

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

REPORT ON CONSULTATION WITH SPAIN AND ON THE SPANISH IMPORT DEPOSIT REQUIREMENT

1. In accordance with its terms of reference and instructions of the Council the Committee has conducted a consultation with Spain on its import restrictions applied for balance-of-payments reasons and examined the Spanish import deposit requirement introduced in December 1969. The present report summarizes the main points of discussion and the views of the Committee on the import deposit requirement.

2. The Committee noted that the previous consultation with Spain on its import restrictions had taken place in November 1969 (cf. BOP/R/41). On the present occasion the Committee had before it a new basic document (BOP/108) supplied by the Spanish authorities, and material supplied by the International Monetary Fund, comprising a background paper dated 20 April 1970 and the text of its Executive Board Decision of 6 May 1970. In conducting the consultation, which took place on 17 July 1970, the Committee generally followed the established plan for such consultations as set forth in Annex I to L/3388.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the Spanish restrictions and import deposit requirement. Upon the invitation of the Committee the representative of the Fund made a statement as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 6, 1970, taken at the conclusion of its most recent Article XIV consultation with Spain, and particularly to paragraphs 2 to 4 which read as follows:

12. In 1969 the gross national product expanded by 7.8 per cent in real terms. In addition to a further increase of 1.8 per cent in exports, there was a rapid acceleration in the growth of investment and private consumption which caused increasing pressure on resources. Hourly wage rates rose by some 10-11 per cent, but there was a considerable improvement in industrial productivity and for the year as a whole the cost of living increased by only 2 per cent. Imports rose by 20 per cent and the balance of payments deficit on current account increased from \$260 million in 1968 to \$528 million in 1969. Official gold and convertible currency reserves fell by \$262 million to \$833 million at the end of 1969.

13. Commercial bank credit expanded by 21 per cent in 1969 compared with 18 per cent in 1968. Since mid-1969 a more restrictive monetary policy has been pursued and in early 1970 substantial reductions were made in the budget appropriations for public investment. The Fund believes that the restoration of internal stability and the avoidance of reserve losses in 1970 require a continuation of anti-inflationary policies. It considers it of particular importance that more effective and flexible monetary instruments be used to control the expansion of bank credit. Consideration should also be given to measures designed to reduce the growth of private consumption, including a reduction in price subsidies.

14. In recent years there has been little progress in reducing quantitative restrictions on imports and reliance on bilateralism. In December 1969 all imports were made subject to an advance import deposit requirement. The Fund continues to urge the Government to further liberalize imports and to terminate the remaining bilateral payments agreements with Fund members. The Fund welcomes the intention of the Spanish authorities to terminate the import deposit requirement in December 1970. 14

Opening statement by the representative of Spain

4. The discussion was opened with a statement by the representative of Spain in which he outlined Spain's current balance-of-payments situation and prospects, recent measures to redress the disequilibrium, circumstances leading to the imposition of the import deposit requirement and salient features of this measure. The full text of the statement is reproduced in the Annex to this report.

Balance-of-payments position and prospects and alternative measures

5. The Chairman and members of the Committee thanked the representative of Spain for his very concrete and comprehensive statement and for the detailed data contained in the basic document (BOP/108) which, together with the material supplied by the Fund, formed a useful basis for this discussion. Attention was drawn to the balance-of-payments data in these documents which covered not only the estimates for 1969 but also included trade figures for the early months of 1970.

6. Members of the Committee, recalling discussions at the previous consultations and referring to the IMF's views as reflected in the Executive Board Decision quoted in paragraph 3 above, reiterated the conviction that there was a definite need for Spain to continue to reinforce the anti-inflationary policies that had been undertaken and expressed doubt that the measures adopted so far had been adequate. In response to the question whether consideration had in fact been given by the Spanish authorities to the adoption of more effective and flexible monetary instruments to control the expansion of bank credit and to reduce the growth of private consumption, the representative of Spain stressed the importance his Government attached to the restoration and consolidation of the overall equilibrium

