

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## EXPANSION OF TRADE - AGRICULTURAL POLICY

### Report of Committee II on the Consultation with Italy

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session, that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Italy. The Committee had before it:

- (i) document COM.II/40(b), dated 20 January 1960, which contained a synopsis, prepared by the secretariat, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers;
- (ii) document COM.II/40(b)/Add.1, dated 4 February 1960, containing information furnished by the Government of Italy on the cost of agricultural support programmes and farm net income; and
- (iii) documents COM.II/43, dated 14 January 1960, and COM.II/43/Add.1, dated 9 February 1960, which contained detailed information supplied by the Government of Italy on commodities entering importantly into international trade.

In conducting the consultation the Committee followed the plan for consultation contained in Annex A to COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 10 February 1960.

#### A. General Agricultural Policy

2. In his opening statement the representative of Italy expressed the view that every government found itself compelled to pursue simultaneously a policy of economic expansion directed towards increasing the aggregate real income, and a policy of stabilization of prices and incomes. In pursuing these policies it was necessary to achieve balances between many economic and non-economic activities. He stressed the absolute necessity when seeking to obtain these balances, for every government to realize the repercussions of its economic policies on the economies of other countries. He stated, however, that a concerted action by governments was not in itself sufficient to achieve for every government a lasting equilibrium between expansion and stabilization; it was essential for the larger markets to increase at the same time export possibilities for other countries. He felt, therefore, that the achievement of a favourable balance between the policies of expansion and income on the one hand, and home market stabilization on the other,

depended on (i) the actions of individual governments; (ii) the joint efforts of governments directed towards an agreed objective; and (iii) the policies of the countries constituting the larger markets.

3. At the time of the last Italian census in 1951, the agricultural population amounted to 16,792,000 which represented 35.6 per cent of the total population compared with 44.5 per cent of the pre-war period. The active agricultural population in 1951 made up 41.8 per cent of the total active population. In 1958 this percentage had dropped to 31.5 per cent which still represented one of the highest amongst European countries. The average rate of yearly increase of the population, which was much higher in southern than in northern Italy, was 8.6 per thousand during the period 1921-31 and 7.7 per thousand during 1951-58.

4. The share of agriculture in the gross national product had stabilized at approximately 2,600 billion lire. As the gross national product had steadily moved upwards the share of agriculture tended to decrease while the percentage of the agricultural population showed little change. The result was that the individual gross product in agriculture was decreasing in relation to the individual gross product in the other sectors of the economy. In certain areas farmers were attempting to earn additional income by means of handicrafts, employment in public works, etc., but the value of such income for the agricultural population only represented a very small percentage of their total income.

5. In Italy regional disparities were very pronounced. Generally the country could be divided into two large zones, the north and the south. Industrial and economic development had reached a much higher level in the north where agriculture had been much more intensively developed. The difference in yields in agriculture between the south and the north was generally of the proportion of one to two. Of the total value of the marketable agricultural production, the north accounted for 65 per cent and the south for 35 per cent, a proportion which had no relationship to population figures. Approximately three-quarters of the cereal production and of the animal production came from the north; on the other hand, 55 per cent of grape and olive production was from the south. Fruit and vegetable production was shared equally between the two areas. In Italy as a whole, 31 per cent of farms were located in mountainous districts, 45 per cent in hilly areas and only 24 per cent on the plains.

6. In its efforts to improve the structure of Italian agriculture, the Italian Government was confronted with the imbalance between natural resources and population. Technical advances, rather than easing the situation, had tended to accentuate the discrepancy between the surplus of manpower and the area available for cultivation. As progress was achieved in the production of traditional crops, especially in the cereal sector, a falling-off occurred in the demand for agricultural labour. Parallel to technical advances, the yield per unit of land tended to increase; if there was not at the same time a corresponding increase in consumption at home or abroad of the main agricultural products, surpluses of these products appeared followed by surpluses of labour. The problem of surplus labour in relation to the availability of other factors of production such as land and capital, was one of the most important problems facing Italian agriculture.

7. The representative of Italy explained that the low income provided by agriculture was also attributable to other factors. It was extremely difficult to introduce modern methods of cultivation in large areas of Italy. Environment, primarily climatic conditions which resulted in a shortage of water, hampered progress in production in mountainous regions and in other marginal districts which covered vast portions of southern Italy and of the islands. The low income from agriculture could also be ascribed to the fact that there were in Italy many small farms which were not in a position to resort to modern production methods. Hence, because of environment or structure, it was evident that in a considerable portion of the country, the agricultural sector faced great difficulties with the result that the income of a very large part of the rural population was at subsistence level. The representative of Italy added that because of this situation savings in the agricultural sector were so scanty as to exclude all possibilities of self-financing or investment with a view to increasing the productivity of the land.

