

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/R/27
24 September 1968

Limited Distribution

REPORT OF THE COMMITTEE ON BALANCE-OF- PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH SPAIN

1. In accordance with its terms of reference, the Committee has conducted the consultation with Spain concerning the restrictions which are maintained on balance-of-payments grounds. The Committee had before it a basic document for the consultation (BOP/84) and a Decision of the Executive Board of the International Monetary Fund dated 3 June 1968, together with a background document dated 17 May 1968 supplied by the Fund.
2. In conducting the consultation the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was held on 11 September 1968. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Spain. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Spain. The statement was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of June 3, 1968 taken at the conclusion of its most recent Article XIV consultation with Spain and particularly to paragraphs 2, 3, and 4 which read as follows:

'2. In 1967, the growth rate of GNP fell sharply to about 3.5 per cent in real terms, from an average of around 7.5 per cent in the period 1962-66. Notwithstanding the slowdown in real growth, the inflationary pressures of the last few years persisted in 1967; there was no abatement in the rapid rate of credit expansion, and the index of the cost of living rose by 6.5 per cent between December 1966 and December 1967 while, on the average, contractual wages in industry were some 13 per cent higher in 1967 than in 1966. The external payments position improved somewhat and the decline in official reserves (including the IMF gold tranche position) narrowed from \$204 million in 1966 to \$156 million in 1967. At the end of 1967, official reserves amounted to the equivalent of \$1,049 million.

'3. On November 20, 1967 an austerity program was introduced to halt inflation, and the peseta was devalued by 14.3 per cent in order to strengthen Spain's external payments position. The Government expects the rate of economic expansion to gain momentum in the course of 1968, and equilibrium in the over-all balance of payments to be restored. The Fund considers that the achievement of these objectives requires the continuation of a cautious economic and financial policy in 1968. The improvements in Spain's fiscal policy in recent years are to be welcomed, but it is essential that early measures be taken to improve the monetary policy also and to allow interest rates to play a greater role in the allocation of resources. The Fund notes that the authorities are alert to the present deficiencies of the financial markets in Spain and welcomes the proposals to reorganize the credit system.

'4. The recent devaluation was not accompanied by further liberalization of the trade and payments system. The Fund believes that major action in this field, together with the appropriate fiscal and credit policies, would help secure the beneficial effects of the devaluation, and hopes that the Government will include among the major priorities of its economic policy a reduction of the reliance on restrictions and the termination of payments agreements with Fund members.'

"Since that consultation was completed official reserves have fallen seasonally and amounted to \$959 million at the end of June 1968 compared with \$990 million at the end of June 1967.

"At the present time the general level of restrictions of Spain which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

Opening statement by the Spanish representative

4. In his opening statement, the full text of which is contained in an Annex to this report, the representative of Spain discussed the progress of the trade liberalization programme launched by Spain in 1960 and the factors which had hampered its progress, noting in particular, however, that progress in the reduction of duties in the agricultural sector had been very limited in the Kennedy Round and that the maintenance of non-tariff barriers stood in the way of the normal development of Spain's exporting sectors. Nevertheless, though Spain's rate of economic development had decreased, his Government had made progress, though more slowly, towards trade liberalization by reducing the number of products under global quota, by reducing tariffs on eighty-two items, as well as by reducing temporarily border charges (Impuesto de Compensación de Gravámenes Interiores) on sixty-nine tariff headings. Concerning Spain's balance of payments the representative of Spain mentioned that the two sectors - tourism and remittances from emigrants - which traditionally offset the large trade deficit in the overall balance were unreliable sources of foreign exchange; in 1967 these important receipts had declined compared with the preceding year. He felt that there might be continuing difficulties in these sectors so that extreme caution was indicated with respect to balance-of-payments policies. He reaffirmed his Government's intention to persevere towards the progressive liberalization of international trade to the extent that the balance of payments permitted and meanwhile called on the goodwill of other contracting parties.

Balance-of-payments position and prospects and alternative methods to restore equilibrium

5. Members of the Committee expressed their appreciation for the clear and concise manner in which the representative of Spain had presented his country's balance-of-payments problems. They congratulated him on the overall improvement of Spain's balance of payments and expressed the opinion that Spain's balance-of-payments prospects for 1968 seemed even better than last year. It seemed clear that Spain's internal measures following the devaluation of the peseta in 1967, especially those directed to the control of inflation, were steps in the right direction. Although import restrictions seemed to be inevitable for the present, given the difficult economic problems the Government of Spain faced, some representatives considered that the better prospects for the 1968 balance of payments made the opening statement of the Spanish representative sound unduly pessimistic. It was pointed out that notwithstanding the high trade deficits incurred by Spain in 1965-66, the trade balance improved in 1967, leading to a surplus in the basic balance (composed of the current account and long-term capital movements), with a deficit on the overall balance brought about by a presumably non-recurrent movement of short-term funds. Even this overall deficit was smaller than in 1966 and prospects for 1968 held promise of a possible overall balance-of-payments surplus.

