

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## ITALIAN SPECIAL TREATMENT FOR CERTAIN LIBYAN AND SOMALIAN PRODUCTS

### Report by the Working Party on Italy/Libya and Italy/Somalia Waivers

1. The Working Party was established by the CONTRACTING PARTIES at their twenty-fourth session to examine the request by Italy for a further extension of the waivers authorizing special treatment for imports from Libya and Somalia.
2. The Working Party met on 11 and 18 November 1967.
  1. Italian special customs treatment for certain Libyan products
3. The Working Party had before it the annual reports and requests for extension of the Decision of 5 October 1952 as amended submitted by the Governments of Italy (document L/2894) and of Libya (document L/2877).
4. The representative of Italy commented in detail on the main points of his Government's report on the operation of the waiver over the last three years. He referred to the figures in the report which showed that, whereas Italian imports from Libya of the products listed had decreased - in some cases very substantially - or had been non-existent, imports from third countries had increased. It was thus obvious that the waiver did not operate in a way which would justify the fears which had always been in the minds of contracting parties in previous discussions of this matter. Despite the decreased exports of Libya to Italy of the products concerned, the evolution of trade showed clearly - as had been pointed out in the Report of the Libyan Government - that, apart from exports of crude oil, exports to Italy of products under the special customs régime continued to occupy an important place in total Libyan exports of these products. As was pointed out in his Government's report submitted in 1966 (L/2508), when considering the effort still to be made in Libya in the various production sectors other than the oil sector in order to strengthen the competitive position of other products intended for export, the maintenance of the special customs treatment still seemed to be an instrument which could effectively contribute towards improving Libya's economic situation.

5. The representative of Italy then explained why authority for special treatment was no longer required for some of the products hitherto covered by the waiver. Imports into Italy of oilseeds (item 12.01 a II, III, GV) from all sources were duty free since November 1966. As regards vegetable oils (olive and castor oil, item 15.07) and prepared or preserved fish other than tunny (item 16.04 E I c, d), there had been no imports over the last three years. For the remaining products, however, a three-year extension was requested in order to help Libya in her efforts to diversify her economy. With regard to casings, he wanted to point out that they would enjoy duty-free entry from all sources by virtue of the coming into force of the Common External Tariff on 1 July 1968. Thus for casings there would in fact be special treatment only for a period of six months.

6. In concluding he stressed that in requesting an extension of the waiver, Italy was not seeking advantages for herself but aimed only at collaborating with Libya in her efforts to maintain certain lines of agricultural and handicraft production and avoid reliance on one single product, petroleum.

7. The observer for Libya expressed his Government's full support for the request made by Italy.

8. A member of the Working Party pointed out that the question would not have arisen if Italy had been an original party to the General Agreement as in that case she would have enjoyed the right to grant preferences in favour of her former overseas possessions as certain other contracting parties had been entitled to do under Article I and the annexes thereto.

9. The Working Party noted with satisfaction that a number of items would be eliminated from the list of items subject to special treatment and encouraged the parties to delete further products from the list as rapidly as economic conditions in Libya permitted. In the view of some members it appeared that such deletions could readily be made in those items where trade was minimal.

10. Some members pointed out that, according to the Libyan report, the difficulties confronting Libyan exports were largely due to rising costs and labour scarcity in Libya. It was therefore doubtful whether the special treatment was of real benefit to the Libyan economy. They suggested that efforts should be made by Libya to take advantage of its very favourable overall export trade and economic growth to diversify and establish exports on a more competitive footing.

11. Reference was made to the fact that whether or not the special treatment was helpful to the Libyan economy, there was no denying that discrimination in favour of one developing country raised an important question of principle and that discriminatory treatment was not the best method of solving the urgent problems of developing countries. The representative of Italy recognized this point of principle but considered that the whole question of preferences was at

present the subject of serious study by GATT and other organizations and that in the meantime the special needs of Libya justified continuation of the special treatment. He pointed out that the special treatment applied to an extremely small portion of total Italian imports of these products.

12. The Government of Italy, voicing the wishes of the Government of Libya, urged that the request for an extension for a further three years, limited to a smaller number of products, be accepted. Such an extension would give effective support to Libya in the attainment of the objectives contained in her new development plan.

