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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATION WITH GREECE

1. In accordance with its terms of reference the Committee has conducted a consultation with Greece under the provisions of paragraph 12(b) of Article XVIII. The present report summarizes the main points of the discussion.

2. The Committee noted that the previous consultation with Greece under those provisions had taken place in December 1966. On the present occasion the Committee had before it a new basic document (BOP/111) supplied by the Greek authorities, and material supplied by the International Monetary Fund, comprising a background paper dated 15 July 1970 and the text of its Executive Board Decision of 19 October 1970. In conducting the consultation, which took place on 21 October 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 Greek restrictions. 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 October 19, 1970 taken at the conclusion of its most recent Article XIV consultation with Greece, and particularly to paragraphs 2 to 4 which read as follows:
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> '2. Following two years of more moderate growth, the economy grew, in real terms, by 8.5 per cent in 1969, primarily reflecting a good agricultural year, large investments, and a further sizable increase in private consumption. The surplus on the ordinary budget of the central government was markedly higher than in 1968, but public investment outlays rose by a corresponding amount. Bank credit increased by over 20 per cent and the money supply by 8 per cent. Bank deposits continued to expand, but at a somewhat slower rate than in 1968. Wages rose at an annual rate of about 8 per cent, but consumer prices increased by only 2 per cent. However, there was a sharp rise in imports and invisible payments and a relatively slow growth of receipts from shipping, causing the balance of payments deficit on current account to increase by $96 million to $343 million in 1969.

'3. Since mid-1969, the authorities have taken various measures in the monetary and credit fields in order to moderate demand. The Fund believes that more flexible use of the interest rate mechanism might strengthen efforts in this sphere. Balance of payments considerations and the need to maintain internal price stability and at the same time to sustain a high rate of investment require such adjustment in monetary policy.

'4. Monetary controls operating on the import sector were tightened during 1969, and the exchange allowance for foreign travel was reduced in March 1969 and February 1970. The Fund urges Greece to reduce reliance on restrictions in the external sector as measures of economic management. The Fund welcomes the termination of a bilateral payments agreement with one Fund member, but believes that the necessity of the agreements with other members should be reconsidered at an early date.'

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

Opening statement by the Greek representative

4. The representative of Greece, in his opening statement, informed the Committee of certain changes in the Greek import restrictions since the last consultation in December 1966, described the evolution of the balance-of-payments situation and outlined the principal problems faced by Greece in attempting to expand its exports. It was noted that the import deposit rates had been reduced on three occasions although for certain products there had been a lengthening of the duration of deposit. The import restrictions were applied in a liberal manner as might be witnessed from the continual rise in imports. Exports had risen more sluggishly, resulting in a widening trade deficit. Greek exports and production were still concentrated on a few products in the agricultural sector, although progress had been made in industrial production. While efforts were being made to diversify the economy, outlets for traditional exports had to be safeguarded and the foreign exchange resources husbanded to meet the urgent needs in raw materials and other essential goods. In the implementation of the current Five-Year Plan for 1968-1972, an acceptable growth rate had been attained but only at the cost of some external disequilibrium on the current account, owing to the ensuing more rapid rise in imports than exports. The present balance-of-payments problems were, however, likely to be of a transient nature since with the consolidation of industrial development imports could be expected to decline and exports to rise.

5. In conclusion, the Greek representative stressed the importance for Greece to have improved access to foreign markets. Unless export earnings were augmented and outlets for its staple exports expanded, Greece might find it difficult to maintain the present external payments position without intensifying the import restrictions or resorting more to bilateral trading. The text of the Greek representative's statement is reproduced in the annex to this report.

Balance-of-payments position and prospects

6. Members of the Committee thanked the Greek representative for the clear and concise statement. Some members expressed sympathy with the Greek Government for the difficult situation that the country faced and appreciation for the considerable efforts made to overcome them and to foster economic growth. They hoped that these efforts would be successful and make it possible for Greece to proceed with the reduction and eventually the removal of the remaining restrictions. One member pointed out that according to the most recent data available the Greek balance-of-payments position had somewhat improved during the first half of 1970 compared to that in the corresponding period a year ago; both the trade deficit and the current account deficit had increased by a smaller margin. Exports increased by 23.5 per cent while imports rose only by 15.2 per cent. These improvements, especially the rapid growth of exports, were encouraging and, it was to be hoped, might lead to the liberalization of imports, a simplification of the control procedures and removal of bilateral arrangements.