8. The representative of Italy also pointed out that the system of vocational training was not yet entirely satisfactory which hampered agricultural workers when they attempted to obtain employment abroad or when they attempted to find employment in related activities such as the agricultural produce processing industry. Other factors which tended to retard the agricultural sector included the out-of-date nature of agricultural producers' organizations and the marked shortage of credits in areas which would otherwise offer possibilities of a more intensive agricultural development.

9. A number of measures had already been taken to improve the structure of agriculture. Others were in process and it was the hope that they would be introduced in line with the general policy of economic development. The Government had undertaken intensive works of rehabilitation and improvement without which it was considered that individual farmers would be compelled to face complete or at least partial failure. Only after completion of these operations could headway be expected with works of soil amelioration. Private initiative had also received State assistance by means of large appropriations. The State was also depended upon to provide vocational training for agricultural labour and to endeavour to assist private individuals who wished to invest in undertakings connected with agriculture.

10. In pursuing its policy of economic development the Italian Government recognized that for the agricultural system to achieve soundness, surplus manpower must be transferred to other sectors of production activities. It was recognized that the economy of a country could not expand by isolating sectors; the agricultural sector could only expand if all other sectors developed concurrently.

11. It was the policy of the Italian Government to stimulate production which was likely to meet a growing demand domestically or externally; this pertained particularly to cattle breeding and market gardening which could provide employment on a large scale. The Italian Government also endeavoured to modify certain institutional structures in seeking ways and means of increasing agricultural productivity. In an effort to put land to better use it had at times been possible to break up large estates and to parcel them out to be operated by owner-farmers. In certain areas consolidations had been arranged in such a way as to preclude the possibility of properties being again divided into

too many small lots. Amongst other Government objectives were the rationalization of agricultural undertakings with a view to a sounder utilization of production factors, the incorporation of local production within larger and better organized programmes, changes in the legal status of agricultural undertakings and management, the introduction of new methods and processes resulting from research, action against disease, and the provision of technical assistance and grants of credits on a much larger scale.

12. Compared to the efforts made to bolster economic development, measures aiming at stabilization and market organization had lagged. The policy of stabilization was directed primarily towards avoiding the situation where the results achieved by a policy of expansion might be jeopardized by excessive fluctuations of income and price. The policy of stabilization was intended to meet the dual necessity of assisting in the support of agricultural income, and in directing the course of agricultural production more towards fulfilling the country's requirements. A review of the provisions adopted during recent years showed that rather than a system of granting formal guarantees to producers the Italian authorities were applying measures directed more towards preventing or correcting any imbalance of production which could affect market stability. It was the general rule in determining fixed or supported prices that there should be no legal provisions compelling the Government to revise prices yearly in line with variations occurring in the index or prices paid by producers. Vegetable products were practically the only products subject to Government interventions. The orientation of production in line with the development of demand in the internal and external markets was controlled not so much by a price policy as by the organizing of the market and by systems of compulsory and voluntary stockpiling.

13. Responsibilities for actions of stabilization were shared by the Government and semi-official organizations. The representative of Italy explained that these actions could only be fully understood when considered within the framework of the long-term objectives of improving agricultural income, reducing the present disparity between income in agriculture and income in other sectors of the economy, and of progressively lessening regional disparities. He emphasized that the stabilization policy was necessary to avert possible obstacles to the expansion policy.

14. The Italian Government's interventions in the field of price supports were of an indirect nature and included the purchase of products from compulsory collection pools, partial purchases by the State in the case of wheat, total purchases by the co-operative organizations in the case of rice, hemp and sugar beet, and contributions to the cost of compulsory stockpiling. The Italian Government's interventions were moreover only temporary; they did not bind the Government beyond one year. The representative of Italy also emphasized that in selecting methods of price support the Government had to take into consideration the limitations imposed by its finances which did not permit high subsidies.

15. Prices were fixed by the Government: (a) for wheat in respect of the compulsory collection quota; (b) for rice; (c) for tobacco production and sale which were under State monopoly. Sugar beet and hemp prices were fixed by the Government in agreement with the respective trade organizations so as to guarantee a profit to both producer and industry. The criteria by which

prices were established was outlined in documents COM.II/43 and COM.II/43/Add.1. The representative of Italy added that the products on which prices were established represented less than one-fifth of the total value of agricultural production. Other products such as olive oil, cocoons and wines which were subject to forms of direct intervention on the part of voluntary producers' organizations, made up less than 10 per cent of total agricultural production. The stabilization methods therefore adopted by the Italian Government affected only a small proportion of total agricultural production; they were in effect intended to protect productions having both an agronomic and a social function and which contributed importantly to the national income and were exposed to foreign competition.

16. There were no direct interventions in the determination of prices for animal products due to the fact that the constant increase that was taking place in demand constituted in itself a factor furthering production. The growing consumption of beef arising from the improved standard of living of the Italian population has brought about a sizeable increase in prices and in the share of income derived from animal production.

