

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## 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/67) and a decision of the Executive Board of the International Monetary Fund dated 12 May 1967 (see Annex I), together with a background document and a paper containing supplementary information, 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 97-98). The consultation was completed on 19 May 1967. The present 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 made was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 12, 1967, and particularly to paragraph 4 which reads as follows:

'The Fund notes that, on balance, Spain has made no further progress in the liberalization of imports and remaining restrictions on payments for current transactions. The Fund hopes that the trend towards liberalization, which has played a vital rôle in Spain's recent economic progress, will soon be resumed. The Fund also considers that the Spanish authorities should reduce and eliminate as soon as feasible their reliance on bilateralism.'

Attention is also drawn to the latter part of paragraph 2, and to the latter part of paragraph 3 in which potential danger to the balance of payments is recognized. The most directly relevant portions of these paragraphs read as follows:

'... The external deficit, as measured by the decline in official reserves, widened between 1965 and 1966 to \$204 million, but in the latter part of 1966, the balance of payments began to move towards equilibrium. In 1967, assuming no major change in present policy, GDP [Gross Domestic Product] will show another sizeable advance, though less than in 1966, and the balance of payments is expected to move further towards equilibrium by the end of the year.

'... In view of the still existing pressure on resources and the prevailing liquidity of the economy, an early reactivation of demand is likely to intensify price increases and could lead to a potentially dangerous deterioration in the balance of payments. Therefore, it would seem advisable that domestic resources should be freed to make room for investment through an increase in the domestic savings ratio. Such a change would, in the short run, depend on the implementation of appropriate fiscal policies.'

"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 Annex II to this report, the representative of Spain said that his country's trade deficit had increased still further in 1966, mainly because there had not been any appreciable improvement in exports of agricultural products. Furthermore the strengthening of regional groupings of which Spain was not a member made it difficult to introduce new industrial exports into these markets. As a result the balance-of-payments deficit was also larger in 1966 in view of the fact that the items in the services account, which up to 1964 had been sufficient to offset the trade deficit, were no longer adequate. This was a matter of serious concern to his Government. It was beyond doubt that his Government wished to maintain and even increase the existing degree of liberalization of its import regulations, but unless access to foreign markets was improved for Spanish products a crisis might occur that could oblige his country to introduce new selective restrictions in order to protect its balance-of-payments situation.

Balance-of-payments position and prospects

5. Members of the Committee expressed their appreciation for the helpful manner in which the representative of Spain had introduced the rather difficult economic problems his country faced. It was clear that both negative and positive factors were influencing Spain's economic development and that, although overall reserves had declined somewhat since 1964, they were still considered to be at a rather healthy level. In answer to a question the representative of Spain said that it was difficult to speculate as to whether his Government would utilize its reserves in the future to finance consumer imports, or imports of capital goods with a view to initiating a structural change in the pattern of production of both the agricultural and industrial sectors. The extent of consumer imports was largely dependent on the size of each year's harvest. It was none the less his Government's view that imports of capital goods should be maintained at the highest possible level.

6. Some representatives considered that in view of Spain's continued economic expansion and rate of growth, the opening statement of the Spanish representative sounded somewhat pessimistic; some precision was requested as to the nature of the crisis he had referred to. They noted that a start had clearly been made in achieving the necessary stabilization in the economy although the balance between consumer demand and investment might still need some attention. The representative of Spain replied that he was not unnecessarily pessimistic. His country's reserves had declined from a level of US\$1,513 million in December 1964 to US\$988 million on 30 April 1967, and in consequence if reserves continued to decrease, restrictive measures would have to be envisaged. It was not his Government's intention to change its policy of liberalization of trade but on the other hand measures would have to be taken if the situation of his country's reserves continued to deteriorate. A figure had been quoted according to which in the first five months of 1967, Spanish exports had increased by 14 per cent and imports decreased by 5 per cent. The figure for imports was correct, but exports had remained stagnant at the same level as 1966. In reply to another question he recognized that there was a seasonal upswing in reserves mainly in the third quarter of the year, but this was the result of earnings from tourism. An increase in agricultural exports would be reflected in the first and second quarters.