6. The Committee was aware of the great importance of tourism for Spain, but some representatives added that the prospects for Spain's tourist trade were less gloomy than the representative of Spain had described them. On the one hand representatives of some of those countries whose citizens accounted for an important part of the tourists visiting Spain considered that their governments' measures having a possible effect on travel would not have such serious effects as had been forecast. Further, such measures at most could have only temporary effects on Spain's tourist trade as prospective tourists would find ways of managing their travel expenses to remain within allowances permitted by their governments. Also the economic upturn foreseen or under way for some Western European industrialized countries could be of positive value for this sector of Spain's balance of payments though some economic depressions abroad had not had negative effects. Economic improvement might be expected to support the level of remittances from Spanish workers abroad. The representative of Spain stated that the outlook did not seem bad in general; nevertheless he thought it premature to assert that tourism would constitute a reliable factor in offsetting deficits, for he feared that Spain's inflation would raise prices for tourists while at the same time competition from other developing tourist sites would become stronger. In 1966 total receipts from tourism amounted to \$1,201 million but declined to \$1,110 million in 1967. All this confirmed tourism's fluctuating and uncertain character in spite of its continuing importance. In answer to another question he added that the devaluation of the peseta did nothing more than keep in step with devaluations in some other countries.

7. It was noted by members of the Committee that the influx of capital had increased considerably in 1967, and that this underlined the need to continue the positive policies which the Spanish Government had adopted. Some representatives expected that the influx of long-term capital would be at least as high in 1968 as it had been in 1967. It was also mentioned in reference to the basic document (BOP/84) that recent foreign investment programmes in some countries did not envisage a reduction in the volume of investment but only a change in the manner of financing with no disadvantage to Spain's balance of payments. It was also noted that Spain's Second Development Plan anticipated a continued inflow of non-monetary capital. It was recalled that in the previous year's balance-of-payments consultation with Spain the Spanish representative had stated that restrictions applied by Spain would not affect global investment in his country, since most investments were committed to projects which had already been started or which were not particularly sensitive to restrictions being applied in other sectors of the economy. The Committee was of the opinion that if all these positive factors for Spain's balance of payments were taken into consideration, Spain should be able to continue its movement towards free multilateral trade barring only an unexpected outflow of short-term capital. The representative of Spain did not share this optimism regarding his country's economic situation. He recalled that the monetary reserves of his country were declining due to a continuing deficit in the balance of payments and that for a long time Spain was likely to face recurring deficits in the trade balance. The basic document (BOP/84) established clearly that the deficit in the balance of payments was caused by developments beyond Spain's control; among others was the case of receipts for tourism, which was always precarious; another was the rigidity of foreign demand for her agricultural exports caused in large part by other countries' non-tariff barriers.

8. Some members asked that the Spanish Government concentrate on relaxing its restrictions on imports and financial transactions, instead of trying to increase its reserves, giving appropriate attention to internal measures. They recognized that overall reserves, including the net IMF position, had declined by 37 per cent since the end of 1967 to \$259 million by the end of June 1968, yet reserves still seemed to them to be average for the world as a whole in relation to imports. The representative of Spain replied that the optimistic view on which such a question was based did not coincide with his Government's view of the present situation. He reaffirmed his country's policy of continuing to seek opportunities to liberalize what trade was restricted, but stated that in present circumstances he could not foresee that his Government would substantially modify its careful approach towards the easing of restrictions. In regard to internal financial and fiscal measures, he recalled that the economic recession in his country had been due essentially to a disequilibrium between supply and demand. Consequently the Spanish Government had taken a series of economic measures to correct the resulting balance-of-payments deficit: first it devalued and then, in November 1967, by Decree-Law No. 15, it took the necessary complementary measures to devaluation. On the one hand it had frozen wages and other

types of incomes, while taking the pertinent steps to stabilize prices and restrict consumption. On the other hand it had embarked on a policy of austerity affecting public expenditure and other measures of a fiscal nature, such as a modification of the tax system on income and the introduction of other taxes on luxury products. In the field of foreign trade a series of tariff reductions were effected so as to make essential goods available for consumption. The Spanish Government hoped to eliminate the deficit in its balance of payments in the future by taking appropriate measures, and in particular by dampening consumption. However, he pointed out that the freezing of wages could understandably not be a permanent remedy, and already the pertinent measures to raise wages from January 1969 on were being envisaged. This was one of the reasons why, in his opinion, it was difficult to forecast. Consequently it would also seem premature to proceed with further liberalization.