13. In the light of the examination of the Italian request which the Working Party has conducted, it recommends that the Decision of 9 October 1952 as amended be extended until 31 December 1969 with the deletion of the items mentioned in paragraph 5 above. It further recommends that the situation be reviewed before the end of 1968 with a view to examining the efforts made by the Government of Libya to improve national production in the sectors enjoying special customs treatment. The text of a draft decision is annexed hereto.

## II. Italian special customs and fiscal treatment for certain products of Somalia

14. The Working Party had before it the request by the Government of Italy for an extension of the Decision of 1 April 1966 (document L/2895), which expires on 31 December 1967.

15. The representative of Italy said that the request for an extension of the special customs treatment covered only prepared or preserved meat (item 16.02) and prepared or preserved fish (item 16.04). Following the complete elimination of duties within the Community on 1 July 1968, these products would enjoy free entry into Italy pursuant to the Yaoundé Convention. The extension was therefore requested only for six months. Since Italy already autonomously granted duty-free entry for bananas from the Yaoundé countries, imports from Somalia no longer received special customs treatment.

16. The waiver, however, provided for special fiscal treatment for bananas. When Italy abolished the banana monopoly, replacing it by a much more liberal import régime based on a global quota valid for imports from all sources - Somalia included - measures had to be taken to allow Somalia to adjust to the new conditions of competition in the Italian market so as to avoid the possibility of a severe prejudice which competition from other banana imports could cause to the Somalian economy. The CONTRACTING PARTIES had therefore authorized the Italian Government to collect until the end of 1967 a consumption tax of Lit 60 per kilo on bananas of Somalian origin while continuing to collect Lit 90 on bananas from all other sources.

17. The representative of Italy referred to the statement contained in his Government's report that the results of the efforts of the Somalian Government had convinced the Italian Government, by about the middle of 1967, that Somalia would be in a position by the end of 1967 to dispense with any special treatment. He pointed out, however, that an exceptional situation had arisen with the closing of the Suez Canal. There had been no exports to Italy for three months, shipments around the Cape by ordinary banana ships having proved disastrous for the proper preservation of the product. Somalia was trying to remedy this situation by re-organizing the transportation system and making use of faster and more modern ships which were, however, extremely costly. It should be noted that these difficulties arose just at the time when Somalia was preparing to launch its new Banana Development Plan.

18. Faced with this situation the Italian Government, while wishing to continue to give assistance to Somalia in a situation which was even more serious than that existing when the special fiscal treatment was first authorized, could not take the necessary legislative steps before the end of this year without the concurrence of the CONTRACTING PARTIES.

19. In support of his request he wanted to stress that independently of the recent difficulties encountered by the Government of Somalia, its exports of bananas to Italy compared with those of 1964 had decreased while those coming from third countries had increased. Actually, in 1964, when the foreign purchasing monopoly for bananas still existed in Italy, imports of bananas from Somalia represented 66 per cent of Italy's total banana imports, but by 1966 they had dropped considerably to a mere 27 per cent of the total. He considered this as proof of the fact that, with the advent of the new Italian banana import régime, Somalian exporters of bananas to Italy had - despite the fiscal facilities they enjoyed - found themselves on the same footing as exporters for other producing countries.

20. The Working Party recognized that the Italian market had been opened up following the abolition of the banana monopoly and that exports of other developing countries had thus been broadly helped. This was considered a very important development.

21. Some members reiterated their conviction that discriminatory assistance to one developing country caused prejudice to the trade of other developing countries. The representative of Italy wished to repeat that the import figures clearly showed the existence of competitive conditions in the Italian market such that quality and price of the product could play their full part. He therefore considered that the discrimination was much more formal than practical in its effects.

22. The point was also made that taxes on tropical products originating in developing countries were undesirable and the representative of Italy was asked whether his Government could not consider removing or reducing the consumption tax. The representative of Italy replied that this tax was a fundamental element in the transition from the monopoly situation to the present arrangements. No doubt it was to be hoped that this tax could one day be dispensed with.

23. In reply to a question whether the Italian Government could consider reducing the discriminatory element in its imposition of the consumption tax, the representative of Italy said that his Government was pursuing its objective of helping the Somalian banana industry in its efforts towards re-organization. The measure was of a temporary character and he thought that if it was authorized for a further two years, the Government of Somalia should by the end of the period no longer find itself in need of such assistance.