in the Spanish economy, so as to enable economic development on a sound, efficient and lasting basis. The balance-of-payments disequilibrium which had reappeared in 1969 reflected mainly a marked deterioration of the trade balance; trade deficit had reached alarming proportions in 1969, and all governmental measures were directed towards correcting that development. As the IMF paper had pointed out, the present ills of the economy were attributable to the excessive rate of growth of total demand; consequently, all the steps mentioned in the documents before the Committee and outlined in the opening statement quoted above, had been directed towards moderating internal demand. There had been postponement of a certain amount of appropriations for public investment in 1970 and a much more restrictive policy had been adopted with regard to bank credit. Whether the resulting reduction in demand would be sufficient to stop further losses in reserves this year would, however, also depend on many other factors including the movement of long and short-term capital which, as had been pointed out during the last consultation, depended very much on factors external to the Spanish economy and money market. The various measures adopted, furthermore, were all carefully chosen in view of Spain's international obligations. When the present series of measures were initiated in 1968 and early 1969 their implementation had perhaps been hampered by excessive circumspection and might be regarded as insufficiently effective but with the accelerated deterioration of the situation they were now being pursued with increasing determination. It was in this context that the prior deposit requirement on imports had been introduced towards the end of 1969, its main purpose being to help elimination of excess liquidity in the country and thereby to reduce effective demand. Other measures to the same end included the raise of the central bank's discount and rediscount rates, credit restraint, contraction of the money base, cut-back in public investment, increase in certain taxes, etc.

7. As regards the effect of these various monetary, fiscal and trade policy measures, it might be noted that in April 1970, foreign exchange reserves had risen by some \$28 million and the prior deposit scheme had served to take out of circulation the equivalent of nearly \$430 million at the end of May. These results could only be regarded as highly satisfactory, especially as they involved no reduction in imports but merely kept the expansion of imports to a more reasonable level. It had been estimated that the deposit requirement had raised the cost of imports by no more than 1 per cent. To sum up, the Spanish authorities considered that the measures being used were wholly adequate for the present.

8. In response to a question on the methods used by the Spanish authorities to reduce the growth of bank credit, the representative of Spain recalled that since 1967 the Bank of Spain had on several occasions raised its discount and rediscount rates as well as collateral loan rates. The rediscount rate for commercial papers, which had been raised from 4 per cent in 1966 to 4.5 per cent in 1967 had been raised once again to 5.5 per cent in July 1969, and to 6.5 per cent in March 1970. Apart from the increase of interest rates, the Bank of Spain also made active use of an array of other instruments. Some moderate monetary restrictions had been introduced in 1967, in the form of instalment purchase regulations. More stringent measures had been taken in 1969, and in December, instalment credit regulations had been further tightened and the prior deposit requirement on imports

imposed. By the end of 1969, the effects of these measures to check credit expansion had at least begun to be generally felt as a decline in the banks' effective liquidity had influenced their readiness to accommodate commercial needs. Clearly the monetary measures had been effective in adjusting the level of economic activity and rate of expansion. This had been revealed in enquiries on producers' order books. The abate of domestic demand also served to release resources for export production, and the ensuing increase in export earnings also helped to ameliorate the balance of payments.

9. Some members of the Committee expressed gratification over the resolute manner in which the Spanish authorities had pursued its monetary policy and considered that the recent upward adjustment of the interest rate structure in the country was particularly welcome, not the least because bringing up domestic rates to the international level would undoubtedly reduce the capital outflow which would both increase availability of domestic finance to firms by encouraging investments in the country and would assist the balance of payments directly. In this connexion they also recalled the views that had been advanced at the last consultation with Spain that a firmer control of incomes and other costs, and stabilization of the money market should be attempted in redressing the present situation in which only half of the country's imports were paid for with export earnings. The representative of Spain commented that while his Government was in general agreement with these views and was pursuing policies along these lines it must be borne in mind that further to raise domestic interest rates, even without approaching the extraordinary high level prevailing on the international capital market, might be detrimental to the long-term aims of industrial development. As for the import-export proportion on the balance of payments, it might be noted that exports were expanding at an annual rate of about 20 per cent and that there has been a healthy diversification of exports both in regard to commodity composition and as to destination. With the present rate of industrial development in the country it was not surprising that imports were also rising at a high rate - 18 per cent in 1969. This was perhaps a worthwhile cost to pay for achieving a sustained growth in the long run. As regards wages and costs in general, it was a problem which confronted not only Spain but most nations in the world. It was a matter for satisfaction that despite certain inevitable increases in wages, prices had risen only moderately in 1969 (about 2.2 per cent in retail prices and 2.3 per cent in wholesale prices), which bespoke the effectiveness of the measures that had been applied.

