEEC countries, but also, more directly, to that of the rest of the world. In this regard reference was made to the statement on page 14 of the basic document that in the Italian view dollar liberalization might have repercussions on national production in sectors in which the competitive capacity of North American countries was particularly high. This statement raised the question whether certain of the Italian restrictions were being maintained for protective rather than balance-of-payments reasons. A reference was also made to the reference in the basic paper to the possible relationship between the establishment of a common market and free-trade area and the timing of the removal of Italian payments restrictions. The Canadian representative assumed that it was not the intention to suggest that the removal of restrictions would be tied to the achievement of these objectives rather than to Italy's payments situation. It was pointed out that the representative of Italy had agreed that the present short-term position of Italy's balance of payments was favourable and that there was no longer need for maintaining such a degree of discrimination. He had, however, indicated that the Italian Government entertained serious apprehensions concerning the future on account of the temporary nature of some revenue of foreign exchange, and particularly with regard to the size of capital inflow which would, in the future, entail servicing and repayment expenditure. However, all governments had to face uncertainties. If progress towards the final elimination of all quantitative restrictions had to be postponed until absolute certainty and security had been arrived at, the elimination of restrictions would be considerably held up. It seemed that the international obligations which contracting parties had undertaken under the General Agreement did not render the relaxation of balance-of-payments restrictions dependent upon the existence of excessively strict conditions of structural economic equilibrium.

The experience of other countries in similar circumstances had clearly shown that in the field of liberalization a bold policy was sometimes fruitful even when prospects for the long run were uncertain. As regards the particular question of imports of foreign capital it was fairly easy on the basis of the inflow to calculate approximately what the servicing and repayment costs would be in the future. If the liabilities incurred by foreign borrowing were fairly easy to assess on the debit side of the balance of payments, it was more difficult to assign specific figures to the benefits accruing from such investments.
Increases in productivity and competitiveness on foreign markets, and the replacement of imports by domestic products were nonetheless considerable and would become a factor of dominant importance in the long term. The discussions in the Committee had shown that the real issue was not whether liberalization should be extended or not, but when measures would be taken and what their scope would be. As Italy had shown a marked ability to compete against imports from Western Germany and Belgium it seemed that the freeing of dollar goods would not result in excessive dollar imports. Liberalization measures on such imports were more likely to result in a reduction of imports from the EPU area in favour of an increase in imports from the dollar area, rather than to an absolute expansion of imports.

28. The Italian representative pointed out, however, that while it was true that a certain boldness in liberalizing trade might, in some cases, yield fruitful results, it was nonetheless a fact that, in other cases, such as that of a country with a relatively weak economic structure, excessive progress could have harmful effects on the balance-of-payments position, by compromising the results already achieved in eliminating quantitative restrictions. The essential factor was a firm resolve to advance, without having to go back on steps already taken. The policy of the Italian Government was aimed in that very direction. With regard to the effects of capital inflow, the Italian representative recognized that the increased investments resulting from that inflow helped to increase productivity and, consequently, to increase the competitive power of domestic production; he pointed out, however, that production costs were not the sole factor governing success in export markets, since other important elements also helped to increase competitive power. He referred particularly to the means to finance exports which, in the case of Italy, were less considerable than in the case of other countries.

29. Attention was called to the fact that the distinction which was made in page 14 of the basic document between the competitive capacity of production in the North American countries and that of the countries clearing through the EPU indicated that the achievements of the CONTRACTING PARTIES in the field of reduction and consolidation of tariffs were to some extent invalidated by certain restrictions which were still being applied for balance-of-payments reasons.
30. One representative pointed out that while there had been great progress towards the convertibility of major currencies, distinctions between regional balances of payments were still important and could not be entirely ignored. This helped to explain that certain trade agreements were maintained to keep bilateral balances of payments in equilibrium, although they admittedly sometimes resulted in diversion of trade. Regional balances affected the overall position of international payments which in turn were having effect on the regional balances. Could the representative of the International Monetary Fund give some indication as to how the Fund felt that overall versus regional aspects of the balance of payments should be interpreted?