Alternative measures to restore equilibrium

7. The representative of Spain was asked whether he believed that fiscal measures, such as progressive income tax and higher taxation of non-essential consumption could help to moderate the growth of consumption and in so doing ease his country's balance-of-payments difficulties. He replied that the disequilibrium between total offer and total demand, characteristic of his

country's economy, had in the past been attacked by a series of deflationary measures such as restrictions of credit, reductions in public expenditure and limitations in the rate of increase of salaries. In this context it was envisaged that a new income tax law would come into effect next year, together with a possible modification of indirect taxes which was also under study.

8. In answer to a question the representative of Spain said that to increase production in the agricultural sector in order to meet rising internal demand was a difficult task. The structure of consumption had changed in recent years as a result of higher standards of living and Spanish agriculture had been unable to produce such goods as dairy products and meat in sufficient quantities. One of the main objectives of the second development plan was to operate a structural change in the pattern of production of the agricultural sector. In so far as production for export was concerned, it was even more difficult to plan since access to markets of countries participating in regional arrangements was becoming increasingly difficult and uncertain, this situation affected mainly Spanish exports of temperate zone agricultural products.

9. In reply to a question the representative of Spain explained that there were very few industries with excess capacity in his country. Up to 1960 the lack of hard currency and an excessive fragmentation of production made it very difficult to reach foreign markets. This situation was gradually changing and export potential was being developed in certain areas, through fiscal and credit incentives. The second development plan envisaged a series of measures to help industries with immediate export possibilities. At present Spain's industrial exports were few in number, mainly boats, certain machinery and some manufactures such as shoes and firearms.

10. The representative of Spain stated, in reply to another question, that the 1967 budget contemplated an increase in expenditures of 13 per cent with respect to the previous year. Expenditure for public works had grown considerably, mainly due to the initiation of a ten-year plan of road constructions which would result in 3,000 km. of new highways.

#### Systems and methods of the restrictions

11. Members of the Committee congratulated the representative of Spain for the efforts deployed since 1959 towards dismantling the restrictive import system it formerly maintained. The Government of Spain warranted a special appreciation for the courage with which it had advanced on the road of trade liberalization. The hope was expressed that further progress in this direction would be forthcoming in view of the relatively good Spanish foreign exchange position at the present time and the need for continued rapid economic development under conditions of price stability. It was urged that at least

it would not prove necessary to tighten import restrictions as a way of dealing with any balance-of-payments problem which might arise. The representative of Spain was invited to inform the Committee whether his Government envisaged any further liberalization measures likely to materialize in the foreseeable future. He replied that there was no plan for further increasing the degree of liberalization of his country's foreign trade. He recalled that the level of restrictions existing at present had not been an obstacle to a five-fold increase of his country's imports since 1960.

12. In reply to several questions the representative of Spain said that global quotas were opened every six months and, accordingly, import licences were applied for and issued at the beginning and in the middle of the year, some quotas none the less were permanently open for application and allocations were made every two or three months. By way of exception to this, quota 63 (capital goods for new investments) was allocated weekly and quota 62 (toys, games and sports goods) was allocated once a year. Notices of the calling of various quotas were published in the press and official publications in advance to enable importers to submit their applications during the periods laid down. In allocating global quotas account was taken only of purely commercial considerations and there was no discrimination to the advantage or detriment of any country among those to which this régime applied. He added that always the number of licences actually issued was by far larger than the quotas initially opened. For instance in 1966, licences were issued for more than \$376 million, while the base quota was only of \$143 million. The representative of Spain noted the wish of members of the Committee that his Government would continue granting licences in the future at levels at least as high as in the past, and that at the very least, consideration should be given to increasing quotas to levels closer to the amount actually likely to be licensed, in order to try to minimize traders' uncertainty from period to period. As to the reason why global quotas had not increased by 20 per cent annually in recent years, as was the announced policy of Spain's Ministry of Commerce, he stated that this was a decision to be taken each year with due regard to the balance-of-payments situation. He could therefore not take any sort of engagement as to the future action of his Government in this field. He believed this was not a very important question in view of the fact that the level of licences effectively granted was more than double the quotas initially opened.