9. Members of the Committee recognized the efforts made by the Spanish authorities to control inflation. Nevertheless some members asked whether monetary policy could not be improved by eliminating the system of special bills and special lines of rediscount with the Central Bank. This system provided an excess of liquidity over which the relevant authorities did not have sufficient control. Members expressed an interest in learning what actions were being taken to maintain price stability and preserve the competitive benefits obtained from devaluation. Also it was asked whether another inflationary element was not manifest in the bank financed subsidies extended to the agricultural sector: would this sector not be better controlled by budgetary financing instead? In reply the representative of Spain underlined that his Government was aware of the importance of monetary policy and that it had taken measures in this sense in November 1967 by modifying interest rates in agricultural and savings institutions as well as those applied by the Central Bank in rediscount operations: instalment sales had been made less attractive in order to restrict demand. Agricultural financing, he stated, was already channelled through the Agricultural Credit Bank, the funds of which were in turn channelled to it by the State and was therefore within the scope of the budget.

10. In reply to several questions relating to possible plans of the Spanish Government for improving the climate for foreign investment in Spain, as a means of obtaining funds to finance needed imports to facilitate further relaxation of restraints, the representative of Spain replied that Spain had very liberal legislation governing investments. In fact capital movements into Spain continued to increase and had risen from \$339 million to \$540 million between 1964 and 1967. In response to a request by the representative of Spain for information regarding specific laws and measures which might tend to deter foreign investors, one member mentioned the following:

- (1) apparent efforts to have foreign-owned firms operating in Spain finance expansion and sometimes working capital from imported capital;
- (2) the difficulty of securing the authorization for transfers abroad of principal of investments made by non-residents before 28 July 1959;
- (3) a Decree Law passed on 27 November 1967 restricting the distribution of earnings.

11. Members of the Committee pointed out that the Spanish 1967 balance-of-payments deficit was much aggravated by two factors, the extraordinary outflow of short-term capital that year, which was probably speculative in anticipation of the devaluation, and advance payments made for imports. These factors were reflected in the errors and omissions item and were responsible for turning a modest surplus into a deficit. If both phenomena could be reversed, there could be optimism in the balance-of-payments outlook and consequently an opportunity for further liberalization. The representative of Spain agreed that the amount of the "Errors and Omissions" item of the 1967 balance of payments was very high; it was partly due to a short-term capital movement which was not all of a speculative nature but even so had been very difficult to control, and it was in the interest of Spain's authorities to avoid the recurrence of such a situation in the future.

III. System and methods of the restrictions and effects of the restrictions

12. Members of the Committee suggested that the encouraging reduction in Spain's balance-of-payments deficit in 1967 and the probable surplus in 1968 should make possible a significant reduction in Spain's reliance on import restrictions. In this sense it was urged that the Government of Spain should resume the policy of liberalization it had started in 1959, but which had come to a near halt in 1967, by transferring more items from the list of global quotas to the free list. It was argued that this would be possible without adverse effect on the foreign exchange position of the country, since imports permitted under global quotas were consistently much larger than the global quotas themselves, amounting sometimes to 250 per cent of quotas. Some members of the Committee considered that Spain should abandon this practice of over-licensing and should instead increase the announced global quotas by at least 20 per cent annually as Spain had itself suggested. This would ease matters for both exporters and importers of products entering Spain in that it would remove present uncertainties regarding the effective volume of imports to be permitted under the global quota régime. One representative suggested that the need for such an increase in global quotas was especially great with regard to capital goods, which were normally imported without difficulty, but where the need for any restriction was less evident. In reply, the representative of Spain reaffirmed his Government's commitment to a policy of free trade but noted that its full implementation depended on an improved balance-of-payments situation. The restrictions now applied were only one aspect of an economic policy designed to cope with the balance-of-payments deficit and the resulting shortage of reserves. Referring to comments by Committee members that the amount of imports under global quotas had declined from \$443 million in 1965 to \$290 million in 1967, the representative of Spain noted that global quotas in 1968 had increased by \$18 million, or by nearly 20 per cent of last year's nominal value. Again, the licences granted this year attained a value of \$290 million while the global quotas that had been stipulated were of the order of \$166 million. He informed the Committee that he had no news regarding any increase in the global quotas and that in view of Spain's present economic situation it was important that the Government should maintain close control of permitted imports. He added that the announced intention of his Government to increase global quotas by 20 per cent had in practice been realized with great generosity.