31. The representative of the Fund said that how a balance-of-payments problem should be considered depended upon the circumstances of the particular case under examination. During the first years after the war balance-of-payments difficulties had mostly shown themselves in the differential ability to balance payments with various currencies or currency areas. But such need not always be the case, and in fact, when convertibility had been the rule, payments difficulties which had been encountered had been characterized by the fact that payments in one currency were as easy or as hard to make as in any other. Decisions taken by the Fund — such as those in consultations under Article XIV of the Fund Agreement — in the case of any country represented judgments passed by the countries composing the Fund and it was not for him to analyse such decisions. In the case of Italy, to which the member of the Committee had referred, he could do no more than to repeat the statement which he had provided at the beginning of the consultation. Some members of the Committee then indicated that, since the Fund entered into a detailed analysis of the balance-of-payments position during its consultations, it might be useful for the future work of the CONTRACTING PARTIES to invite the Fund to explain the grounds and criteria lying behind the results of its consultations. The representatives of Canada and the United States indicated that the results of Fund consultations were transmitted to the CONTRACTING PARTIES as representing an objective judgment on the balance-of-payments position of the various countries concerned. As a request to the Fund to furnish information concerning the grounds and motives which led to these results might give rise to certain institutional and other problems, they wished to reserve the positions of their Governments. The Chairman stated
that the question of the Fund-GATT relations was not within the province of the Consultations Committee which had to operate within the framework of the Fund findings supplied in connexion with Article XV:2.

32. In response to a question by the representative of Brazil the representative of the International Monetary Fund explained that as part of the collaboration with the CONTRACTING PARTIES, the Fund made available to them the results of its consultations under Article XIV of the Fund Agreement. The results in the case of Italy represented one of a series of annual decisions on consultations, each of which took into account the developing situation of the country. Each case was looked at on its merits as the situation obtained at the time of the consultation. He cited that part of paragraph 5 of the Fund results which read: "The Fund believes that Italy could undertake further relaxation of dollar restrictions and welcomes Italy's intention to do so as soon as practicable as well as to endeavor to eliminate bilateral arrangements." He would not go as far as the member of the Committee had suggested, that the Fund results indicated that the Fund had concluded that Italy had no longer any balance-of-payments reasons to maintain restrictions.

33. In the light of the statement by the Italian representative that the purpose of these restrictions was to prevent inflationary trends in domestic consumption, a member enquired whether measures had been taken to restrict hire purchase credit as a supplementary measure to help achieve that end. The Italian representative replied that hire purchase credit in Italy was very limited in volume and very costly to the consumer.

System and Methods of the Restrictions

34. A member of the Committee referred to a paragraph on page 5 of the basic document which read: "As regards imports from the dollar area, applications are examined individually ..... within the limits of given quantities fixed in advance or without the prior establishment of unilateral quotas, account being taken of the interest which the proposed imports have for the national economy and for Italian trade with the partner countries". He hoped that the phrase did not indicate a concern of the licensing authorities to protect domestic industries. Was the criterion of interest which the intended import offered for Italian trade with partner countries such that licences were granted
only insofar as imports would not prevent the implementation of bilateral agreements? The Italian representative replied that considerations of protection of national industries were not taken into account. He further indicated that the last words of the paragraph which had been cited referred to the partner countries of the dollar area.

35. In response to a question as to what the nature was of the price criterion in issuing licences, whether it was the price margin between different foreign sources which was considered or that existing between foreign and domestic prices, the Italian representative said that price considerations had become a minor element. Essentiality and availability of freely convertible exchange were the main criteria in issuing individual licences.

36. Replying to a question as to how the Italian Government ensured that the State-trading organizations followed a policy of non-discrimination for example in the case of imports of tobacco, the Italian representative explained that the choice of foreign suppliers was determined by factors of a strictly commercial nature. Imports of tobacco were included in the State-trading system for reasons of a purely fiscal nature.

37. A member of the Committee wished to have some clarification on a paragraph on page 4 of the Basic Document which read: "In addition to the above-mentioned free lists certain imports covered by bilateral trade agreements are also exempted from licensing requirements". The Italian representative replied that to nearly all countries with which trade agreements were in force, Italy granted, by unilateral action, exemption from licensing requirements for certain commodities. The products for which such exemption was granted could of course be freely imported from countries belonging to the EPU zone. All commodities which still required licences when imported from the EPU area were subject to licence when imported from bilateral agreement partners. At present such unilateral liberalization measures accorded to bilateral agreement partners covered almost 57 per cent of private imports from these countries, which, however, represented about 6 per cent of total Italian imports.

38. The delegate for Canada wished to stress the importance for Italy of improving its competitive position on world markets by making available to domestic industries all imports on as favourable terms as obtained by their foreign competitors. He instanced the case of stainless steel, steel for machine
tools, aluminium, agricultural machinery and polystyrenes, the freeing of which would certainly contribute to the competitive position of certain Italian industries. The Italian representative replied that such liberalization measures, which would admittedly improve the competitive capacity of the Italian industries, could only be taken when permitted by the balance-of-payments position.