7. Referring to the remarkable rise in exports in the first half of 1970, the member invited comments on the factors which in the view of the Greek authorities, might have been responsible for it and asked whether, in view of this trend, the rate of the rise of the trade and current account deficits could be expected to diminish further. The Greek representative stated that the upsurge of exports in 1970 was attributable to increased shipments of tobacco, fresh fruits, and such industrial products as textiles, chemical products, aluminium, nickel and other metals and minerals. Having regard to the heavy requirements for capital equipment that was likely to continue to be imported in increasing quantities for some time, even though one might expect a stabilization or even decline in imports of raw materials and consumer goods, any prediction on the trends in the trade balance would be difficult.

8. Attention was drawn to the available statistics which showed that the highest increases in exports were in foodstuffs and beverages and in manufactures and handicraft products. Asked about the proportion of those additional exports going to bilateral countries as against convertible currency countries, the Greek representative stated that the bulk of the increase was in the trade with the multilateral trading countries, and that the proportion of Greek exports going to bilateral countries had remained at the traditional level of less than 25 per cent of total Greek exports.

9. A member of the Committee expressed the hope that the Greek Government would find it possible to simplify the present export control procedures, for example by abolishing the automatic consultations with domestic users in the interest of a more dynamic export policy. The Greek representative replied that there were no export controls in Greece that might impair the expansion of exports. Such controls as existed in certain special cases were applied for the purpose of ensuring adequate supplies to meet domestic consumption needs. For example, the export of olive oil was sometimes controlled following a decline in production. The control applied to bauxite constituted no effective export restriction as the global export quota set for this product had never been fully taken up.

10. Noting the recent decline in the Greek net earnings from shipping, a member of the Committee requested comments by the Greek delegation on the future prospects of earnings on this account as well as other receipts on invisibles account. The Greek representative replied that present estimates indicated that 1970 tourism receipts would be $190 million; emigrants' remittances $320 million ($175 million in 1969); and shipping $260 million ($242 million in 1969).

11. With reference to the information that the Greek authorities sometimes took an excessively long time to process applications for investment projects in the country, members asked whether any particular attention was being paid to attracting foreign capital investment in the country. The Greek representative replied that apart from the recent institution of a special high interest rate of 8 per cent for deposits in convertible currencies, which should help to attract some short-term funds, legislation had been enacted with a view to facilitating and encouraging long-term foreign investment; the effects of these measures might become notable in the near future. For example, the recently signed agreements with the Niarchos and Onassis Groups were expected to bring into the country long-term investments amounting to $800 million.

12. In reply to questions, the Greek representative expressed the view that it would be difficult to estimate how much foreign exchange would have been expended, under the present conditions of demand and supply, if the import restrictions were suspended. There could be no doubt, however, that the present restrictions were serving the useful purpose of conserving the limited foreign exchange resources for essential imports and other expenditure and that their absence would entail serious depletion of the resources with unforeseeable consequences for the economy. The level of the import restrictions had to be adjusted in accordance with the changing situation of the balance of payments and it would therefore be impossible to forecast when or at what rhythm the restrictions could be removed. Much would depend on the progress that might be achieved in industrialization, in the strengthening of agriculture, in the diversification of the economy and on the rate of growth attained. Possibly at a later stage of the economic development of the country it might become possible for the authorities to establish a time schedule for the removal of the restrictions.

Alternative measures to restore equilibrium

13. Members of the Committee commented that while they were encouraged by the promising outlook regarding the inflow of long-term capital, they were somewhat apprehensive about the country's heavy reliance on short-term credit, including suppliers' credits, to balance its payments; such credit might become less readily available in future unless price stability were maintained in the country. While prices and wages had been rising very moderately up to now, this stability might not continue, as the labour force and other resources were gradually becoming fully employed. Consequently, it would appear that the Greek authorities ought to shift more towards reliance on long-term borrowing. The possibility was also suggested that the persistent balance-of-payments difficulties and especially the widening trade deficit would make it desirable for Greece to aim at a lower rate of economic growth than had been planned up to now.

