CONSULTATIONS UNDER ARTICLE XII:4(b)

Statement by the Italian Representative

The Italian Government has fully appreciated the decision of the CONTRACTING PARTIES to GATT to arrange for a wide programme of consultations on the maintenance of import quantitative restrictions.

As the representative of the United States indicated when he submitted his proposal, a free and frank exchange of views on the operation of import restrictions and domestic, commercial and economic policies in the near future can only facilitate better mutual understanding and make it possible to appreciate the prospects for further progress towards the restoration of international trade on a multilateral basis.

The comprehensive documentation which has been prepared with such care and competence by the IMF and the GATT secretariat to serve as a basis for this consultation permits us to limit this additional statement to considerations relating to the basic features of our balance of payments and the aims of our economic policy, having particular regard to its repercussions on commercial policy.

I. THE ITALIAN BALANCE-OF-PAYMENTS POSITION AND PROSPECTS AND THE EXTENT OF QUANTITATIVE RESTRICTIONS

The evolution of Italian exchanges with other countries during the post-war period has been particularly 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. During the same period the increase in the quantum of world trade was 7 per cent and the increase in OEEC trade amounted to 8 per cent in respect of imports and about 11 per cent on the export side.

Compared with world trade, Italian trade has therefore increased at a substantially higher rate. Compared with OEEC trade, the increase in Italian trade has been higher on the import side and lower as far as exports are concerned.
If we consider Italian foreign trade as a whole, the increase in the quantum which has affected all economic sectors was less than the average as regards food imports and slightly higher in the case of imports of manufactures. As far as exports are concerned the advance was particularly marked in the sector of semi-finished products and finished products.

It is therefore evident that the evolution of Italian foreign trade is closely related to both the domestic economy and international economic conditions considering both the complementary nature of the various fields of production and more specifically the specialization of production. This evolution which has continued unabated since the end of the war has not slowed down in the last few years, but the rate of development has been characterized by a tendency to some diversification as between imports and exports in the sense that the rate of increase has been higher in respect of imports than of exports.

The evolution of Italian foreign trade demonstrates the modification which has occurred in the external economic situation of the country. During the immediate post-war years, the needs resulting from the reconstruction and rehabilitation of production equipment and the domestic food requirements, together with the discrepancy between internal and international prices were reflected on the foreign trade situation so that there resulted a considerable increase in our 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, while internally the Government was anxious from the outset to view the problem of our balance-of-payments difficulties as an exchange and price problem rather than as a matter for administrative controls. This attitude on the part of the Italian Government was made clear as early as March 1946, with the establishment of the system of currency accounts including 50 per cent in freely convertible currencies, which constituted one first step towards an exchange system that was more in line with the market situation.

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 standardization of the exchange rate for the lira on a cross-rate basis, the dollar parity being determined according to market conditions.

This system of standardization which fully conform with the rules laid down in the Bretton Woods Agreements, was followed by further measures for the standardization of our exchange system vis-à-vis other countries, so that as a result of the swing arrangements provided for in the various agreements there were some distortions in the movement of our foreign trade and in investments and domestic consumption in Italy. Those distortions were corrected through the devaluation measures taken in the autumn of 1949.
On the other hand, in the field of quantitative restrictions the restoration of a market economy proceeded at a lower rate. The line thus followed not only by Italy but also by other European countries was necessary because it was the most appropriate method to meet the difficulties resulting from temporary disparities in prices and productivity as between the various countries and from the different levels in the currency reserves of the various countries. This policy had to be applied with special severity in respect of the dollar zone in order to meet the dollar shortage. The problem of balance-of-payments difficulties appeared therefore everywhere to be a problem of trade restrictions in general with varying degrees of severity and greater or lesser scope depending upon the monetary areas concerned. In respect of trade with the OEEC countries some alleviation was brought about not only by reciprocal swing arrangements but also by regional arrangements. Generally speaking, Italy on account of the very nature of her foreign trade, which includes essential imports and non-essential imports, opposed the concept of quantitative restrictions. In fact the rules followed by Italy in the field of quantitative restrictions were aimed at their gradual elimination as balance of payments permitted and at the same time the Government decided to constitute sufficient exchange reserves for the purpose of meeting possible temporary difficulties without having to reinstate quantitative controls.