39. Referring to the opening statement by the Italian representative the representative of the United States pointed out that if the Italian Government wished to ensure against the event of having to deliteralize some commodities in case of balance-of-payments difficulties, one way to reduce such risks would be to issue licences liberally for certain products. Not only were imports of agricultural commodities strongly curtailed but some manufactures which were freely admitted from EPU countries were granted very low quotas for imports from dollar sources. This was for instance the case with outboard motors, spare parts for United States automobiles and phonograph records, which were severely restricted and for which, as far as it was known, licences were not issued liberally. Would it be possible for the Italian Government to test the intensity of the demand for such products by introducing liberal licensing and eventually freeing these items if the effects proved negligible? In reply, the Italian representative said that a certain number of products for which comparatively large quotas had been fixed could also be cited. Quotas for synthetic fibres, tanned hides, abrasives, etc., were large. For some agricultural products the Italian Government granted import licences fairly freely, quotas were established for imports from the dollar area, for example of prunes, maize, oil seeds, etc. Furthermore, in other cases no unilateral quotas were fixed at all and applications for licences were invariably accepted. The dollar liberalization measures which his Government contemplated would be based on the experience which had been gained previously by issuing licences freely for certain products.

40. One representative invited the Italian delegation to consider whether there might be some cases where de jure liberalization was accidentally vitiated by alternative measures of control of different kinds. One of these concerned copper sulphate used for fertilizers for which there was only a seasonal demand. For this item price regulations were in force which required domestic producers to notify their price before the official import price could be established.
This procedure led to certain delays which made it difficult, and on occasion impossible, for foreign exporters to enter the market before the end of the season. The Italian representative answered that he believed that this was a particular case. This item was made subject to price controls established in favour of agriculture. Recently it was found that domestic prices for copper sulphate could be reduced, and the system was therefore not intended to restrict imports. Moreover, the customs duty on this item was extremely low - somewhere in the neighbourhood of 5 per cent ad valorem.

41. The Italian representative recalled a reference made in his opening statement to the effect that at the present time measures were being studied to extend the range of products which may be freely imported from the dollar area. He explained that although the vicissitudes of the Italian political crisis would not yet permit the Ministerial Decree necessary for these new measures to be made, he could at this stage furnish a few statistics to the Committee in order to give an indication of the scope of the new dollar free list. The present liberalization was extended to 39 per cent of private imports from the dollar area on the basis of 1953 trade. As a result of the new measures that percentage would be increased to 71.24. He referred to the fact that the base year taken for these calculations, 1953, was the same year as that taken by the OEEC in its computations of liberalizations extended to the dollar area and pointed out that the new liberalization measures would appear even more substantial if 1955 was used as the reference year; in this case the percentage of liberalization vis-à-vis the dollar area would be 78.85. He regretted that he could not provide any information to the Committee at present which would detail the specific items involved in the new measures.

42. The representatives from the dollar area expressed their appreciation to the Italian representative for having provided additional information on further liberalization of imports from that area and stated that they awaited details of the new measures with great interest. The representative of Canada pointed out, however, that there was still a substantial difference between the extent of liberalization afforded to goods originating in the EPU area compared with that extended to the dollar area, and he reaffirmed the view that in the light of the Italian balance-of-payments position further progress could be made.
43. A member sought details concerning the criteria used for the maintenance of so-called "hard-core" restrictions on a list of items both from the EPU area and the dollar area and enquired whether the continued application of such restrictions upon these commodities might present certain obstacles when Italy was eventually in the position to achieve full liberalization. In reply, the Italian representative stated that the criteria used for the selection of items for liberalization was dictated by the consideration of their being unlikely to impair the equilibrium of their balance of payments. In addition the slow formation of domestic capital had created certain problems within the Italian economy and had led to the need to restrain any import flows that would inflate domestic consumption. From these two points of view therefore, it was necessary to restrict imports of those goods that would lead to any rapid increase in consumption and run down exchange reserves and for that reason the "hard-core" restrictions had been maintained. In response to a further question the Italian representative said that it would be difficult to forecast what criteria would be followed in the future as that would be dependent on circumstances prevailing at the time, which would probably be different from those encountered at present.

44. In his concluding remarks the Italian representative stated that he was gratified to have had an opportunity to give an account of Italian import policy to the members of the Committee and to bring to their attention the consistency in that policy, the main objective of which had been to reach as high a level of liberalization as possible within the limits set by the need to maintain balance-of-payments equilibrium.

Annex I Statement by the Italian representative