17. The representative of Italy informed the Committee that quantitative restrictions on imports were applied within the framework of three general permit lists. With respect to contracting parties List A applied to Canada, Chile, Cuba, Dominican Republic, Haiti, Nicaragua, Peru and the United States; List C applied to Czechoslovakia, Finland, Brazil and Israel; and List B applied to all other contracting parties except Japan and Uruguay. With respect to countries covered by List B, apart from the products listed in documents COM.II/43 and COM.II/43/Add.1, restrictions applied only to fresh grapes for wine production, sugar beet, saccharose syrup, molasses, certain mixtures of flour and sugar, fresh and fermented grape must, fresh grape wines and cork. In addition, certain products which could be used for the manufacture of edible oils and offered as "first pressurage" oils, were subject to licensing. These included acid refinery oils, including fluid or solid vegetable oils other than olive oil and palm oil containing over 50 per cent but less than 85 per cent of free acids reckoned as oleic acids; oil dregs and sediments and saponification pastes, except those provided by the treatment of crude olive oil imported on a temporary basis for refining. Moreover, in order to prevent wine adulteration, dates (except those intended for direct consumption), carob beans, date and raisin pastes, dried date and fig pastes and juices were subject to licensing.

18. In concluding his opening statement the representative of Italy informed the Committee that the Italian Government had at present under consideration a programme intended to eliminate gradually discrimination and restrictions. This programme would be submitted to the CONTRACTING PARTIES at their sixteenth session. In this connexion, the Government was also considering the possibility of reducing discrimination in respect of imports of agricultural products. The representative of Italy also pointed out that Import List A had been considerably relaxed by the recent Ministerial Decree of 22 December 1959. A list of the most important products included in this recent liberalization measure is attached as Annex I.

19. In response to questions on the production objectives of the Draft Five Year Plan for Italian Agriculture, the representative of Italy stated that the Plan was primarily one for economic development and that no specific production objectives for agriculture were proposed. The Plan called for an extension of research facilities, technical assistance, the provision of more favourable credit terms, modernization, rural building, mechanization, the development and construction of lakes, irrigation, etc. He pointed out that of a total planned expenditure of 550,000 million lire, only 60 million lire were to be directed towards the storage and marketing of agricultural products.

20. While expressing appreciation of the many difficulties faced by Italian agriculture, a member of the Committee was of the view that the Italian Government was maintaining a rather complex series of measures for the protection of agriculture and that these measures were having serious repercussions on international trade. He noted in particular the fixing of prices for wheat, rice and sugar beet, minimum prices for butter and meat, and the wide variety of methods of assistance directed towards the reorganization of land, etc. in an effort to assist the more economically weak sections of agriculture. In particular, however, he wished to refer to the high degree of discrimination in the application of a system of comprehensive import restrictions which were not justified on balance-of-payments grounds, but were maintained solely for protection. He pointed out that imports from the dollar area in particular faced discriminatory treatment. Most agricultural products were free of import restrictions only when imported from OEEC countries; quotas for the importation of many commodities were open to countries who were not contracting parties to the General Agreement, yet were not available to contracting parties of the dollar area. He emphasized that most agricultural products entering importantly into international trade, including cheese, all cereals (except barley), oilseeds and most meat products were severely restricted. The member of the Committee recalled that the representative of Italy had indicated that his Government was studying the possibility of progressively removing restrictions and had the intention of arriving at a programme of liberalization at the sixteenth session of the CONTRACTING PARTIES. He expressed disappointment with the amount of progress which had been achieved to date in the dismantling of the restrictive system and stated that the announcement of a fixed timetable by the Italian Government for the elimination of all discrimination and restrictions would be a significant contribution towards freeing international trade. These views were shared by other members of the Committee. The representative of Italy assured the Committee that the present import control system was not designed to discriminate against certain areas. He reminded the Committee, however, of the important social function of agriculture in Italy and of the important contributions made by agriculture towards the national income. He assured the Committee that the stated interest of the Committee in liberalization of import restrictions would be referred to his Government. Italy had already undertaken to examine this whole problem by the sixteenth session of the CONTRACTING PARTIES when full consideration would be given to the discriminatory treatment of imports from the dollar area. He stated that the steps already taken by Italy in the removal of restrictions from a number of imports from dollar countries with effect from 1 January 1960 was proof of his Government's good intentions.

21. A member of the Committee noted that no planned production targets were established by the Italian Government. He enquired whether any assessment could be made regarding future agricultural requirements in Italy. He asked to what extent a reliance would be placed on imports, particularly imports of livestock products, and enquired whether the Italian Government was aiming at some degree of self-sufficiency in this field. The representative of Italy informed the Committee that domestic production of animal and meat products was not sufficient to fulfil domestic consumption. While it was the hope of the authorities that animal production would increase sufficiently to cover increases in internal demand brought about by an increasing population, it was not possible to give any reliable indication of whether the proportion of imports would be changed in the future.