14. The Greek representative said he had taken note of these suggestions but expressed the view that while the choice between external equilibrium and rapid growth always existed, it was evident that some external financial strain had to be faced once a country embarked on a process of development. At a certain stage of growth, after the "take off" stage, pressures on the foreign exchange resources were a natural phenomenon. The answer would seem to be energetic, positive measures to preserve the overall equilibrium, and accelerated pace of economic development so as to reach the next stages of development rather than to arrest the growth for the sake of short-term considerations.

15. A member of the Committee recalled that Greece had introduced in September 1968 a new scheme of export assistance for industry and handicraft in the form of concessional interest rates on loans granted to firms in relation to the ratio of their exports for convertible currencies to production, and asked whether the Greek authorities had any plans to alter their export incentive system. The Greek representative explained that this system of export assistance had been in force for a long time and applied to different sectors of the industry with the view to encouraging exports. The system had recently been modified with a view to increasing its efficiency.

16. Invited to comment on the IMF view concerning the desirability of a more flexible interest policy and on its feasibility in Greece, the Greek representative stated that in order to attract convertible currency funds, a special interest rate of 8 per cent had recently been instituted for deposits in such currencies and that the rediscount rate had been raised to 6 1/2 per cent. Interest rates for selected sectors, including trade and building firms were increased, banks' reserve requirements related to credit to trade were increased and their ceilings for credit to domestic trade were lowered.

System and methods of restriction

17. Responding to the suggestions concerning further simplification of the import control procedures the Greek representative noted that complexity of the system was more illusory than real. While a considerable number of products were included in List "A" and required an import permit, such permits were issued automatically for most of the products on that list when imported from the convertible currency countries. The licensing requirements had been retained mainly as a safeguard but were not being used in any manner such as to exert a restrictive effect on imports.

18. A member referred to the point made by the Greek representative in his opening statement to the effect that improvements in the balance of payments would depend on an expansion of exports and diminution of import demand as a result of domestic industrial development, and asked whether there were any criteria in terms of domestic industrial production for the easing of import restrictions. The Greek representative replied that in spite of the recent increases in industrial exports and certain agricultural exports, the pressures on the balance of payments remained considerable, mainly owing to the growing need for capital equipment. At least in

the short run no fundamental change in the balance of payments was foreseen that would enable a substantial modification of the import control system. On the other hand, the import controls were being administered in a liberal manner and the major part of imports included in List "A" were being admitted freely from the convertible currency countries. As explained above, the controls were being retained namely as a precaution against any possible emergency situations.

19. The representative of Sweden noted that according to the basic document imports into Greece from all EMA countries were subject to import control procedure "E" but that according to some reports, including the IMF background paper dated 15 July 1970, imports from Sweden had as from 18 October 1968 been made subject to procedure "D". The representative of the Fund confirmed that the statement in the Fund paper was based on information obtained from the Greek authorities. The Greek representative stated that no amendment had been made to Decision No. 46600 dated 14 September 1961 of the Foreign Trade Council under the terms of which, inter alia, procedure "E" was applicable without any distinction to all EMA member countries. He undertook, nevertheless, to convey the question to the Greek Government so that any necessary investigations could be made with a view to remedying such a situation.

20. Several members of the Committee expressed regret at the continued reliance of the Greek Government on the prior import deposit system which evidently placed an additional burden on importers and ultimately on consumers and end-users of imported goods. They welcomed the reduction in the deposit rates for a number of products on a most-favoured-nation basis but regretted that the period of retention had been lengthened from two to four months for certain products which largely offset the effects of the reductions in the rates. The representative of Greece replied that the successive reductions of the deposit rates, while taken in fulfilment of obligations undertaken under Greece's association with the EEC, had been extended voluntarily to imports from all GATT countries. The reduction in the deposit incidence was meant to be a commercial policy action contributing to freer trade. The deposit itself had, however, been adopted for the purposes of containing inflation and discouraging speculation. The lengthening of the deposit period had been resorted to mainly for the purpose of averting inflationary tendencies in the country. Consequently it should be viewed as an internal financial measure only indirectly and marginally affecting the flow of trade. Some members said that conceptually it was difficult for them to agree that a reduction of the rates of the deposit benefited trade but the lengthening of the deposit period had no effect on imports. It seemed clear that a lengthening of the deposit period saddled the importer (or exporter) with increased interest costs.