In other words, quantitative restrictions are not regarded as a normal instrument for our exchange policy but as a method which is to be abandoned and which is still maintained only because the structural equilibrium of the Italian balance of payments has not yet been fully achieved. In order, therefore, to appreciate the Italian policy in this field, one has to take account not only of the level of outstanding restrictions but also of the fact that relaxation of restrictions is not a reversible process.

An important event tested the rules followed by Italy and at the same time demonstrated the seriousness of our intention to oppose any new and more widespread recourse to quantitative restrictions: that was the Korean crisis. At the time, we allowed our trade deficit expressed in f.o.b. values to rise from about $160 million in 1950 to about $750 million in 1952 without rescinding our liberalization measures. From 1953 until the present date our imports have substantially increased (about 8.5 per cent annual rate, on a f.o.b. basis), but our exports which have increased faster (about 12.5 per cent) have offset the positive effects of the expansion of our imports, so that the trade deficit rose further from $750 million in 1952 to about $660 million in 1955 and $705 million in 1956.

On the import side, this increase is accounted for by auxiliary or semi-processed raw materials (about two-thirds) and by finished products (about 21 per cent). The outstanding 13 per cent is to be attributed to the sector of foodstuffs.

As regards exports, the increase is accounted for by finished products (about 50 per cent) auxiliary or semi-finished raw materials, mostly iron and steel (30 per cent) and by foodstuffs (about 20 per cent).
Experts in the metal-working, engineering 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 tightness of foreign demand for investment goods.

As for services are concerned, tourism and shipping earnings have increased considerably during the last few years; however, while earnings on account of tourism have been offset only to a limited extent by an increase in expenditures in the same sector, shipping earnings have been counteracted to a great extent by an increase in payments abroad. Furthermore, unilateral transfers have steadily increased either as a result of increases in migrants' remittances and private donations or because of a decline in expenditure on account of reparations. As far as current transactions are concerned, the deficit fell from $540 million in 1953 to $245 million in 1955 and subsequently to $220 million in 1956. The corresponding increase during the same period is no doubt noticeable, but has not yet resulted in restoring a structural equilibrium because special foreign assistance, in the form of Government donations of off-shore purchases, is tapering off and because the net inflow of loans and investment of foreign capital is normally less than the above-mentioned deficit.

In 1956 foreign governmental assistance reached about $440 million, while the net inflow of foreign capital in the form of loans and investments amounted to $137 million. As a result of the above-mentioned transactions (i.e. current transactions, movements of capital and foreign governmental assistance) and taking account of less important financing operations which depend upon fluctuations in commercial credit, and of special earnings in the field of maritime insurance, our net availabilities in foreign exchange increased by about $110 million both in 1956 and 1955.

The foregoing analysis indicates that on 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. Future prospects command caution in giving any appreciation; account has to be taken on the one hand of the fact that instalments for the reimbursement of foreign loans will increase in future and on the other that the coefficient of elasticity on imports of raw materials in relation to national income tends to increase as a result of our increasing needs for imports of raw materials and energy and because full utilization of productive capacity has been reached in certain branches of industry.
Outstanding quantitative restrictions should be regarded, in the main, as measures which are retained in order to meet any balance-of-payments difficulties that may arise, until structural equilibrium is achieved. It is intended to avoid shifts in the development of domestic productivity by re-imposing restrictive measures after lifting restrictions on the domestic market.

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. On the other hand, the degree of liberalization can only be harmonized through an extension of dollar liberalization and the re-imposition of restrictions in respect of OEEC countries. This might result, however, in disturbances either of market or productive conditions; such disturbances would not be justified, the more so as the measures concerned would only be temporary while it is intended gradually to achieve the fullest possible freedom of trade. For that reason, it seems that this alternative should be rejected and that dollar liberalization should be increased to the greatest extent permitted by the balance-of-payments situation. In this connexion, it should be pointed out that at the present time, in accordance with the above-mentioned criteria, measures are being studied which will extend the range of products which may be freely imported from the dollar area.