24. Disappointment was expressed that it was not possible to allow the waiver to lapse by the end of 1967 as had been envisaged at the twenty-third session. Several members of the Working Party questioned whether an extension of as much as two years was necessary to meet the difficulties which appeared to be caused mainly by the closure of the Suez Canal. The Italian representative expressed his understanding for this point but explained that he was obliged to insist on a period of two years, not only in view of the great losses suffered by the Somalian banana trade in the current year but also because the cycle of Somalian production and exports extended from the month of June to the following spring. He considered that two years were necessary to enable the Somalian banana trade to make good its current year losses and proceed with its re-organization in the year ahead. He recalled, further, that the lower consumption tax collected would apply - as was the case during the last two years - only to imports of Somalian bananas up to 1 million quintals per annum out of a total annual global import quota of 3,125,000 quintals.

25. The opinion was also expressed that institutional measures such as the ones being requested by the Italian Government were not consistent with the temporary nature of the economic difficulties being faced by Somalia.

26. After a thorough discussion and taking into account the confidence of the Italian Government in the prospects of Somalia's banana trade, the Working Party agreed to recommend an extension of the waiver for the special fiscal treatment for bananas (item OG.01 B) of Somalian origin for a period of two years, i.e. until 31 December 1969.

27. In the light of the information supplied by the Government of Italy, the Working Party further recommends that the Italian Government be authorized to continue to grant special customs treatment until 1 July 1968 to:

16.02 Prepared or preserved meat and

16.04 Prepared or preserved fish

originating in Somalia.

28. The Brazilian representative reserved the position of his Government.

29. A draft decision is attached to this report.

Annex I

ITALIAN SPECIAL CUSTOMS TREATMENT  
FOR CERTAIN LIBYAN PRODUCTS

Further Extension of the Decision of 9 October 1952

Draft Decision

Having received a proposal from the Government of Italy, in response to a request by the Government of Libya, for an extension of the Decision of 9 October 1952<sup>1</sup> as amended by the Decision of 25 November 1955<sup>2</sup>, 20 November 1958<sup>3</sup>, 16 November 1961<sup>4</sup> and 25 January 1965<sup>5</sup>, whereby the provisions of paragraph 1 of article I of the General Agreement were waived, for the period ending 31 December 1964, to the extent necessary to permit the Government of Italy to grant special customs treatment, as set out in the Annex to this Decision, to certain products originating in and coming from the Kingdom of Libya when imported into Italian customs territory;

Taking note that the requests of the Italian and Libyan Governments envisage the deletion of a number of items which appear on the list of products to which special treatment has up to now been given by the Italian Government, and that further deletions will be made as rapidly as economic conditions permit;

Taking note further of the assurance by the Government of Libya that it will continue in its efforts to promote economic development and to raise the standard of national production so that Libya will be able to participate in international trade on a normal competitive basis, and

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<sup>1</sup>BISD, First Supplement, page 14.

<sup>2</sup>BISD, Fourth Supplement, page 16.

<sup>3</sup>BISD, Seventh Supplement, page 34.

<sup>4</sup>BISD, Tenth Supplement, page 45.

<sup>5</sup>BISD, Thirteenth Supplement, page 24.

Considering that the proposed extension, in view of the nature and volume of the production and trade involved, is not likely to result in substantial injury to the trade of any of the contracting parties,

The CONTRACTING PARTIES, acting pursuant to article XXV:5, and in accordance with the procedures adopted by them on 1 November 1956,

Decide

- (a) that the Decision of 9 October 1952, as amended by the Decisions of 25 November 1955, 20 November 1958, 16 November 1961 and 25 January 1965, shall be extended until 31 December 1969 with respect to the products enumerated in the annexed Schedule, and
- (b) that the situation shall be reviewed before the end of 1968 with a view to examining the efforts made by the Government of Libya to improve national production in the sectors enjoying special customs treatment.