21. In the course of discussion, the Greek representative stated that the import deposit would be applied on a decreasing scale; the reduction in the rates would be at the same rhythm as the reduction of customs duties on imports from the EEC countries in accordance with the Greece-EEC association agreement, to be completed by 1974 for certain products (industrial products not manufactured in Greece at the time the association agreement came into force in 1962) and by 1984 for other products. While the duty reductions applied only to products of EEC origin the

reduction of the import deposit would apply to imports from all GATT countries. On the other hand, the adjustments in the length of the period in which deposits were held was made from time to time purely in the light of the internal monetary situation. The deposit being relied upon to control internal liquidity, changes in the deposit period were not regarded by the Greek authorities as a trade measure aimed at placing an additional burden on imports.

22. In response to the suggestion that the Greek policy might be to increase the period of deposit or to enlarge the product coverage as and when the rates were reduced, the Greek representative reaffirmed that reductions in the deposit rates were governed by the time-table laid down in the Greece-EEC association agreement and that modifications of the deposit period would be made in the light of the internal financial situation. There was definitely no relationship between the two lines of action.

23. The Committee noted from the documents before it that as from 4 July 1968, a four-month retention period had been introduced for the import deposit on passenger cars. While originally this regulation was intended to be in force for eight months only, it had been sucessively extended, until 2 October 1969, 2 April 1970 and 2 September 1970. It was asked whether this had since been further extended. In reply to this and other questions the Greek representative stated at present the retention period was two months for buses and trucks and four months for passenger automobiles. There were no present plans to modify these periods but the rate of the deposit would be reduced in accordance with the established time-table, with the next reduction, of 10 per cent, falling due in November 1971.

24. It was stated by a member of the Committee that there had been known cases in which the lowest offer made in response to a public tender for an industrial material needed by the Greek industry had been turned down in favour of higher offers by suppliers in a bilateral agreement country. He expressed concern about the possibility of similar occurrences in the future, particularly if the Greek authorities should consider it appropriate or desirable to link its purchases with export shipments, as seemed to have been implied in the Greek representative's opening statement. The representative of Greece replied that the import control authorities were not aware of any case of a favourable offer being deliberately rejected in the manner described, but that it should be noted that in comparing offers account was taken of many factors in addition to prices. As regards the statement that Greek import policy would depend on improved access to the markets of convertible currency countries, the Greek authorities were fully aware that Greece would have to compete with other suppliers on those markets and there was little scope for Greece to expect special favourable treatment for its exports from particular countries. It was only to be hoped that in so far as a government in the convertible currency area had any influence in purchasing policy, for example, in the operation of a tobacco monopoly, they would bear in mind the urgent need of countries such as Greece which were burdened with surplus commodities for which adequate outlets were lacking and for the disposal of which they might be compelled to resort to bilateral arrangements.

25. A member asked whether in the issue of import licences for products on List "A" there was any element of discrimination in favour of bilateral agreement partners and against convertible currency countries, and whether there existed any special quotas available for imports from particular countries (e.g. television receivers and fertilizers from EEC countries) in the convertible currency area in contravention of the provisions of Article XIII of the General Agreement. The representative of Greece replied that there could be no question of discriminatory licensing for any List "A" products since licences for these imports from the convertible currency countries were issued liberally and without discrimination. It was imports of some of those products (e.g. cotton textiles) from bilateral agreement countries sources that were subject to quotas provided in these agreements. For certain products (e.g. television receivers) there were special quotas for EEC countries but these were matched by global quotas for the other convertible currency countries and the proportion between these quotas was not considered to deviate from the criteria of Article XIII. Fertilizers were produced locally except for certain special types, for which quotas were provided for third countries as well as for the EEC countries.