10. Invited to comment on the prospects of prices remaining stable in 1970 and 1971 in the light of the collective labour agreements, the representative of Spain explained that the stability of prices during the past year could largely be attributed to the liberalization of imports which helped to ease pressures on domestic prices, although at the cost of placing an increased burden on the balance of payments. As regards future prospects, a continuation of the present moderate trend could be expected, partly owing to the various measures recently put in for

System methods and effects of the restrictions

11. The Committee welcomed the various steps recently taken by the Government of Spain, such as to increase import quotas and to extend the suspension of duties, all of which seemed to be in the direction of expanding the flow of trade. Some members of the Committee, however, expressed concern that only limited action had

been taken by Spain to liberalize trade since the last consultation, and expressed the hope that the process would be accelerated. A member referred to the suggestion discussed last year that Spain might adopt and announce a plan and schedule for the removal of the remaining restrictions, and enquired about the prospects of this being accepted. Another member stressed the desirability, from Spain's point of view, of liberalizing imports; for this action would stimulate competition in the domestic economy and thereby serve to combat the forces of inflation. Members recalled the intention announced by the Spanish authorities in 1963 to increase annually the total of global quotas by 20 per cent, and individual quotas by at least 10 per cent. Citing the Fund's Decision of 6 May (quoted in paragraph 3 above) they urged the Spanish Government to resume the implementation of that programme as well as the transfer of products from the global quota list to the free list, which had virtually ceased since 1967, and the substitution of global quotas for individual licensing requirements.

12. In reply to these questions, the representative of Spain observed that since 1959 Spain had followed a policy of trade liberalization and had taken successive measures to free imports from restriction, and that only in the last two years had there been a slackening of the trend. The restrictions applied for balance-of-payments reasons were in conformity with the criteria and conditions laid down in the General Agreement. Inasmuch as the level of the restrictions depended on the balance-of-payments situation and prospects, there could be no assurance that liberalization measures would become possible at any pre-determined time. It would therefore appear neither feasible nor justifiable for Spain to adopt any plan or time schedule for the removal of restrictions. It had indeed been Spain's intention to increase the global quotas annually by 20 per cent as a whole and by at least 10 per cent for each item, but this had been stated as an intention, not a commitment. Feasibility of its implementation would depend, as noted above, on improvements in the balance-of-payments situation. In fact, most of the import quotas had been increased by more than 10 per cent per annum, and in some cases by a much higher ratio. If the annual increase in the total of quotas failed to increase by 20 per cent in any given year this might, to a large extent, be explained by the fact that many products previously subject to quota restrictions had been removed from the quota list and included among liberalized imports. The maintenance of the existing trade restrictions was due to the deficit on the trade account, which was attributable especially to the difficulties encountered by the traditional agricultural exports.

13. Members of the Committee welcomed the steps that had been taken to reduce reliance on bilateral payments arrangements, including the termination of the Agreement with the Republic of China and the change in a number of agreements to the use of convertible currencies, and expressed the hope that the process would be continued and accelerated. Asked whether any of the existing agreements provided privileged treatment for the partner country, the representative of Spain assured the Committee that it remained his Government's firm policy to terminate bilateral payments agreements whenever circumstances permitted. This had not always proved possible as certain trading partners insisted on the use of such arrangements, and there were special circumstances rendering them indispensable.

None of the existing agreements afforded the partner any special commercial advantage which was not enjoyed by contracting parties to GATT. In fact, the treatment of bilateral partners was usually less favourable and imports from them were often subject to more stringent restraint than those from GATT countries.

14. In response to questions, the representative of Spain stated that the Spanish import restrictions as they were applied at present involved no distinction between OECD countries and other countries; the import régime was applied non-discriminatorily among all contracting parties to GATT as well as other countries enjoying most-favoured-nation treatment, the only exceptions being the few countries with which trade, for special reasons, was governed by bilateral payments agreements. A member of the Committee pointed out that licences could not be obtained for the importation, for example, of motor vehicles from his country - licences were known to be issued only for imports from OECD countries except in the case of consignments for trade fair purposes. The representative of Spain explained that motor vehicles had not been liberalized or included in the global quota list, but remained subject to individual licensing. Licences were at present issued within the framework of bilateral agreements concluded with traditional supplying countries. This system applied only to motor vehicles. The member raising the question recalled discussion of this matter at the previous consultation and urged the Spanish Government to take steps to remove this apparently discriminatory element in its import control system pending full liberalization for this product.

