

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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1967 CONSULTATION WITH SPAIN

Basic Document for the Consultation¹

I. Legal and administrative bases of the import restrictions

The legal foundation of Spain's import restrictions is still as reported at the time of the consultations in 1966, and hence as shown in document BOP/56 of 23 March 1966.

II. Methods used in restricting imports

Imports into Spain are effected under five different systems: free imports; the global quota régime; individual licensing; State trading; and special régimes.

A description of the conditions governing imports under each of the above systems was likewise given in the document submitted for the 1966 consultations, and hence is included in the GATT document already mentioned.

The only change that has taken place since the consultation is in the number of global quotas and the volume of trade which has taken place under each régime. Since the trade percentages will be considered in a later section, we shall confine ourselves here to pointing out the changes in the global quotas.

In 1967 the number of global quotas was reduced by three as compared with the previous year. This is explained by the transfer of the following products to the free imports régime: paper and its manufactures; nails, bolts, nuts, etc. of iron and steel; and outboard motors and parts. All these products are to be found in the list of global import quotas for 1966 annexed to GATT document BOP/56.

As a result of the liberalization of these items, the number of global quotas was reduced to sixty, representing a total figure of \$164,065,000 - an appreciable increase over the preceding year.

¹Material supplied by the Government of Spain.

III. Systems applied to imports from different countries, including information concerning bilateral agreements

The names of the countries to which the régime of free imports applies, together with a list of the countries with which Spain has bilateral agreements, appeared as Annex I to last year's report in document BOP/56 already mentioned.

IV. Products or groups of products to which the various forms of restriction refer

The situation of the various groups of products in relation to the different forms of restriction applied is still as indicated in last year's report reproduced in document BOP/56.

V. State-trading and government monopolies used as a means of restricting imports on account of the balance of payments

There has been no change in the nature and content of State trading since the date of the last report submitted to the Committee. The particulars of its aims and methods of operation are as shown in the 1966 document.

VI. Measures adopted since the last consultations with a view to relaxing or modifying restrictions

The following are the principal measures adopted since March 1966:

1. Liberalization of paper and its manufactures; nails, bolts, nuts, etc.; and outboard motors and parts. This brings the number of global quota items down from sixty-three to sixty in 1967. In spite of this liberalization, the total value of the global quotas rose from \$148 million in 1966 to \$164,065,000 in 1967.
2. Establishment of a duty-free customs quota for the importation of 7,500 metric tons of yucca (tariff heading 07.06-A).
3. Suspension of import duties on non-roasted coffee (tariff heading 09.01-A).
4. Suspension of import duties on soyabeans (tariff heading 12.01-B.3).
5. Establishment of a duty-free quota for the importation of 44,000 metric tons of linseed (tariff heading 12.01-B-7).
6. Suspension of import duties on fish meal (tariff heading 23.01-B).

7. Suspension of import duties on henequen and sisal (tariff heading 57.04-A.2).

8. Improvement of conditions for the participation of foreign capital in Spanish shipping companies - maximum participation raised from 25 per cent to 40 per cent.

9. Improvement of conditions for the participation of foreign capital in most industries. Such participation can now be as much as 50 per cent without the need for official approval.

10. Increased facilities for the special régimes of temporary admission and importation. A decree of 17 October 1966 crystallized the "draw-back" system. As a result, during the last two years the number and volume of operations carried out under these régimes has increased tenfold.

VII. Effects of the restrictions on trade and the general policy followed for the purpose of restricting imports on account of balance-of-payments difficulties

In 1964 imports reached a figure of \$2,077 million - an increase of 16 per cent over the previous year, and an increase of 324 per cent in relation to the imports for 1960. The increase was higher in the free imports sector, which was strengthened by the application of the ninth and tenth lists of free imports, but the global quota sector too showed a considerable rise. There were fewer authorizations under the bilateral agreements régime, and purchases under the heading of State trading remained stationary.

In 1965 imports reached a figure of \$3,019 million, an increase of more than \$942 million over 1964. On the other hand, exports were \$38 million less than in 1964. In 1966 imports reached the record figure of \$3,591 million, an increase of \$572 million or 19 per cent over 1965.