26. Some members of the Committee, referring to the arrangements sometimes made by Greece with a trading partner whereby Greek products (such as tobacco and fruit) were offered in compensation for imports, asked whether the Greek authorities intended to continue to make use of this type of compensation arrangement, and whether there was any intention to make major deals dependant on the trading partner's willingness or ability to accept these Greek products. The Greek representative explained that Greece's imports from the multilateral countries was conducted entirely in convertible currencies and had been substantially freed from restriction. There could therefore be no question of using imports as leverage for the movement of exports. Such compensation deals were feasible only in the trade with bilateral agreement countries. Given the fact that trading involving bilateral clearing comprised only 10 per cent of Greece's total imports, the proportion of trade involving compensation was not likely to be substantial. The Greek representative also confirmed that in entering into an arrangement of this kind Greece always asked for an assurance, sometimes backed by bank guarantee, that the Greek products imported by the partner countries would not be re-exported to third countries.

27. A member of the Committee referred to two reported cases in which a major Greek order for capital equipment for a development project was offered through open tender with the condition that the supplier, in addition to providing the normal medium-term or long-term commercial credit, undertook to accept Greek tobacco as payment in kind. Asked whether this in any way reflected a general policy aimed at gaining additional outlets for Greek exports, the representative of Greece reiterated the view that under the present import control system barter or compensation arrangements of this kind were impossible in the trade with the convertible currency countries, from which imports were largely free from restriction. There could be cases in which a foreign supplier of locomotives, or heavy electric equipment might be tempted to offer to take Greek tobacco in exchange in an attempt to obtain the order, but the Greek authorities would consider the offers purely on the basis of prices, delivery dates and other commercial consideration.

28. Members welcomed the recent termination of the bilateral payments agreements between Greece and Israel and enquired whether this reflected a general policy and indicated a likelihood that the remaining agreements might also be dispensed with in the near future. In this connexion one member asked whether there were any plans to discontinue existing bilateral trade arrangements. The representative of Greece replied that the Greek Government had not relied upon bilateral agreements out of a liking for bilateral trading but had accepted them only in unavoidable circumstances. The device would be continued mainly as a means to safeguard the outlets for certain Greek exports and their contribution to Greece's foreign trade had in fact made it easier for it to maintain the present fairly liberal import control régime vis-à-vis the convertible currency countries. Apart from the agreements with Brazil, the United Arab Republic and Yugoslavia, Greece's existing agreements were all with centrally planned economy countries.

29. In clarification of the references to "bilateral payments agreements" in the documents before the Committee the Greek representative stated that some of the payments agreements might include clauses concerning trading arrangements, and it was not unusual for an agreement to include lists of products to be exchanged, which were of an indicative nature. The basic purpose of the bilateral agreements in force related to the clearing of accounts and methods of effecting payments; there was no undertaking to purchase defined quantities of particular products.

30. In reply to a question concerning an alleged import prohibition on pharmaceutical products competing with domestic production the Greek representative stated that the special regulations for these products applied only to shipments labelled as samples.

Conclusions

31. The Committee expressed appreciation for the co-operative manner in which the Greek delegation took part in this consultation. Members of the Committee expressed the hope that further improvements in the Greek balance of payments as a result of the current efforts at diversification of the economy and industrial development would enable the Government to proceed at an early date with the liberalization of imports. Meantime, they urged the Greek authorities to seek the simplification of the import control system, to reduce the incidence of the import deposit both by lowering the deposit rates and by shortening the deposit duration and to diminish reliance on bilateral arrangements.

32. The representative of Greece assured the Committee that the representations and views put forward by the members of the Committee would be conveyed to the competent authorities in Athens for careful consideration.

ANNEX

OPENING STATEMENT BY THE REPRESENTATIVE OF GREECE

The principal changes which have occurred in the Greek régime of import restrictions since the last consultation have been three successive reductions in the advance deposits required for the issue of import permits for certain products from the Community; Greece has extended these reductions to all the contracting parties.