15. A member recalled the discussion in previous consultations on the suspension of processing of import declarations on the ground of "abnormal pricing", and enquired as to the prospects of this measure, which had been introduced in July 1967 and which had not been invoked since the end of 1968, being revoked. The representative of Spain referred to the statements which his delegation had made at meetings of the Committee on Trade in Industrial Products during discussions of non-tariff barriers and re-affirmed his Government's intention to abolish the measure in question as soon as it was in a position to sign the Anti-Dumping Code. Legislation to this end was being processed and might be enacted in the near future. Members of the Committee welcomed this statement.

16. The delegation of Spain was invited to comment on the recent statement by the Spanish Ministry of Agriculture that imports of corn would be limited to 1.3 million tons in 1970 and to 800,000 tons in 1971, and would be totally eliminated in 1972, and asked how this objective would be achieved without infringing Spain's GATT obligations. The representative of Spain explained that the development of corn production in the country formed part of the agriculture development plan, and was aimed at intensifying the production of this commodity. It was natural that Spain should wish to direct its resources to the production of commodities which offered better yields especially having regard to the adverse trade balance in the agricultural sector. The reduction of imports of this product seemed to be perfectly in accord with the GATT provisions on the use of import restrictions for balance-of-payments reasons. The representative of the United States stated that his Government had grave reservations as regards the compatibility of the proposed measure with the General Agreement.

17. Members of the Committee, noting that in the past few years licences for imports subject to global quotas had in many cases been issued substantially above the quotas set, enquired as to the reasons for the diminution of imports under the global quota régime and of the volume of licence applications received in 1969. The representative of Spain explained that the more favourable balance-of-payments situation had made it possible in earlier years to issue licences liberally for goods subject to quota restrictions, in most cases well above the quota value. The issue of licences had become less generous in 1969 than in the preceding years because of the increased pressures on the foreign exchange reserves, but the amount of licences issued had in most cases remained above the quotas announced. In reply to another question, the representative of Spain explained that the total value of bilateral quotas had increased in 1969 because trade with Guinea, which had previously been registered as domestic trade, was now counted as foreign trade.

18. In response to a question concerning alleged administrative delays in the processing of import declarations for liberalized products, the representative of Spain informed the Committee of the efforts already made, mainly through decentralization of the administration and opening of regional offices, to streamline the procedures, as a result of which most declarations were now cleared within forty-eight hours.

Conclusions

19. The Committee noted that there had been some increase in the amounts allocated to global quotas in 1969, but that there had been no items freed from restriction. It expressed the hope that Spain would accelerate the liberalization of imports. The Committee also endorsed the views of the Fund as expressed in its Executive Board Decision of 6 May with respect to the termination of bilateral payments agreements.

20. The representative of Spain expressed appreciation for the sympathetic attitude shown by members of the Committee and assured them that the views they had expressed would be conveyed to the appropriate authorities in Spain for attention.

The import deposit scheme

21. As requested by the Council, the Committee examined the import deposit scheme which the Spanish Government had introduced in December 1969 as one of a series of measures designed to restrain the growth of domestic demand. The principal features and characteristics of the scheme were described in the basic document (BOP/108, cf. pages 4-5 and 6-7). The Committee noted that by Presidential Decree 3100/1969 of 6 December 1969, importers of all products were required to deposit in domestic currency the equivalent of 20 per cent of the value of imports with the Bank of Spain prior to presentation of the requisite import declaration or licence application. The deposits bore no interest and were

retained by the Bank for six months. The measure was of a temporary nature and was intended to remain in force until 31 December 1970. According to the Spanish authorities the main purpose of the measure was not to restrain imports but to immobilize part of the domestic money circulation.

22. In response to questions, the representative of Spain assured the Committee that the deposit scheme was operated entirely without discrimination as to product coverage and as between sources of supply and that having regard to the nature and purposes of the measure it was unlikely that any discriminatory elements might be introduced; the measure was at any rate of a temporary nature with a remaining life span of some months. Members of the Committee expressed the view that the Government should maintain the present non-discriminatory nature of the scheme. The Committee noted the statement of the Spanish representative that while there was little likelihood of the measure being withdrawn before 31 December 1970, there was no present intention of extending the application of the measure beyond that date.