22. It appeared to one member of the Committee that Italian agriculture relied upon the protection of such non-tariff measures as minimum prices and State trading as well as quantitative restrictions. He asked to what extent Italy was contemplating moving away from such non-tariff measures; he emphasized that although the removal of discriminatory import restrictions was very important for many countries, the removal of quantitative restrictions generally was important to all. The representative of Italy assured the Committee that his Government would attempt to do its best to move away from non-tariff measures during the sixteenth session of the CONTRACTING PARTIES. He pointed out, however, that the Government had to bear in mind the effects of the removal of such measures on the national economy. He reminded the Committee of the many important problems facing Italy and pointed out that in addition to the serious general unemployment which existed there was also serious under-employment in agriculture; much employment in agriculture was of less than one hundred days duration per year.

23. A member of the Committee expressed the view that it would be most difficult to improve the economic position of Italian agriculture without first moving a large population out of the agricultural sector. He appreciated that a transference of population to industry would necessitate a large capital outlay, but pointed out that the development of the tourist trade in mountainous areas and the reafforestation of areas not well suited for agriculture would contribute towards a solution. He enquired whether the present guaranteed prices for agriculture were based upon achieving a satisfactory standard of living for small farmers. He expressed surprise that Italy was such an important producer of grains. It appeared that Italian natural conditions were not adequately suited for the production of grains which required extensive rather than intensive production. The representative of Italy explained that the problem of agricultural production in the south and in mountainous areas where there was over population and generally depressed conditions was of great concern to his Government. In mountainous regions the natural environment placed a limit on agricultural production which could only be overcome by extensive public works; in the plains of Italy the further development of agriculture showed much greater promise. He stressed, however, that the imbalance in income between agriculture in these areas and in other parts of the country was continually growing. The aim of the Agricultural Acts established in 1952 and 1957 was to grant special assistance to agriculture in mountainous regions which was to be in the form of public works such as electrification and afforestation, as well as subsidies. The representative of Italy explained that while

efforts had been made towards the development of handicrafts and tourism, such measures alone could not be expected to overcome the lack of natural resources, over-population and general poverty. He felt that a certain co-ordination with developments in other industries was essential and expressed the view that some relief of the population pressure could possibly be achieved by diverting labour from agricultural production into the distributionary services.

24. The representative of Italy also explained that the criteria used in establishing a price for wheat (or other important agricultural products) were the costs on an all mechanized farm. The Italian representative added that there was also an import monopoly for wheat in order to protect the fixed domestic price against imports from low-cost producers. He emphasized that while there was no precise procedure followed in establishing the guaranteed price the likely effect on consumption and on the general cost of living had to be borne in mind by the Government. Another consideration was the necessity of providing the producer with an adequate level of income. There was no uniform production price for the country as a whole; the price varied according to the area. Producers in the islands received the highest price, followed by southern Italy. However, the price differential only partly offset the difference in yields due to different conditions. The Government also paid 50 lire per quintal for the storage of wheat from December to June for the purpose of encouraging farmers to stock over-production. The representative of Italy confirmed that the domestic price for wheat was 40 per cent higher than the world price; the unsupported price on the Italian market followed closely the supported price and remained fairly stable due to the control of imports and the stocking of domestic wheat. He added that when stocked wheat was released it was sold at uniform prices throughout the country. He explained that the State covered the various expenses incurred in the support of wheat, in part by the State monopoly on wheat which permitted the Government to import and sell wheat at the higher domestic price, and in part from consolidated revenue. Regarding the feasibility of intensive cultivation of other products, as opposed to the production of high-cost wheat in Italy, the representative of Italy stated that the successful development of intensive agriculture would depend on the elasticity of consumption for these products in overseas markets. He felt that the only alternative was to maintain a certain level of wheat production, even at a very high cost.

25. A member of the Committee felt that the general objectives of agricultural policy in Italy were of rather marked contrast to the policy objectives of many other countries. In many countries there existed definite and distinct plans designed to achieve self-sufficiency or near self-sufficiency in certain products; in Italy there were no such plans. The Government had indicated, however, that one objective was to reduce the need for imported foodstuffs. The Committee member felt that since domestic production was being encouraged the need for protection from restrictions in the future might become even greater. The representative of Italy confirmed that it was not the aim of his Government to achieve any particular degree of self-sufficiency. The level of the guaranteed prices was designed to give producers an adequate level of income while at the same time reducing imports, the cost of which weighed heavily upon the balance of payments which had not improved until recent years. He indicated that because of this policy there

was no longer any necessity to import soft wheat. He stated, however, that it was the policy of the Government to move the guaranteed price for wheat nearer to the world price and to lower the amounts designated for compulsory collection.

26. In response to a question, the representative of Italy confirmed that the agricultural population had decreased, but that, despite this decrease, exports of agricultural products had continued to increase. He reminded the Committee, however, that Italy was, and would most probably remain, a large net importer of agricultural products.