It should be noted, however, that for certain items the retention period for the advance deposits has been raised from two to four months, and that certain products have been added to import list A.

The fact that all the restrictive measures are applied in a liberal manner is reflected in a steady growth of imports, which increased from $1,148.9 million in 1966 to $1,236.8 million in 1968, and $1,418.5 million in 1969.

On the other hand, the progress of Greek exports has been by no means as rapid, and the trade deficit has worsened in the last three years. It reached $696.8 million in 1967, $771.9 million in 1968 and $888.2 million in 1969, while import coverage by exports declined from 39.38 per cent in 1967 to 37.38 per cent in 1969.

Exports of the major agricultural products reached a total of $238.6 million, representing 45 per cent of aggregate exports. Greek exports thus contribute only relatively little to ensuring equilibrium in the balance of payments, which is primarily dependent on invisible earnings. These are unstable by their very nature, and are sensitive to the general level of international economic activity.

The weakness of Greek exports is principally attributable to their composition and to the fact that, in terms of value, agricultural products still account for an unduly large proportion of total exports. Whereas a pronounced increase in exports of industrial products was achieved in 1969, agricultural exports in that year were made up as follows (in terms of million dollars): tobacco 94, cotton 35.7, raisins 43, citrus fruit 16.7, other fresh fruit 19.5, olives and olive oil 17.3, wines and spirits 12.4.

Thus, the problem facing Greece is the structural weakness of its economy. This is why the Government is directing all its efforts towards export expansion and diversification of domestic production, special emphasis being laid on exports of manufactured products. Encouraging results have been achieved in 1969 if one compares the higher export percentage with the level for the preceding year. Manufactured products and mineral ores accounted for 40 per cent of total exports in 1969 as against 30.5 per cent in 1968.

These results are not yet sufficient, however, and a remedy to the difficulties must be sought in the general context of the country's economic development. The restrictions still applied on imports will have to be adapted so as to permit the smooth operation of bilateral clearing agreements which assure Greece of a stable outlet for exports of so-called sensitive agricultural products, and at the same time a substantial saving of foreign exchange needed for imports of certain raw materials and manufactures. This policy is still necessary in order to prevent any deterioration of balance-of-payments equilibrium, while maintaining a satisfactory rate of economic growth during the current transitional period.

With a view to achieving a rapid rate of economic development for Greece, the Government has embarked on a Five-Year Development Plan covering the period 1968-72, of which one of the principal objectives is to achieve in 1972 an annual growth rate of 8.5 per cent in gross national product, at constant prices. While the results for the year 1968 were not encouraging because of unfavourable weather conditions which affected agricultural production, on the other hand a growth rate of 8.3 per cent was achieved in 1969, corresponding to the target set for 1972, and this with a minimal increase in consumer prices, within the limits of the forecasts set by the Plan. The implementation of the Plan has, however, given rise to certain problems under the heading of the balance of payments, because the value of imports has increased at a more rapid rate than the value of exports.

Considered against the background of the substantial increase achieved in exports of industrial products in 1969, together with the fact that the import increment is particularly pronounced in respect of capital goods which in the last analysis are needed for economic development, in such a context the current balance-of-payments problems should be only of a temporary character and the value of imports can be expected to decline progressively as national production increases and becomes more diversified, while the value of exports would tend to increase following a change in the composition of exports so as to comprise a larger proportion of industrial products.

In the light of the indications given above, we consider that the restrictions still applied on imports fall within the context of Article XVIII of the General Agreement and do not go beyond the reasonable limits which enable Greece to preserve the liberal and multilateral character of its external trade régime. Having regard, however, to the temporary increase in the volume and value of imports and to the difficulties inherent in satisfactory disposal of certain agricultural products until such time as the restructuring of the Greek economy bears fruit, a corresponding effort is called for on the part of contracting parties with a view to increasing their purchases from Greece. Unless the countries which export their products to Greece can show such an understanding attitude, Greece would be able to maintain its present balance-of-payments equilibrium only by either intensifying the restrictions, or by bringing a larger volume of its trade exchanges under bilateral agreements.