1. In accordance with its terms of reference, the Working Party consulted with Italy, on the basis of the request by Israel, pursuant to the provisions of paragraph 2 of Article XXII, concerning the maintenance of import restrictions which were no longer justified for balance-of-payments reasons and which were the subject of previous consultations between Israel and Italy under paragraph 1 of Article XXII.

2. The representative of Italy explained that imports into Italy from Israel were at present accorded "List C" treatment. The Government of Italy intended in the near future to accord "List A" treatment to imports from Israel, with certain exceptions. These exceptions consisted of restrictions on the following ten items which were not restricted from other List A countries: vegetables fresh and chilled; vegetables preserved; stone fruit; other fruit; bromine; bromides; bromide acids; methyl-bromide; ethylene di bromide; potassium sulphate.

3. In a recent relaxation of restrictions, one product, i.e. potassium chloride, had been liberalized for List C countries, including Israel. Trade between the two countries was at present conducted within the framework of the Italian-Israeli trade agreement of 1954, under which Italy had undertaken to admit annually imports of the above-mentioned ten products to the amount of $25,000 for each tariff item. Although trade had been conducted on the basis of these quotas, nevertheless in recent years actual import licences issued had in certain instances considerably exceeded the amount of the basic quotas. The fruit and vegetable items were subject to plant protective regulations which were applied in a non-discriminatory manner to imports from all third countries. His
Government had made and were continuing a detailed examination of the problems relating to the retention of restrictions on these items, and serious attempts were being made to bring into line the negative lists applicable to imports from different areas. He stressed the temporary nature of the present regime and the earnest desire of his Government to modify the Italian restrictive system in order to bring it into conformity with the provisions of the General Agreement. The element of discrimination in the Italian import system had been substantially reduced, and further progress along these lines was expected to be announced before the end of 1961. However, it was essential to ensure safeguards for certain products with respect to which his Government were faced with special difficulties.

4. The representative of Israel noted that "List C" treatment involved the highest degree of restriction in the Italian import system. The discriminatory treatment applied to exports from his country had been the subject of numerous representations over a long period of time. As long as three years ago, the Italian delegation had given assurance that the matter would be considered in the near future. At the Multilateral Consultations on Italian Import Restrictions held in Rome in March 1961, the Israeli delegation had been given further assurance by the Government of Italy that the application of discriminatory treatment to imports from Israel would be eliminated without delay. Unfortunately this liberalization had not materialized: in fact the element of discrimination towards Israeli exports had been accentuated by the relaxation of restrictions applicable to imports from other countries. Consequently, the Government
of Israel had submitted a request to enter into consultations on the matter with the Government of Italy, pursuant to paragraph 1, Article XXII of the General Agreement, with a view to reaching an early and amicable settlement of the question (L/1495). During those consultations, which had taken place in Rome in September 1961, the Italian delegation had proposed the extension of "List A" treatment to Israel with the exceptions mentioned above, as well as restrictions on certain other products of substantial interest to Israel. The Government of Israel did not consider that the proposal by the Italian delegation represented either in principle or in substance a satisfactory solution to the problem, or a fulfilment of the repeated assurances given to Israel by the Italian authorities. Hence it had proposed the present request under paragraph 2 of Article XXII (L/1575).

5. In the course of the discussion, the Italian representative recalled the considerable progress which had been made in the past ten years in the reduction of discrimination in the Italian import régime. While certain discriminatory restrictions remained, these were of a transitory nature. With respect to the fruit and vegetable items, there was production of these commodities in Southern Italy, where there was a need to maintain the level of farm incomes. Assuming that the situation improved within the next few months in this area, the Italian authorities would certainly be willing to introduce new liberalization measures. The unit cost of production of these products was lower in Israel which also had the advantage of an effective and efficient Export Marketing Board. Nevertheless, certain safeguards had been provided by Italy within the framework of the bilateral trade agreement to ensure minimum exports of these products from Israel. Different problems existed with respect to potassium sulphate, bromine and its derivatives. The production of these items had been encouraged by large Government investments in Sardinia and Sicily in order to improve the economic situation of these islands. The Italian Government had been compelled to invoke the appropriate escape clause of the Rome Treaty to halt the gradual reduction of tariffs with respect to these products. Production costs were high in Italy and were double in comparison to the export prices of the like products from Israel, since the latter had a natural advantage in production afforded by the deposits in the Dead Sea. Nevertheless, his Government had made
serious efforts to satisfy Israeli export interests and were prepared to consider the establishment of additional quotas. In view of the special circumstances involved in this production, his Government might find it necessary to seek a solution to the problems involved in the retention of quantitative restrictions on these items which would be in conformity with the provisions of the General Agreement. Concrete proposals in this regard were being considered and would be made during the next few months. It was the intention of his Government to remove these discriminatory restrictions or to bring them into conformity with the provisions of the General Agreement as soon as possible. The Government of Italy would be prepared to report to the CONTRACTING PARTIES on the progress made and its future intentions.
6. The representative of Israel stated that in the view of his Government, implementation of the measures proposed by the Italian delegation had not been sufficiently rapid to date. Despite numerous verbal promises, little concrete progress had been made in relaxing the discriminatory import restrictions on imports from his country. Statistics showed that imports into Italy of certain of the items subject to restriction were increasing, but that while Israel had been able to participate in this growth, there was no assurance that such access to the Italian market would be maintained. These factors had impeded the achievement of a more equitable balance of trade between his country and Italy.

7. The representative of Israel stressed that owing to the natural resources in Israel, the country was one of the most efficient producers of these chemicals. It would be in accordance with the basic principles of international trade and the spirit of GATT for Israel to specialize and develop this production, which would be in the general interest of the best allocation of resources and maximum benefit from the international division of labour. With the assistance of a loan from the World Bank, his Government was proceeding with plans to enlarge the production of chemical fertilizers in Israel.

8. In relation to many of the fruit and vegetable items under discussion, statistics would show that Israel was not an exporter of certain of these products; thus their liberalization could not have harmful effects on Italian production. In the view of his delegation, the detailed examination of the list of exceptions had shown that the maintenance of quantitative restrictions on these products was clearly not in conformity with the principle of non-discrimination in the administration of import restrictions. The explanation submitted by the Italian delegation had not shown that the retention of restrictions on several of these items served any useful purpose in protecting Italian production.

9. Members of the Working Party expressed concern over the continued maintenance of discriminatory import restrictions by Italy, and urged the elimination of this discrimination and the general dismantlement of remaining quantitative restrictions by Italy as soon as possible. They took note of the following undertakings announced by the Italian delegation:
(a) not later than 31 December 1961, to include Israel in the group of countries to which "List A" treatment was applied;

(b) to re-examine the list of exceptions, with a view to securing their rapid elimination;

(c) in the interim to enlarge in so far as possible global quotas for the items remaining subject to restriction;

(d) to report to the CONTRACTING PARTIES, not later than 30 April 1962, on the progress made in removing the restrictions and on any other action which might be proposed in order to bring the minimum of restrictions it was essential to maintain into conformity with Italy's obligations under the General Agreement.

10. In the context of the present consultation, the Working Party expressed the hope that these special problems arising between the Governments of Israel and Italy would be solved in the very near future. The Working Party recognized that serious efforts were being made by the Government of Italy to arrive at a solution, and urged that in proceeding in this direction, the Italian Government should continue to bear in mind its obligations under the General Agreement.