

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

Spec(74)33
15 July 1974

ITALY - IMPORT DEPOSIT

Note by the Secretariat on the First Meeting of the Working Party

1. The Working Party on the Italian Import Deposit, established by the Council of Representatives at their meeting of 3 May 1974 was asked:

"To examine the Import Deposit Scheme introduced by the Government of Italy and its implications, to report to the Council and to continue to be available for consultation as necessary."

2. The Working Party held its first meeting on 7 June 1974, at which it heard a statement by the representative of Italy (the full text of which is reproduced in Spec(74)19, annexed hereto). The representative of Italy gave a detailed account of the deterioration of the country's balance-of-payments, and in particular of its balance of trade, which showed a rapidly growing deficit due not only to the increased price of oil but above all to an excessive growth of imports in the first quarter of 1974. He recalled that in the first half of 1973 the Italian authorities had introduced measures designed to control both the monetary and balance-of-payments situation; the lira was floated, a dual exchange market established, price controls introduced, and bank credit limited. Other measures were taken in March 1974; a further limit on credit expansion, an increase in the official discount rate, as well as fiscal measures. The monetary objective of these different measures was to reduce internal liquidity by some 3,000 billion lire. It was in this context that the import deposit had been introduced. The representative of Italy described in detail the technical aspects of the measure, stressing that the choice of the product coverage had had to be broad in order to achieve the monetary goals set; this in itself showed the temporary nature of the measure. After only 30 days of application of the deposit it was premature to assess its effects with certainty. The deposit was a contingency measure, designed to contribute, together with other measures, to as rapid an improvement as possible of the Italian economic situation.

3. The representative of the EEC said that after having found that a marked deterioration had occurred in Italy's balance of payments the authorities of the Community had felt that such a development could not be tolerated. They had considered the deposit to be an appropriate measure and had defined the conditions and modalities for its application in conformity with Article 108, paragraph 3, of the Rome Treaty. The prior deposit applied by Italy had therefore become a trade measure of the Community. The representative of the EEC pointed out that the measure was being applied consistently with the spirit of Article XII, that the device of a deposit was not more restrictive than the device of quantitative restrictions specifically provided for under that Article. Furthermore, the measures specifically applied were less restrictive than those that could have been applied under Article XII taking account of the grave balance-of-payments difficulties. The deposit was applied without distinction as regards the origin of products, although that did not mean that the Community regarded itself as bound to accept that principle in view of the provisions of Article XXIV. The deposit would be abolished as and when the balance-of-payments situation improved. (The full text of the statement - Document Spec(74)20 - is reproduced in the Annex hereto.)

4. Members of the Working Party, while expressing understanding for the seriousness of the situation, regretted that Italy had taken a unilateral measure which, by affecting other countries' trade, could lead to a chain reaction of protective trade measures. At a time when the impact of the price increase for oil would cause many countries' balance-of-payments situation to deteriorate, it was all the more important to avoid unilateral trade restrictions. With regard any conclusions concerning the justification of the import deposit under GATT provisions, it was the common view that this matter should be left to a later meeting, when the International Monetary Fund findings would be available.

5. Members of the Working Party noted that the deposit had been introduced for a dual purpose, the principal one being the reduction of domestic liquidity, and the secondary one the limitation of imports in order to relieve the pressure on the balance-of-payments. Generally, they also noted that domestic fiscal and credit measures had been taken; it was felt that it would be appropriate to strengthen these internal measures so as to be able to remove the deposit at an early date and thus lessen its impact on other countries' trade. Meantime, a flexible administration of the deposit was called for, particularly with respect to goods in transit or shipped from distant countries prior to the entry into force of the measure. The representative of Italy emphasized that his Government's main objective was to contain internal demand: domestic fiscal and credit measures were more important tools for achieving this end than was the deposit; but the reduction or change of composition of certain imports was also a necessity to reduce excessive demand. In this context it was pointed out that the deficit on current account was only partly attributable to higher oil prices.

6. In reply to questions concerning the effects of the import deposit, the representative of Italy said that it was too early to draw any conclusions. So far, the measure had resulted in some 200 billion lira being deposited; however, this was not necessarily representative of future developments, as there was no way of ascertaining whether the deposits were attributable to import contracts passed prior to 7 May or to new ones. The effects of the measure on imports could not be evaluated 30 days only after its application had begun.

7. Members of the Working Party expressed concern with the impact of the deposit on their respective trade with Italy particularly concerning agricultural goods. Some members stressed the impact of the measure on manufactured goods, an important element in their exports to Italy. It was considered a matter of urgency that adverse effects to Italy's partners' trade be minimized as soon as possible.

8. Several members of the Working Party, in particular developing countries, stated that their trade with Italy was seriously damaged; in many instances, they spelled out, in terms of percentage, the extent of damage incurred or expected. They were very concerned with the immediate effects on their own trade and payments flows, and with the repercussions these could have in the future. Many members requested that, in the light of Part IV of the GATT, special consideration be given to products of export interest to developing countries, in particular those subject to the Generalized System of Preferences. Some members, whose trade had been particularly affected by the measures, stated that, failing complete exemptions from the import deposit, compensation for trade damage should be considered. The representative of Italy reiterated his earlier statement that it was imperative for Italy to reduce internal liquidity, inter alia through the deposit. He noted that the measures taken also damaged Italy's production. The effects on individual countries' trade was regretted; however, it was questionable whether the trade damage to developing countries was such that it would justify application of the import deposit on a discriminatory basis. He pointed out that products imported into Italy under the GSP were duty free; therefore the incidence of the import deposit on these products was equivalent to the cost of the interest on the deposit, some 2 to 3.5 per cent for 6 months, which was not excessive.

9. It was pointed out that insofar as the import deposit could be financed by the foreign supplier, it would lead to a distortion of trade and market shares in favour of the larger foreign suppliers in a position to supply finance, and against those suppliers lacking similar facilities. The effects of the measure would also be detrimental to the smaller Italian importers who could not finance the deposit.

10. Members of the Working Party stressed the non-discriminatory application of the import deposit scheme in all phases of its application as an important element in the determination of their country's position on the measure. They noted, however, that while the measure was temporary, no termination date had been mentioned and urged Italy to consider early removal of the deposit, and pending termination, that some indication of expected duration and possible programme to phase-out the measure be given. The representative of Italy said that the situation was so complex for the time being that no forecast of duration or phase-out could be given; but he assured the Working Party that it was his Government's interest and intention to reduce or to remove the deposit requirement as soon as conditions permitted and to return to its traditional policy of liberal trade. In reply to enquiries concerning possible modification of the scheme referred to in the press, the representative of Italy explained that the list of products subject to the deposit had been drawn under difficult conditions and would be connected on some minor points while retaining its general character.

11. The representative of the EEC added that on 10 June 1974, the deposit on young cattle for fattening would be abolished; also, but at an unspecified date, the deposit would be removed on certain agricultural products, and the rate reduced to 25 per cent for the bovine meat sector. The measures would make no distinction as to origin. Members of the Working Party welcomed that statement.

12. It was agreed that the Working Party would be reconvened as soon as the International Monetary Fund would be in a position to supply its report and findings; however, it was not excluded that the Working Party could be reconvened earlier should new developments call for a meeting. It was agreed that all modifications to the deposit scheme be notified to the CONTRACTING PARTIES. It was also agreed that the secretariat prepare, after introduction of the modifications, a statistical study of Italy's trade with developing countries.