27. A member of the Committee referred to the minimum prices established in Italy and enquired whether such a system was not similar to a system of quantitative restrictions in that imports were suspended when the price fell below a certain figure. The member of the Committee felt that there would be difficulties reconciling such a measure with the provisions of the General Agreement. He found it difficult to understand why this method was adopted since it deprived the country of normal customs revenues. He felt that customs duties with differential tariff rates for seasonal variations would have the same effect and at the same time be more acceptable. The representative of Italy informed the Committee that minimum prices were applied to meat and butter. He stated that the technique of minimum prices was a highly flexible one and that imports had been affected only for two months in the case of meat and for six months in the case of butter. In the case of butter the measure had been introduced in an effort to maintain stability in the market when prices of imports were abnormally low.

28. A member of the Committee noted that the Italian Government's agricultural programme was principally directed towards the improvement of the structure of agriculture. Nevertheless, there was a wide range of Government measures, such as State trading, fixed prices and export aids. These represented a high degree of intervention with considerable adverse effects on international trade. Moreover, many price supports and other measures were concentrated on products which played little part in the economy of the depressed areas in the south and thus ran counter to the outstanding needs of the situation. The representative of Italy stressed that his Government was adopting, and would continue to adopt, measures directed towards the equalization of agricultural income, and stated that his Government had to apply any measures adopted consistently throughout the country as a whole. He stressed again that price differentials applied to different sections of the country, but that these could not offset differences in yields. The result was a dual rate of development in Italian agriculture.

29. A member of the Committee referred to the voluntary pooling arrangements which he understood were undertaken by producers' organizations. He enquired about the role played by the Government in these arrangements. He noted that a pooling arrangement existed for olive oil and enquired whether this arrangement was a continuing one. The representative of Italy explained that the object of the voluntary pooling arrangements was to stabilize the market and that they could be compared to a system of buffer stocks. He informed the Committee that an advance payment was made to producers on delivery and only when sales were finalized would the producer receive the full price. He explained that for wheat and corn there was no financial intervention by the

State, but that for silk worms, wine and olive oil there was certain financial assistance by the State. The representative of Italy particularly stressed the importance of the olive oil production to Italy. Annual production of olive oil was in the vicinity of 2,500,000 quintals valued at 80,000 million lire, of which contributions by the State amounted to less than 1 per cent. He pointed out that it was possible to achieve the successful cultivation of this product in the more depressed areas of the country. In view of the competition from imported oils, many of which were liberalized in December 1959, the Government of Italy recognized the necessity of giving a certain degree of protection to the industry in an effort to maintain the quality and to soften the effects of price fluctuations as well as for obvious social reasons. A voluntary pooling arrangement and a maximum quantity therefore had been fixed. Although the pooling arrangement was in the hands of the associations the State did cover part of the cost of the crop delivered for voluntary pooling. In 1959/60, the crop coming under the voluntary pooling arrangement was only 36,000 quintals of the established maximum amount of 240,000 quintals. The representative of Italy added that a tax of 250 lire per kilo was placed on manufactured oils in an effort to limit, for social reasons, competition for olive oil. He also informed the Committee that the Silk Worm Association managed a voluntary pooling arrangement in co-operation with producers. As in the case of olive oil, the producer received an advance payment on delivery and the balance when the sale took place. In the case of silk worms, the Minister of Agriculture was in the position of being able to authorize Government contributions of 50 lire per kilo when the price did not go over 500 lire per kilo. In the case of wine, the State had assisted in the establishment of co-operatives in an effort to promote standardization within the industry. The only State intervention otherwise was in the form of a payment of up to 4 per cent of the interest on money borrowed by producers.

30. In response to several questions, the representative of Italy informed the Committee that the voluntary co-operative organizations did not export any of the commodities with which they were concerned. The prices received by producers represented net prices after the marketing expenses of the co-operative association were deducted. He informed the Committee that butter had not been amongst the products which were subject to voluntary pooling arrangements.

31. A member of the Committee felt that the voluntary pooling system maintained by Italy had many adverse effects on trade. He referred to hemp, on which the world price had been slightly higher than the Italian domestic price. He was of the opinion that foreign buyers had been discouraged from buying hemp in Italy by the nature of the existing system; this caused a subsequent fall in the Italian price. The representative of Italy informed the Committee that competition from low-cost textiles from Asia was actually the cause of the drop in the price of hemp. He added that sales to foreign buyers were made at the same price and on the same basis as domestic sales.

B. Commodities

Dairy Products

32. A member of the Committee noted that the minimum price system on butter was used in Italy as a device to counter effects on the markets of subsidized or dumped imports. He enquired why the Italian authorities had not instituted straightforward anti-dumping or countervailing duties which would not act as a protective device which penalized efficient low-cost producers of butter. The representative of Italy explained that Italy had no anti-dumping legislation and was compelled to find ways of protecting domestic production from abnormally low-priced imports. In establishing the minimum price system in this regard the authorities had borne in mind the flexibility of such a system which only affected imports in emergency cases. He felt that minimum prices were much more flexible than countervailing duties, dumping duties or tariff duties, even if the tariff rates were differential. He stressed that, in fact, total imports of butter had not at all diminished after the application of the minimum price system.