The examination of draft ministerial regulations instituting new liberalization measures is fairly advanced, and we hope to be able during these consultations to give the Committee more detailed information regarding the new liberalization list if, as we very much hope, a final decision is taken in Rome in the next few days.

We would like to stress that the proposed new liberalization measures constitute another important step towards the elimination of quantitative import restrictions which are still applicable vis-à-vis the dollar area.

Furthermore, it should not be forgotten 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 markets, and in particular the United States market, have become a marginal source of supply for certain raw materials which are essential for the development of Italian production, they tend to absorb increases in our national import demand; for that reason, it is to be feared that if the current evolution of world economic conditions continues, Italy's dollar trade balance may again be submitted to strains and stresses.
In addition, even at international level, there are signs today that difficulties in financial relations with the United States may recur, because a certain dollar scarcity is currently developing.

II. THE PROBLEM OF CURRENCY RESERVES

The problem of currency reserves may be considered from two angles, taking into account the development of reserves and their absolute amount in relation to the country's debtor position.

With regard to the first point, it should be recalled that currency reserves had been practically reconstituted over a period of thirty months, from September 1947 (at which time the reserves had dwindled to a negligible amount) to January 1950, when they reached a net level of $900 million in counterpart currency. From 1948 to 1950, Italian economic policy was mainly directed at strengthening internal monetary stability, which had been so seriously threatened in 1947, and at laying the foundation for a balanced development of foreign trade.

That phase may be called a period of a more resolute restoration of orthodox and traditional methods, evidently as a prerequisite for freedom of selection in foreign trade transactions. Since 1950, currency reserves have evolved, now in the direction of slackness, now in the direction of expansion, until at the end of 1956 they reached a net level of 1,109 million, after two years during which they rose at an average annual rate of about 10 per cent.

The variations which occurred in Italian trade operations with foreign countries were therefore fully reflected in the reserve situation, because generally speaking quantitative restrictions did not act as neutralizing factors against the increased demand for foreign exchange. The policy followed was in one direction only, that is to say, it was directed only towards the progressive elimination of restrictions. A recent example of this attitude may be seen in the Suez Canal crisis: in the three-month period from November to January last, Italy used $134 million out of its own reserves, representing an increased utilization of its reserves by $113 million as compared with the corresponding three-month period of the previous year.

From 1949 to the present day, although there has been an increase in the absolute value of foreign exchange reserves, these 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 1955 the ratio of reserves to imports dipped to 4.7 months, and in 1956 to 4.4 months. The situation also deteriorated from 1949 to 1956 with regard to short-term debts of the Central Bank (from 0.40 to 0.34), monetary circulation (from 0.25 to 0.15) and gross national product (from 0.07 to 0.05).
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, representing unrequited aid, off-shore purchases, infra-structure equipment and pay-troops.

It can be foreseen that earnings on account of unrequited aid (41 million in 1955 and 32 million in 1956) and off-shore purchases (129 million in 1955 and 81 million in 1956) will be terminated in the near future.

As to the second aspect of the problem, i.e. the relation between the amount of reserves and the debtor position of the country, it must be stressed that, while it is true that Italy has re-established its own currency reserves at a relatively high level, it is also true that Italy's 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.

From this point of view, it can be seen that Italy must maintain in her creditors a feeling of security and confidence by keeping exchange reserves at a level comparatively higher than that of countries which are in a better debtor position.

In conclusion, although the balance-of-payments and reserve situation is relatively satisfactory on the short term, Italy is not yet in a position, for the reasons given above, fully to give up quantitative import restrictions.

Lastly, we hope that this Committee, in making an evaluation of Italian commercial policy, will also consider that internal investment needs tend considerably to exceed the formation rate of new capital, because of the need to absorb new manpower, so that care must always be taken to prevent negative repercussions on the Italian balance of payments.