Thus it is clear that the combination of the process of transforming the Spanish economy, especially the industrial situation, as formulated and promoted by the Development Plan and the consequent improvement in living conditions leading to a growing demand for consumer goods, with a succession of under-average or frankly poor harvests, has brought about a constant and accelerated increase in imports. The section below gives a more detailed analysis of the trade balance; from this it can be seen quite clearly that the restrictions still imposed on imports have little or no influence on the volume of trade, since the excess demand in nearly all sectors completely neutralizes the limited negative effects of the few obstacles to importation that still exist. It must not be forgotten that in 1966 the completely liberalized items accounted for 67 per cent of import trade; to this "de jure" percentage, as it might be called,

must be added another 10 per cent for the "de facto" liberalized goods, i.e. imports of capital goods subject to global quotas for administrative reasons but authorized freely, and products subject to the system of variable levies, but in practice also imported freely.

Furthermore, in applying the quantitative restrictions still in force, the Spanish Ministry of Trade does so in a very liberal manner, as can be seen from the following table:

Imports Authorized in 1964, 1965 and 1966

Trade régime	1964		1965		1966	
	Value in thousands of dollars	Percentage of total	Value in thousands of dollars	Percentage of total	Value in thousands of dollars	Percentage of total
Individual licensing	170,431	6.67	223,429	6.48	210,475	5.64
Special régimes	97,274	3.80	73,153	2.12	45,596	1.21
Global quotas	319,380	12.50	443,923	12.87	368,642	9.88
Free imports	1,630,695	63.87	2,214,499	64.36	2,498,521	67.08
State trading	304,507	11.91	444,920	12.90	519,749	13.94
Temporary admissions	18,931	0.74	16,260	0.46	38,328	1.02
Replacements	13,340	0.51	23,997	0.81	46,055	1.23
Total	2,554,558	100.00	3,445,181	100.00	3,727,366	100.00

As may be seen, the growing volume of imports is reflected in practically all the trade régimes. Nevertheless, if we look at the percentage distribution of the various régimes, we find that the volume of free trade has increased more, relatively speaking, than that of the other systems, rising from 63.87 per cent in 1964 to 67.08 per cent in 1966.

Conversely, the percentage value of trade under the individual licensing system is decreasing each year - from 6.67 per cent in 1964 to 5.64 per cent in 1966 - owing to the decline in bilateral trade and the increase in free or global quota trade.

State trading has increased in both absolute and relative terms - which proves once again the regulating and non-restrictive character of this type of trade.

As regards global quota goods, it should be pointed out that against quotas totalling \$148 million, import permits were granted to a value of \$368,642,000, or more than twice the value of the quotas - which demonstrates the liberal outlook with which these global quotas are administered.

The growing rate of increase in imports and the subsequent effect on the balance of trade and payments would alone justify the maintenance of a certain level of protection based on import restrictions on certain products. It must not be forgotten that the present gold and foreign currency reserves in the possession of the Spanish Institute of Foreign Currency are scarcely sufficient to cover import needs for four months, and that any decrease in income from tourism, remittances from emigrants or foreign long-term investments - the three sources of equilibrium of the balance of payments until 1965 - would result in the rapid exhaustion of Spain's gold and hard currency reserves.

As economic conditions change, and especially as easier access for Spanish products to the markets of the industrialized countries brings an improvement in Spain's export situation, further progress will be possible in the direction of liberalization of imports.

VIII. Balance of trade and payments in 1966. A brief summary of its elements and trends

A. Balance of trade. According to the estimates available, the balance of trade in 1966 continues to show the trend characteristic of Spain's trade balance since 1960, i.e. a rapidly growing deficit. Nevertheless, it differs slightly from the previous years inasmuch as, for the first time since 1960, the percentage increase of exports exceeded that of imports. The following table shows the figures for the years 1961 to 1966:

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u> (estimates)
	(millions of dollars)					
Imports	1,053	1,455	1,802	2,077	3,019	3,591
Exports	759	802	786	1,004	966	1,253
Annual deficit	294	653	1,016	1,073	2,053	2,338

As can be seen, imports in 1966 amounted to \$3,600 million, representing nearly five times Spain's imports in 1960, and an increase of 18.9 per cent over the imports for the previous year. As is well known, this increase is due basically to the policy of import liberalization and to the economic development of the country during these years, affecting all groups of goods. The table below gives a breakdown of total imports and shows the growth-trend common to all the items:

	<u>1961</u>	<u>1964</u>	<u>1965</u>	<u>1966</u> (estimates)
	(millions of dollars)			
Foodstuffs	224	388	573	672
Fuels	167	251	270	314
Raw materials	346	576	715	886
Semi-manufactured goods	85	281	472	493
Capital goods	234	633	819	998
Consumer durables	37	130	169	225

If we look at the distribution of Spanish exports by geographical area of destination, it can be seen that the growing difficulties encountered in the industrialized countries, especially those belonging to economic groupings, have meant that the most substantial increases registered have been in exports to non-industrialized countries. Exports to Latin America, for example, increased by 100 per cent, while exports to the non-industrialized countries as a whole increased by 52 per cent, and those to the European Economic Community, the European Free Trade Association and the United States increased by only 20 per cent.

Total exports amounted to \$1,253 million, representing an increase of 29.6 per cent over the previous year. This advance, achieved mainly during the second half of the year, is partly attributable to increased sales of ships and boats and the addition of one or two new products to the list of Spanish exports (e.g. in December 1966 electric energy was exported for the first time). But it was mainly due to the measures taken by the Spanish Government to contain domestic demand, which in 1965 and the beginning of 1966 had exerted strong pressure.

As a further adverse trade factor must be mentioned the difficulty of placing new exportable products in new markets, particularly because of the fact that Spain is not a member of either the EEC or EFTA. This difficulty was recognized in the recent consultations with the International Monetary Fund under Article XIV of the Fund Articles of Agreement.

The outcome of all this was a trade deficit of \$2,338 million, a figure nearly 14 per cent larger than the deficit in 1965. The magnitude of this deficit is a matter of serious concern to the Spanish Government for reasons which are actually fairly obvious:

- (a) The volume of the deficit. This could not be offset by the other items of the balance of payments, so that for the second year in succession there was a net loss of foreign reserves.
- (b) The structural weakness it reflects, especially if we bear in mind that, of all the Organisation for Economic Co-operation and Development countries with the exception of Greece, Spain is the one which has lowest coverage of its imports by its exports, and with the exception of Portugal and Turkey, the one with the lowest per capita import figures.

B. Balance of payments. After the Stabilization Plan was implemented in 1959, Spain's balance of payments was favourable until 1965, when it deteriorated; and it again showed a deficit in 1966. The table below gives the figures for the period 1963 to 1966, though it must be pointed out that the data for 1966 are preliminary estimates only, final figures not yet being available.

	<u>1963</u>	<u>1964</u> (millions of dollars)	<u>1965</u>	<u>1966</u>
Exports, f.o.b.	786	1,065	1,019	1,255
Imports, f.o.b.	1,799	2,076	2,778	3,270
Balance of trade	-1,013	-1,071	-1,759	-2,015
Transport	611	852	1,027	1,160
Other services	-42	-70	-114	-165
Transfers	257	321	360	420
Balance on goods, services and transfers	-187	32	-486	-600
Long-term capital	162	237	297	405
Errors and omissions	72	39	47	
Total	48	309	-143	-195

The above table shows how it came about that the balance-of-payments deficit of \$143 million in 1965 rose to \$195 million in 1966: the deficit of \$600 million in the balance on goods and services could not be offset by the long-term capital inflow, in spite of the increase shown by these items - a matter of probably 18 per cent. All this, it must be stressed, took place in spite of the measures taken by the Spanish Government to restrict domestic demand.

The most important item in the balance of services is income from tourism. In 1965 this rose by 21 per cent, even though the number of tourists increased by only 1 per cent; in 1966 it rose by 13 per cent, while the number of tourists increased by 21 per cent.

The balance is rounded off with the figures representing monetary transfers; there was a decline in gold holdings identical in amount with the improvement in the net credit situation of Spain vis-à-vis the International Monetary Fund, and a drop in the volume of reserves amounting in all to \$204 million.

It may be pointed out, finally, that the balance-of-payments situation is being coped with, in spite of strong internal pressures, through Government action on the volume of domestic demand (restriction on bank loans, tightening up of conditions for instalment sales, curbs on public spending, etc.), and that no restrictive measure has been taken in relation to trade. It may not be possible to maintain this policy in the future, however, unless the export sector is given a helping hand in the form of improved conditions for access to foreign markets.