Annex

Schedule of Products of Libyan Origin to be admitted into Italian Customs Territory Free of Customs Duty Within the Limits of Annual Tariff Quotas

Tariff Item No.	Description of products	Annual tariff quotas (quintals)
03.01 B	Salt-water fish, fresh (live or dead), chilled or frozen	No limitation
03.02	Fish, dried, salted or smoked	2,000
05.04 D ex II	Casings, dried or salted	800
08.01 A	Dates, edible	15,000
16.04	Prepared or preserved fish, in airtight containers:	
E ex I	Tunny	13,000
58.01 A	Carpets, carpeting and rugs, knotted, of wool or fine animal hair	200
58.02 A ex II	Other carpets, carpeting and rugs, of wool or flock-wool	500
Various	Articles and manufactures of all kinds, of tanned skins	200

Annex II

ITALIAN SPECIAL CUSTOMS AND FISCAL TREATMENT  
FOR CERTAIN PRODUCTS OF SOMALIA

Draft Decision

Considering that, on the request of the Government of Italy, in execution of its undertaking to contribute to the economic aid of the Republic of Somalia, the CONTRACTING PARTIES decided, on 19 November 1960<sup>1</sup>, to authorize the Government of Italy to continue to grant special customs treatment to certain specified products originating in Somalia until 31 December 1965; and that the validity of this Decision was further extended by Decision of 17 January 1966<sup>2</sup>;

Considering that, on the request of Italy, the CONTRACTING PARTIES decided, on 1 April 1966<sup>3</sup>, to extend the validity of the Decision of 19 November 1960 until 31 December 1967 with respect to three products and to amend the Decision to permit the Government of Italy to apply the Italian consumption tax to bananas originating in the Republic of Somalia, up to a quantity of 1 million quintals annually, at a rate of Lit 60 per kg. while applying the rate of Lit 90 per kg. to bananas of any other origin;

Considering that the Government of Italy has requested that it be authorized to continue to grant special customs treatment to the two products listed in the annex to this Decision until 30 June 1968 and to continue to apply until 31 December 1969 the Italian consumption tax at a lower rate to bananas originating in the Republic of Somalia than to bananas from any other origin;

Taking note of the opinion expressed by the representative of the Government of Italy that, if the special treatment was extended, as requested, for a further two years, the Government of Somalia should by the end of the period no longer find itself in need of such assistance;

Considering that the grant of this special treatment to Somalian products is designed to promote the economic development of the territories of the Republic of Somalia and, particularly, to help the Republic of Somalia to overcome certain recent difficulties of a temporary nature which it has encountered; and that the economic development of Somalia would be prejudiced if the Government of Italy, in accordance with its obligations under article I of the General Agreement, should cease to apply a special treatment to the Somalian products covered by this Decision;

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<sup>1</sup>BISD, Ninth Supplement, page 40.

<sup>2</sup>L/2547.

<sup>3</sup>BISD, Fourteenth Supplement, page 34.

Considering further that it has been ascertained, in accordance with the procedures adopted on 1 November 1956, that the proposed special treatment, in view of the nature and volume of the production and trade involved, is not likely to result in substantial injury to the trade of any of the contracting parties,

The CONTRACTING PARTIES, acting pursuant to paragraph 5 of Article XIV of the General Agreement and in accordance with the procedures adopted by them on 1 November 1956,

Decide

1. That the provisions of paragraph 1 of Article I of the General Agreement shall be waived, to the extent necessary to permit the Government of Italy to grant duty-free treatment until 30 June 1968 to the products listed in the Annex to this Decision, originating in the Republic of Somalia, when imported into the customs territory of Italy, without obligation to extend the same treatment to the like products of other contracting parties; and that such treatment shall be governed by the provisions of paragraph 4 of Article I, provided that, for the purposes of that paragraph, the date of 10 April 1947 shall be replaced by the date of this Decision.

2. That the provisions of paragraph 1 of Article I shall be waived to the extent necessary to permit the Government of Italy to apply until 31 December 1969 the Italian consumption tax to bananas (tariff number 08.01 B(2)) originating in the Republic of Somalia, up to a quantity of 1 million quintals annually, at a rate of Lit 60 per kg. while applying the rate of Lit 90 per kg. to bananas of any other origin.

Annex

SCHEDULE OF PRODUCTS OF SOMALIAN ORIGIN TO BE  
ADMITTED INTO ITALIAN CUSTOMS TERRITORY FREE OF CUSTOMS DUTY

<u>Italian customs tariff numbers</u>	<u>Description of products</u>
16.02	Prepared or preserved meat
16.04	Prepared or preserved fish