13. A member of the Committee pointed out that certain global quotas, specifically one for agricultural tractors, were subdivided in a manner which made it difficult for exporters to take full advantage of the quota. The representative of Spain noted the point and added that the system for distribution of global quotas was in accordance with the basic principles which prevailed for such quotas. In reply to another question, the representative of Spain affirmed that no discrimination existed in the granting of licences among different sources of supply within global quotas; great care was taken not to distort traditional channels of trade while maintaining a flexible attitude towards new suppliers. He added that importers were free to choose their suppliers.

14. In reply to several questions relating to delays in delivery of import licences and other time elements under the quota system, the representative of Spain said that import licences were generally given without delays. For most cases concerning liberalized imports requiring "declarations" the delay was roughly forty-eight hours. It did occur occasionally that certain requests took more time to handle because of misunderstandings in the written requests. Regarding the period of time during which imports are permitted, he said that such cases could not be considered as obstacles to trade since the relevant authorities always extended these periods to permit import licences to be used. Some members put questions referring to a general order of July 1967 specifying that imports under thirty-four customs headings could be suspended when "abnormal pricing" was suspected. They said they were pleased to hear that the order was no longer being enforced, but they asked when it would be revoked. The representative of Spain stated that, though the Committee was not the place for dealing with anti-dumping problems, the purpose of the regulation was to discourage the importation of products with abnormally low prices by setting up a valuation commission to study questions relating to dumping. The commission could undertake investigation on request of private entities as well as its own initiative. In fact, the representative of Spain added, this commission had not acted in months. He also stated that Spain's growing import figures made it clear that none of these import procedures implied any obstacle to imports. To another question, the representative of Spain answered that the same licensing time-limits are applied to overseas trading partners as to neighbouring European countries; no discriminatory treatment was applied; but one member felt that absence of differential treatment in this case implied discrimination.

15. Members of the Committee noted with satisfaction that since the last consultation, Spain had dropped one of its payments agreements. However, they expressed their concern over Spain's bilateral quota agreements with countries listed in Annex I to BOP/84, since these individual licensing systems led to discrimination between suppliers and were inconsistent with obligations of contracting parties under GATT. They expressed their hope that Spain would continue to eliminate bilateral agreements since they were unjustified for use in trade with convertible currency countries. Some members stated that they had had complaints from exporters in their countries concerning discriminatory effects of Spain's agreements with other countries. It was noted that foreign exporters trading with Spain under a bilateral agreement were favoured over third parties in the issuing of licences. Spain has even increased its reliance on

bilateral trade in recent years; its exports (f.o.b.) under bilateral trade as a percentage of total exports had almost doubled from 9.2 per cent in 1963 to 17.4 per cent in 1966. Members of the Committee urged Spain to terminate these bilateral agreements as soon as possible. The representative of Spain replied that the current bilateral quotas with convertible currency countries were the last remains of Spain's past bilateral agreements with those countries. On the other hand, even if Spain's balance of payments should improve, he stated, it would be difficult to liberalize most trade now subject to bilateral agreements since many of the countries involved were State-trading nations or nations with which Spain lacked normal diplomatic relations. He felt that other members exaggerated this issue since in 1967 only 4.9 per cent of Spain's total imports were purchased through bilateral agreements, and the percentage had substantially decreased compared to the previous year.

16. Members of the Committee expressed their concern with regard to the "individual licensing system" under which licences were granted on a case by case basis. They believed this system permitted excessive discretion as to the quantities that might be imported and at times discriminated between suppliers on arbitrary grounds. They requested assurances with respect to Spain's plans to eliminate this "individual licensing system". The representative of Spain recalled that this question referred only to the granting of licences for products which had still not been liberalized or transferred into the global quota system. These products would be increasingly fewer in number as Spain progressed with its clear and well-defined policy of liberalization which it had already established.

17. A member of the Committee expressed his regret that Spain still relied on a basically bilateral commercial policy; he regretted still more that hundreds of his own country's exports to Spain were still subject to discriminatory treatment. In reply, the representative of Spain pointed out that discriminatory treatment in question was applied in accordance with the provisions of Article XXXV of the GATT. Moreover, he said, a trade agreement involving liberalization and globalization of imports from that country had been signed on 22 February 1966 and that, apart from 303 items subject to import licences and Spanish market disruption provisions, only forty-nine imports from that country remained prohibited. He reaffirmed that his country's policy was oriented towards free multilateral trade and adherence to GATT.