23. A member of the Committee, referring to the Spanish statement that the import deposits were not intended to curb imports, but to restrain domestic demand, requested information on Spain's estimates of its imports during the coming months, in the light of the measures taken at the end of 1969 and asked what alternative means might be used to stabilize imports after the end of the year, especially having regard to the dangerous effects of the \$430 million worth of domestic currency at present immobilized being suddenly released into circulation upon termination of the deposit requirement. The representative of Spain replied that the import deposit scheme formed but a part of a programme to restore equilibrium which included many other measures. Depending on the circumstances then prevailing the monetary authorities could make suitable adjustments and place greater reliance on one or more of the other measures as appropriate. As regards the trend of imports, these had increased by 26 per cent during the first four months of 1970, but had shown a slight declining tendency in May, indicating that the import deposit measure had begun to act on the demand for imports. Spain's foreign exchange reserves, which had stood at \$833 million at the end of 1969, had risen to \$935 at the end of April, partly as a result of the import deposit scheme but partly reflecting certain short-term capital movements.

24. The Committee noted with satisfaction the temporary nature and non-discriminatory application of the import deposit scheme and its intended effects on the Spanish economy and balance of payments. It welcomed the assurance given by the Spanish representative that it was his Government's firm intention to terminate this scheme at the end of this year. The Committee noted that the trend of imports in 1970 had confirmed the Spanish authorities' contention that the scheme had no direct significant adverse effects on imports. Taking account of the intention of the Spanish authorities to continue its programme to restore equilibrium and its readiness to adopt for this purpose other monetary and fiscal measures, the Committee was confident that the termination of the scheme would not be followed by a sudden upsurge in domestic demand which would have adverse consequences for the balance of payments.

ANNEX

Opening Statement by the Spanish Representative

Spain is once again attending the periodic review in this Committee, in the hope that my country's constant readiness to comply with the GATT rules will be rewarded by the spirit of understanding and co-operation which has always characterized the activities of this Committee.

My country's balance-of-payments deficit, which had been eliminated in 1968 after three years of adverse results, has again reappeared in 1969 and indeed so forcefully that our external reserves have suffered perhaps the greatest reduction in the present decade. The deficit reached the record level of \$231 million and as a result our reserves of gold and foreign exchange dropped by \$262 million. At the end of the year, existing reserves were only sufficient to cover less than three months' imports. This situation was no more than a reflection of the great tensions which the Spanish economy experienced throughout the year under consideration.

In the light of these circumstances, my Government has adopted a series of measures designed to contain the growth rate of internal demand within limits that the national economic system can tolerate. These measures include two increases in the rate of interest - from 4.5 per cent to 5.5 per cent on 22 July 1969, and from 5.5 per cent to 6.5 per cent on 23 March of this year; stricter instalment-purchase terms; a reduction in the growth rate of bank credit; postponement of part of planned public investments; and the establishment of a prior deposit on imports.

As you can see, my Government has spared no effort in its desire to attain economic equilibrium; the measures adopted cover a wide range, and one of them is particularly painful, namely the postponement of public investments which represent so much for our country's economic and social development.

Thus, the Spanish Government has not resorted to superficial measures or to import restrictions to save the external deficit, but has acted in depth, by attacking the basic causes of disequilibrium, without affecting Spain's position in international trade, as might have been the case if other measures had been resorted to.

In this connexion, the introduction of a system of prior import deposits in December 1969, equivalent to 20 per cent of the value of imported goods and for a period of six months, constitutes an additional instrument of the policy to restrain demand; and as a result approximately \$350 million have been immobilized between the date when the scheme was introduced and 30 April of this year.

This measure is not designed to restrict imports because, at the rates of interest prevailing in the Spanish market, the increase in the price of imports is equivalent to less than 1 per cent of the value of the imports concerned and it would be difficult to expect otherwise in a country where marginal import propensity is very high, as demonstrated by the fact that over the decade 1959/1969 Spain's imports increased seven-fold. Immediate experience also bears out this contention because in the first quarter of this year Spain's imports continued to increase strongly, and in April this year were more than 35 per cent above the level recorded for the same month of 1969. There is therefore no doubt that the effects of this measure are essentially monetary and that it only affects imports indirectly, except in those cases where the imports concerned were not based on any firm desire to carry out the transaction, or those of an essentially speculative manner.

On the other hand, the Spanish Government has been concerned that its action should be in conformity with the GATT rules; accordingly, the deposit is not discriminatory either with respect to products, since all products are subject to this measure, or with respect to countries, since the deposit is applicable regardless of the origin of the goods.

Lastly, this measure is of a strictly temporary character; the decree establishing the scheme specifies that it will lapse in December of this year; this shows the desire of the Spanish Government not to establish any new difficulties for foreign trade, beyond what is strictly necessary.