33. The member of the Committee stressed that the use of anti-dumping or countervailing duties was the correct method of dealing with unfair competition under the General Agreement. He enquired why the Italian authorities did not use straightforward anti-dumping or countervailing duties which would not act as an indiscriminate protective device which penalized efficient low-cost producers of butter as well as those producers who were dumping or who were assisted by subsidies. He enquired about the basis on which the level of minimum price was determined and about the factors which were taken into consideration. The representative of Italy pointed out that imports of butter could be suspended in the event that the price for butter dropped below 750 lire per kilo during the period 1 November-30 April, and below 650 lire per kilo for the period 1 May-31 October. He added that the price was based on the average cost of production of a number of producers.

34. Another member of the Committee supported the view that the minimum price system was as protective as quantitative restrictions. He gathered from the background paper that the minimum prices were not applied at present, but he felt that when this system was in effect it not only tended to affect internal production but also to affect adversely internal consumption. He felt that this was a serious matter for butter since this product faced considerable competition from other fats. The representative of Italy reminded the Committee that Italy was a large importer of butter. This product had been free of import restrictions from countries listed in Table B since 1951 and was recently freed from restrictions when imported from dollar sources. He stated that when the minimum price system had been adopted prices had been falling continuously. The producers had requested the reimposition of quantitative restrictions, but the Italian Government had realized that the price of butter had a marked effect on the cost of living and had preferred the introduction of a much more flexible system, such as minimum prices. He stressed again that because of the shortness of the periods when minimum prices had been applied, imports had increased rather than decreased.

35. A member of the Committee enquired under what provisions of the General Agreement minimum prices were maintained. The representative of Italy stated that in adopting the system the Italian Government had been guided by the general principle of disturbing international trade as little as possible. His Government had not gone deeply into the provisions of the General Agreement in this respect since the measure was not considered to be a permanent one. He felt that the special nature and limiting character of the measure would make the CONTRACTING PARTIES rather reluctant to pass judgment. Other members of the Committee considered that the problems of countries exporting to Italy would be considerably reduced if Italy used the internationally accepted method of anti-dumping or countervailing duties rather than the system of minimum prices.

36. A member of the Committee noted that dried milk was subject to quantitative restrictions from all sources, but that bilateral agreements existed for milk from certain countries. He questioned the necessity for quantitative restrictions on dried milk. He also noted that a subsidy of approximately one billion lire was directed towards the manufacture of casein and enquired about the objective of this expenditure. The representative of Italy admitted that the production of milk in Italy was at a very high cost but stressed the necessity of securing an adequate standard of living for producers. He advised that the entire question of milk production was under study. The purpose of the subsidy on the manufacture of casein was to secure the supply of this raw material to industry. Another member of the Committee enquired whether the global quotas for dried milk were available to other than OEEC countries. He also enquired about the different licensing treatment accorded to imports of cheese from OEEC countries and other areas. The representative of Italy informed the Committee that all imports of preserved milk were subject to licenses except when imported under a global quota available to other EEC countries in accordance with Treaty provisions. Imports of cheese were liberalized from OEEC countries but were subject to restrictions from other sources.

37. A member of the Committee noted that cheese production was dealt with by a pooling arrangement. He enquired whether any contribution was now being made by the Government to the export of cheese. It appeared that for exports of dairy products generally, the rebates on freight rates for exports were in fact an export subsidy. The representative of Italy informed the Committee that there were no provisions at present for a voluntary pooling arrangement for cheese. He also stated that cheese was not amongst the products enjoying special freight rebates on exports. With regard to freight rebates, he explained that the railways maintained a differential tariff which provided for reductions of from 10-30 per cent from normal freight rates when certain products were exported by land. This reduction was 10 per cent when exports were by sea to a destination up to 200 kilometres from the point of shipment and 15 per cent when exported farther than 200 kilometres. The only products eligible for these concessions were fruit and vegetables.

38. A member of the Committee drew attention to the fact that all imports of dairy products were subject to import licensing. The representative of Italy assured the Committee that his Government would make every effort to reduce restrictions, particularly discriminatory restrictions. He emphasized, however, that although imports were formally restricted from certain areas such imports

were generally licensed liberally. He realized, however, that liberal licensing treatment of restricted imports was not a decisive argument for the retention of discrimination. He assured the Committee that it was the firm intention of his Government to abide by the principles of the General Agreement.

#### Meat

39. A member of the Committee referred to the minimum prices of beef and veal in Italy and stated that although, in the opinion of the representative of Italy, the system had a favourable effect on internal trade as a means of avoiding price fluctuations below the minimum price, he himself was of the view that it had the effect of creating a greater fall in the prices on the international market than would have been the case without Italy's use of this measure. The representative of Italy again assured the Committee that the question was being examined by his Government. He stressed that, although the system of minimum prices was still legally in operation, it was actually only used when abnormally low prices threatened to disrupt normal prices.

40. In response to a question, the representative of Italy stated that the present downward trend in domestic production of mutton and lamb was expected to continue.