General observations

18. The Committee thanked the representatives of Spain for the information which had been presented and for the views expressed. They did not share the pessimism expressed by Spain concerning either the magnitude of present obstacles to further progress towards liberalization or the outlook for the future and strongly urged Spain to reconsider whether it might not be possible to act favourably upon some of the suggestions made with respect to liberalization, increase in quotas and especially reduction of bilateralism. The representative of Spain in turn thanked the Committee and promised to convey certain queries to his Government.

ANNEX

Opening Statement by the Representative of Spain

In its various consultations in the Committee on Balance-of-Payments Restrictions Spain has always clearly shown its desire to progress towards trade liberalization. In recent years the Spanish authorities have been endeavouring to facilitate access to the Spanish market for goods imported from abroad, from both the purely commercial and the financial aspect.

This trade liberalization programme launched by Spain in 1960 has, however, been prevented from developing as rapidly as had been hoped for because of certain factors. Some of these are internal, but others are in the international field and their repercussions on the Spanish economy are just as important as those of the purely national factors, if not more so.

Among the most pronounced factors at internal level we may mention the following: growing import needs deriving from the first development plan, structural inadequacies in the Spanish export sector which is developing favourably but very slowly, lack of competitiveness of our industry, growing consumption needs as a result of a rising standard of living, and disequilibrium between production and consumption which has been particularly apparent in the past two years. All these factors have significant repercussions on the Spanish economy and year after year are causing large deficits in the trade balance which have resulted in substantial balance-of-payments deficits.

At international level, I must refer here to the principal economic event of last year - the Kennedy Round. I need not stress the interest which the Sixth tariff conference represented for Spain as for so many other developing countries that are exporters of agricultural products; I must, however, express my country's disappointment at the results achieved in the agricultural sector. The progress in this sector was very limited and so far as non-tariff barriers are concerned, there has been no elimination of most of the barriers that stand in the way of the normal development of interested exporting sectors in most of the developing countries. So far as Spain is concerned, more than fifty of its traditional agricultural export products, whether natural products or manufactures, are included in the list of residual restrictions still maintained by certain industrial countries despite repeated recommendations by GATT on this subject.

So long as this situation continues, Spain's agriculture cannot have a long-term production policy that would permit rational development of its traditional export sectors. The existence of countervailing duties and other variable charges, import calendars, periods of import prohibition, etc. prevent any proper programming of annual production and crops, and so long as this situation continues my country will not be able to secure for the agricultural sector that stability which is of fundamental importance for the country's development.

Nevertheless, although internal economic conditions as well as those at international level have slowed down Spain's economic development - as is borne out with the fact that the annual growth rate of gross national product was only 3.7 per cent last year, as compared with 7.7 per cent in 1966 - the Spanish Government has made progress, though more slowly, towards trade liberalization by reducing the number of products coming under global quota, with the liberalization of imports of paper and paper manufactures, nails, bolts, nuts, etc., of iron and steel, household and sanitary articles, and outboard motors and parts. At the same time, the customs duties on 82 tariff headings have been reduced and the reduction is at the rate of 100 per cent of the duties previously in force on 43 of these headings; in addition, reductions have been made in the countervailing tax for internal charges (Impuesto de Compensación de Gravámenes Interiores) on 69 tariff headings.

So far as the balance of payments is concerned, short-term capital movements that are mostly difficult to control have caused a decline of the order of \$138 million in foreign exchange reserves, so that the modest surplus in the general balance has been completely absorbed. The characteristics of this situation and its real significance are examined in some detail in the basic document before the Committee. I should merely like to mention here two significant facts that show the unreliability of the sectors that offset the large trade deficit in the balance of payments as a whole. I refer to tourism and to "remittances from emigrants".

For a number of years past, foreign exchange earnings from tourism had exceeded the level of total foreign exchange earnings from our export trade; in 1967, however, for the first time for some years, these receipts declined as compared with the preceding year. Although this is undoubtedly attributable to the serious economic situation of several Western countries that are among the principal sources of foreign tourists visiting Spain, it shows the unreliability of this source of foreign exchange earnings which depends so directly on international circumstances that are completely unrelated to my own country's possibilities of action.

The second fact to which I have referred is the slowing down in the rate of Spanish emigration to other European countries, to such a point that recently the number of workers seeking better economic conditions in other countries has been smaller than the number of those returning to Spain for good. In the near

future, this is bound to cause a decline under the heading of "remittances from emigrants" which has been of such importance in recent years.

To conclude these brief remarks on the most significant developments in the Spanish economy in 1968, I should merely like to re-affirm the Spanish Government's intention of persevering to the utmost, and in the expectation also of the goodwill of other contracting parties, towards the progressive liberalization of international trade which is of such fundamental importance to all of us.