

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

SCM/W/84

14 November 1984

Special Distribution

Committee on Subsidies and
Countervailing Measures

Original: Spanish

EXTENSION OF RESERVATION ENTERED BY SPAIN - DECISION
OF THE COMMITTEE ON SUBSIDIES AND COUNTERVAILING MEASURES
OF 29 APRIL 1982

Communication from Spain

The Spanish delegation has requested that the attached document be circulated; it contains the statement made by the Spanish representative at the meeting of the Committee on Subsidies and Countervailing Measures on 1-2 November 1984.

1. As the members of this Committee know, already during the Tokyo Round Spain showed great interest in acceding to the Subsidies Code. Because of the existence of a cumulative tax system, some elements of which affected production factors not materially incorporated in the end product exported, it was difficult for Spain to accede to that Agreement because the provisions of paragraph (h) of the Annex thereto could not be fulfilled.

2. In order to overcome this problem, in 1981 an outline law on tax reform was approved and plans were made to introduce a value-added tax in Spain. Accordingly, on 14 April 1982, Spain was in a position to accept the "Code on Interpretation of Articles VI, XVI and XXIII of the General Agreement" and on that date was able to sign its acceptance, which was accompanied by a communication reproduced in document L/5517 (status of acceptances of legal instruments) stating in particular:

- (A) that the Spanish Government had initiated the process of bringing its laws, regulations and administrative procedures into conformity with the provisions of the Code;
- (B) that the Spanish government intended to modify its fiscal system, introducing value-added tax in place of the current turnover tax;
- (C) that this important change in the Spanish fiscal system would require a transition period for adaptation of laws, regulations and administrative procedures to the new fiscal system;

(D) that the adaptation process would require a period of time, to end on 31 December 1984, within which to bring those laws, regulations and procedures into conformity with the provisions of the Code.

3. At their meeting on 29 April 1982, the signatories to the Agreement adopted a decision (SCM/25) in which they welcomed Spain's acceptance, took note of the terms of the reservation entered by the Spanish authorities with respect to application of the provisions of Article 19:5(a) of the Agreement, and accepted the reservation on condition that Spain withdraw it not later than 31 December 1984 (SCM/M/11).

4. Accordingly, in June 1982 the Spanish Government put before Parliament a bill to introduce value-added tax into the Spanish fiscal system in place of the cumulative tax on the basis of which the tax rebate on exports was calculated.

5. Nevertheless, before Parliament could express an opinion on the above-mentioned bill, Parliament was dissolved and general elections were called. Under the constitutional provisions governing procedures of Spain's legislative chambers, the new government had to withdraw, among other draft legislation, the tax reform bill put forward by the preceding government.

6. Since then the newly elected government has stepped up its efforts to adapt laws, regulations and administrative procedures to the provisions of the Agreement, as reflected in the following important actions:

(a) Under Royal Decree 1313/1984 of 20 June 1984 (Official Gazette of 10 July) the rate of tax rebate on exports was reduced by 15 per cent. As explained in the preamble, this action reflects the need to review elements intervening in determination of rebates in order to adjust the tax benefits of rebates to the amounts budgeted. One of those elements was the rate of rebate, calculated taking account of the value of certain factors not materially incorporated in the exported product. The 15 per cent reduction was designed to overcome that difficulty and to eliminate the discrepancy between VAT and the cumulative taxes.

(b) The Government is about to put before Parliament a Bill on business tax on undertakings - a more general indirect form of the current cumulative tax system - which it hopes will be approved. The changes introduced by the new legislation are seen as an important and necessary step toward familiarizing economic agents with the requirements of VAT.

(c) Lastly before the end of this year the government will put before Parliament a second bill to bring the VAT system into effect as from 1 January 1986.

7. The three actions just mentioned are of great importance for the difficult process of moving from a system turnover of cumulative indirect taxes to value-added tax, and clearly show the Spanish Government's determination to carry that process through and to adapt Spain's legislation and other provisions to the requirements of the "Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement".

8. Accordingly, Spain is requesting from the signatory countries to the Code a one-year extension, i.e. until 31 December 1985, of the reservation that was entered by it when acceding to the Agreement and was accepted by the signatories, and feels sure that the signatories will recognize the reasons set forth above and the significance of the actions taken. By that date, value-added tax will be definitively established in Spain and the national legislation will accordingly be fully adapted to the requirements of the Code.