41. The Italian representative took note of comments on the discriminatory application of import restrictions on meat products, including lard. In answer to a question on import licensing, he informed the Committee that quotas for meat products were established under certain bilateral agreements. He added, however, that the percentage of imports of meat products made under bilateral arrangements was very low.

#### Cereals

42. A member of the Committee noted that the stockpiling of wheat in Italy was the subject of an annual 18,000 million lire subsidy in the case of domestic wheat and a 1,000 million lire subsidy in the case of imported wheat. He understood that in 1956-57 the total cost of Government subsidies on wheat was approximately 40,000 million lire. In this connexion, he concluded that the half-million tons of flour exported annually were highly subsidized. As a result of the heavy subsidies the Italian consumer was compelled to pay a price of 40 per cent in excess of the world price. The representative of Italy explained that in June 1957 surplus wheat amounted to 20 million quintals. In 1956-57, 10 million quintals were sold, and a similar target was set in 1957-58. The Government had also bartered soft wheat for imported durum wheat. By October 1957, 7 million quintals of soft wheat had already been bartered against 3.8 million quintals of durum wheat with Egypt, Hungary and several other countries on a basis of 140 quintals of soft wheat for 100 quintals of durum wheat. Soft wheat was also sold to the milling industry at world market prices. In 1956, 540 quintals were delivered to the milling industry at a price of 4,400 lire per quintal and in 1957, 4,322,000 quintals were sold at prices ranging from 4,000 to 4,400 lire per quintal. The representative of Italy added that for the manufacture of flour and macaroni the industry was permitted to import wheat at world market prices on the understanding that the finished products would be exported. These imports were cut when stocks were considered to be in excess. As of March 1958, there was a stockpile amounting

to some 2 million quintals of durum wheat. The Italian representative emphasized that all of these measures were only temporary and would be dispensed with when the situation returned to normal.

43. A member of the Committee stated that the guaranteed price for wheat in Italy was amongst the highest in Europe. He explained that highly subsidized Italian wheat found its way on to the world market in the form of wheat products. He felt that the Italian example of surplus wheat production indicated how a high support price could act in a detrimental way on world trade. The representative of Italy stressed that although the price of Italian wheat was from 40 to 50 per cent above the world price, there had recently been a reduction in the price and further reductions were expected. He also pointed out that there had been a reduction in the quantity of compulsory deliveries. The Italian representative explained that the guaranteed price served only as an indicator of the domestic market; there had been cases where the price on the domestic market had fallen below the guaranteed price. In response to a further question, he stated that import forecasts for hard wheat were 1,500,000 quintals whereas no imports of soft wheat were expected.

44. A member of the Committee noted an improvement in the system for Government assistance for exporting wheat products such as macaroni, spaghetti and the like. In the previous year, it had been the practice of the Government to sell 190 kilos of soft wheat to industry at very favourable prices for every 100 kilos exported; this ratio had now been reduced to 148 kilos for exports of 100 kilos. He observed, however, that the price to the manufacturer had also been reduced which practically offset any reduction in the ratio. He enquired whether it was the intention of the Government to dispense with the system or whether it was the intention to decrease the ratio and thereby increase the price to bring it nearer to the actual domestic level. The Italian representative assured the Committee that Italian manufacturers no longer received wheat under these favourable conditions since wheat stocks were no longer abnormally high. The removal of the privilege was presently under study by the Government and it was expected that manufacturers would have to purchase future supplies at world prices. The Government had under study the practicability of instituting a system of temporary duty-free admission for wheat used by Italian manufacturers in the production of products for export.

45. Referring to the import forecast of 1,500,000 tons of durum wheat, a member of the Committee asked whether under the State-trading operations for wheat, invitations to tender were the means by which imports were purchased. He also enquired whether imports took place under bilateral arrangements, particularly from countries not members to the General agreement, and whether there was discriminatory treatment of imports from certain sources. The representative of Italy informed the Committee that imports of wheat were made on a non-discriminatory basis. He added that there were a few bilateral agreements covering wheat with countries which generally conducted trade on a bilateral basis. He stated that purchases of wheat were made directly and without tender.

46. In reply to a question, the representative of Italy stated that Italian exports of wheat amounted in 1958 to 4,322,530 quintals and in 1959 to 6,874,124 quintals; in the same years exports of wheat flour had decreased from 2,341,991 to 1,013,068 quintals.

47. In response to a question, the representative of Italy explained that there was no premium on the export of rice and that the market was organized according to domestic demand. He pointed out that when exports did take place, the prices varied depending on the importing country. Domestically, however, the price was uniform throughout the country and varied only because of quality.

48. A member of the Committee enquired how the internal price of rice was determined. The representative of Italy advised that the price was based on the average cost of production.

49. The representative of Italy stated, in response to a question, that trade in barley and oats was in private hands. The State had never intervened in any trading operations in barley and oats.

50. A member of the Committee expressed the hope that feedgrains would be liberalized during the next liberalization announcements.

