

GENERAL AGREEMENT ON TARIFFS AND TRADE

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DRAFT REPORT OF THE WORKING PARTY ON THE ITALIAN IMPORT DEPOSIT

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 noted that the Italian Import Deposit had been introduced on 7 May 1974 for an unlimited duration, and subjected imports to a prior non-interest bearing deposit of 50 per cent of the c.i.f. value of the goods for a period of 180 days. The product coverage of the deposit scheme, affecting some 40 per cent of Italy's imports, was detailed in document L/4029.¹

3. The Working Party held two meetings, on 7 June and 12-13 September 1974. At the first meeting the Working Party heard a statement by the representative of Italy, giving a detailed account of the deterioration of the country's balance of payments and in particular of its balance of trade, (the full text of this statement is reproduced in Annex I). The Working Party also heard a statement by the representative of the European Communities to the effect that the prior deposit had become a trade measure of the Community, which had defined its conditions and modalities of application in conformity with Article 108, paragraph 3 of the Rome Treaty. It was the

¹Later modifications to the deposit's product coverage and rates were notified in documents L/4059, L/4065 and Add.1 and 2.

Communities' view that the measure was not more restrictive than the quantitative restrictions specifically provided for in Article XII of the GATT. The deposit was applied without distinction to 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 of the General Agreement.

4. At its second meeting, the Working Party carried out a consultation with the International Monetary Fund. The statement presented by the representative of the Fund (the full text of which is reproduced in Annex II), concluded as follows:

"In the current period of exceptional and widespread balance-of-payments difficulties, strong pressures may exist in a number of individual countries for the adoption of trade and other current account restrictions. The Committee of the Board of Governors on Reform of the International Monetary System and Related Issues in its communiqué issued after its Rome meeting last January stressed that in managing their international payments, countries should not adopt policies that would aggravate the problems of other countries and that, in this connexion, they should avoid the escalation of restrictions on trade and payments.

"In the case of Italy, however, the imposition of the import deposit requirement was warranted on a temporary basis given the exceptionally serious balance-of-payments problems, including a large deficit on non-oil transactions, and the policy options at that time. The Government has now taken measures that should permit the termination of the import deposit requirement and the Fund notes the intention of the Italian Government to terminate in early 1975. In the context of the financial policies discussed earlier, the approach of the Italian authorities to the temporary employment of current account restrictions is in conformity with the general policy mentioned above."

5. Members of the Working Party thanked the representative of the IMF for the Fund's statement on Italy's balance of payments and measures taken to restore equilibrium in the country's economy and external position.

6. The representative of Italy made a statement (the full text of which is reproduced in Annex III) in which he traced the developments of the balance of payments from May to August 1974. The deficit on current account had worsened in May and June; July had shown a small surplus, but preliminary figures for August and September were negative and cause for further concern of his authorities. The deficit on trade account resulted from a continuing trend of greater rate of increase of imports over export receipts, even if the former showed some slowing down in recent months. He recalled the improvements and relaxation that had been introduced in the import deposit, and which had resulted in the scheme now covering some 27 per cent of total imports into Italy, compared to 40.7 per cent when the measure was first introduced. The first conclusion that could be drawn after six months of operation was that the scheme did not appear to have reduced global imports into Italy. He also gave a brief account of the other measures that had been taken to adjust the balance of payments principally fiscal measures. As the import deposit, these had been introduced in the context of the overall situation of Italy, which remained most serious and uncertain. Nevertheless, he confirmed his authorities' intention to abolish the import deposit, which was an exceptional and temporary measure, as soon as possible.

7. The representative of the Communities said that in July, after re-examining Italy's balance-of-payments situation, the Community authorities had confirmed the maintenance of the prior deposit subject to certain adjustments. The decision provided for elimination of the deposit requirement in respect of certain agricultural products subject to common organization of markets. The common characteristic of those products was that they were subject to compensatory amounts, tied to variations in exchange rates; according to the case, those amounts took the form of import charges in the event of revaluation or of import subsidies in the event of devaluation. The purpose of the compensatory amounts was to avoid situations where the support prices, converted according to fixed exchange rates in the member States concerned, could be brought into question by imports settled at the effective exchange rate. The compensatory amount, which in Italy took the form of an import subsidy to take account of the depreciation of the lira, had been eliminated on the agricultural products concerned to the extent of the rate of devaluation of the lira, and at the same time the import deposit had been removed in respect of those same products. In that way two measures operating in contrary directions had been abolished.

8. At both meetings, members of the Working Party expressed understanding for the seriousness of the situation. It was 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. Modifications and improvements introduced to the scheme were welcomed, and it was hoped that further improvements would be made before termination of the measure. The Working Party noted with satisfaction the statement by the representative of the IMF that the Italian Government had

informed the Fund of its intention to terminate the import deposit requirement in early 1975. While it was recognized that the present situation justified continuation of the scheme, it was hoped that the Italian Government would be in a position to terminate the measure at an early date. Pending termination, Italy was urged to consider a gradual phase-out of the rates of deposit and coverage of the requirement. The representative of the EEC said that the Community authorities were following the situation very closely, in close consultation with the Italian authorities, and a further general review would take place in October. At the present juncture, one could not foresee what conclusions would be the outcome of that or any future review regarding the maintenance or elimination of the deposit. The deposit would be eliminated as soon as circumstances permitted.

9. 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. 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 that the deposit would be removed at an early date, and thus lessen its impact on other countries' trade, particularly at a time when other countries were having balance-of-payments difficulties of the same nature. 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.

10. 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.

11. 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 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 six months, which was not excessive.

12. Some members of the Working Party pointed out that the modifications introduced to the deposit requirement had not brought any relief to their trade. They urged Italy to consider exempting products from developing countries from the deposit, or in a phase-out stage, granting them preferential rates. The representative of Italy pointed out that while his authorities were sympathetic to developing countries' trade problems, it has found no grounds, on the basis of the past six months' imports, on which to consider that developing countries' trade had been damaged. Imports from these countries had not decreased in any significant way.

13. Members of the Working Party stressed, at both meetings, the importance they attached to the non-discriminatory application of the import deposit. They welcomed the statement by the representative of Italy that non-discrimination would continue to be observed. It was hoped that this would also be the case should a phase-out of the scheme be introduced before its termination.

Conclusions

14. The Working Party examined the import deposit scheme introduced by Italy on 7 May 1974 in the light of the finding of the International Monetary Fund that "... the import deposit requirement was warranted on a temporary basis, given the exceptionally serious balance-of-payments problems, including a large deficit on non-oil transactions, and the policy options at that time". Taking into account this finding, the Working Party concluded that the Italian import deposit scheme was not more restrictive than measures that an application of the provisions of Article XII of the GATT permits.

15. The Working Party agreed that this Conclusion was without prejudice to the rights of contracting parties under the General Agreement.

16. The Working Party took note of the statements by Italy and the European Communities to the effect that the measure was temporary and would be abolished as soon as circumstances allowed.
17. The Working Party will keep the matter under review.