#### Sugar

51. A member of the Committee noted that from 1951-58, sugar production increased from 43,000 quintals to 76,000 quintals or by approximately 60 per cent and was now sufficient to supply the entire domestic demand. He expressed the opinion that if the present trend continued, Italy might well become an exporter of sugar. He pointed out that a high tariff and strict import controls prohibited imports; the Italian domestic price of sugar was approximately US\$0.35 to 0.36 per kilo compared to a world price of US\$0.05 to 0.06 per kilo. He expressed the view that if all industrial countries had an agricultural policy as restrictive as Italy's, world trade in agricultural products would be seriously restricted. The representative of Italy informed the Committee that Italy still had considerable imports of sugar under a temporary duty-free admission scheme for which licences were granted liberally. He explained that the authorities had recently reduced the internal production tax and that the surtax on imported sugar was the equivalent of the tax levied on domestically produced sugar.

52. In response to further questions, the representative of Italy stated that to avoid excessive production his Government had taken steps to reduce acreage by 10 per cent. He pointed out that there was no subsidy on exports.

#### Vegetable Oils

53. A member of the Committee questioned the statement appearing in the background material that olive oil did not receive State support. He also noted that a manufacturing tax was levied on domestic seed oils and enquired whether this tax was rebated on export. In addition, he enquired about the function of what appeared to be the mixing regulations on olive oil. The representative of Italy confirmed that the manufacturing tax was levied on seed oils. He stressed that no subsidy or assistance was granted for exports. He explained that for each import of  $1\frac{1}{2}$  quintals of vegetable oils, the importer was under an obligation to buy 1 quintal from Government stock at 100 lire per quintal in excess of the price of the comparable product on the Italian market. This measure, together with the duty and the manufacturing

tax, had been taken to stabilize the olive oil market. It was hoped that this system could be disposed of when stocks were reduced. In this connexion, the ratios had already been reduced. The representative of Italy told the Committee that the stocks were made up of imported and not domestically-produced goods. He emphasized that there was thus no mixing regulation.

54. In response to a question, the representative of Italy informed the Committee that seed oil was required to contain 5 per cent sesame oil in order to avoid any falsification of oils on the market and to permit seed and olive oils to be readily distinguished.

#### Fish

55. A member of the Committee referred to a voluntary credit fund which was available on a loan basis to Italian fishermen for the improvement of installations and for purchasing equipment. He enquired whether the Southern Italy Development Fund which was used to assist in purchasing and outfitting vessels was also granted on a loan basis. The representative of Italy was unable to supply this information immediately and agreed to submit the information to the Committee. He also agreed to inform the Committee of any plans or prospects for further support measures for the fishing industry through public funds.

#### Tobacco

56. It was noted by a member of the Committee that, effective December 1959, unmanufactured tobacco was liberalized when imported from dollar sources. He enquired whether this liberalization would in fact have any real meaning since the Italian tobacco monopoly purchased through bilateral agreements. The representative of Italy confirmed that all tobacco was imported by the State monopoly. He took the opportunity of explaining recent provisions on imports of manufactured tobacco, under which imports were no longer reserved exclusively for the State monopoly.

57. A schedule of selling prices had been issued, specifying the share allotted to the supplier, to the monopoly for distribution costs since these products could only be sold through the marketing organization of the State monopoly, to the retailer as selling commission, and to the State as revenue.

58. A customs duty had been established for the products concerned.

#### Dried and Canned Fruits

59. The representative of Italy took note of comments regarding discriminatory import restrictions applied against imports of dried and canned fruits from dollar sources. He assured the Committee that this matter would be referred to his Government.

ANNEX I

List of Products Liberalized by Ministerial Decree of  
22 December 1959

Live animals; poultry livers; fish; crustaceans and molluscs; butter; egg yolks (sweetened); guts, bladders and stomachs of animals; natural sponges; animal blood; leguminous vegetables, shelled or broken; bananas; pineapples; mangoes; mangosteens; avocados; coconuts; Brazil nuts; cashew nuts; dates in packings weighing 500 gr. or more; stone fruit; fish; berries (fresh); prunes; roasted coffee; husks and skins of coffee and coffee substitutes containing coffee; tea; maté and spices excluding saffron; cereals (buckwheat, milled, canary seed and dari); flours of leguminous vegetables; flours of edible fruits; malt, roasted or not; gluten flour (of wheat and maize); vegetable juice and extracts; agar-agar and other natural mucilages and thickeners; vegetable extracts, excluding pectin; vegetable hair; wool grease and fatty substances derived therefrom (including lanolin); meat juices and extracts; prepared or preserved fish; sauces; mixed condiments and mixed seasonings; preparations for soups; broths; prepared soups; natural and artificial yeasts; beer, cider and other fermented beverages; undenatured ethyl alcohol of a strength of less than eighty degrees; spirits, liqueurs and other spirituous beverages; greaves; beet pulp with a sugar content less than 6 per cent; unmanufactured tobacco; tobacco waste; manufactured tobacco; tobacco extracts and essences.