13. In reply to another set of questions the representative of Spain said that the sole object of maintaining global quotas for some products (mostly capital goods) which in practice were imported freely, was to be able to control the development of Spanish enterprises and facilitate the purchase of these goods. He added that products subject to the variable levy system were also in fact imported freely. With respect to the declaration that had to be submitted for imports of products in the free list, he explained that this was a purely automatic administrative procedure that normally took no more than forty-eight hours.

14. The representative of Spain was asked to explain the functions of the compensatory import tax introduced in 1964 and the reasons that made it necessary to raise it for 205 items in April of this year. He replied that this tax was equivalent to the indirect taxes levied on Spanish goods throughout the process of production. The recent changes in this tax, whose present level was of 5 per cent to 10 per cent on raw materials and 10 per cent to 15 per cent on manufactured goods, were the result of increases in internal charges on similar national goods.

#### Effects of the restrictions

15. Members of the Committee made the point that applications and processing for imports under global quotas seemed to be more complicated than they were a few years ago, requiring lower level decisions which might, at times, be somewhat arbitrary. Even import declarations for free list goods had at times been delayed for what appeared to be minor reasons. Shipments of goods in the free list had been delayed by customs officials for considerable periods and importers appear to have experienced administrative delays in obtaining import licences. The cumulative impact of uncertainties created by these situations had an adverse effect on trade. The representative of Spain was invited to inform the Committee whether his Government might in the future give more attention to these problems. He replied that taking into account the increase in import licences and declarations issued during the period 1963-1966, which in million dollars was as follows: 1963, \$2,137 million, 1964, \$2,555 million, 1965, \$3,532 million and 1966, \$3,808 million, it did not seem that the difficulties to which reference had been made had in any way restrained the level of imports. Furthermore, the system of licence allocation of the global quotas was the same as in previous years and no new measures had been taken which complicated this procedure. Sometimes delays in granting declarations were due to apparent price differentials which required some further study by the authorities.

#### General

16. The Committee thanked the representative of Spain for the full and frank replies which he had given to its questions and the material and information supplied. The representative of Spain thanked the Committee and promised to convey to his Government the suggestions and comments which had been made.

ANNEX I

INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION  
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION  
WITH SPAIN ON 12 MAY 1967

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with Spain pursuant to Article XIV, Section 4 of the Articles of Agreement.
2. 1966 was another year of rapid growth. As a result of favorable harvests and substantial advances in output of industry and services, GDP rose again by more than 8 per cent. Employment in industry and services rose considerably and underemployment in agriculture was further reduced. The abatement of the investment boom, partly resulting from the policies of restraint implemented by the authorities since early 1966, helped to bring over-all demand and supply into better balance. Although wages continued to rise in excess of productivity gains, price increases slowed down. The external deficit, as measured by the decline in official reserves, widened between 1965 and 1966 to \$204 million, but in the latter part of 1966, the balance of payments began to move toward equilibrium. In 1967, assuming no major change in present policy, GDP will show another sizeable advance, though less than in 1966, and the balance of payments is expected to move further toward equilibrium by the end of the year.
3. The over-all growth rate of the economy is expected to slow down later in the year, as investment continues to level off. A high level of investment will be necessary to carry out the urgent restructuring of agriculture and industry and thereby reduce the present balance of payments constraint. In view of the still existing pressure on resources and the prevailing liquidity of the economy, an early reactivation of demand is likely to intensify price increases and could lead to a potentially dangerous deterioration in the balance of payments. Therefore, it would seem advisable that domestic resources should be freed to make room for investment through an increase in the domestic savings ratio. Such a change would, in the short run, depend on the implementation of appropriate fiscal policies.
4. The Fund notes that, on balance, Spain has made no further progress in the liberalization of imports and remaining restrictions on payments for current transactions. The Fund hopes that the trend toward liberalization, which has played a vital role in Spain's recent economic progress, will soon be resumed. The Fund also considers that the Spanish authorities should reduce and eliminate as soon as feasible their reliance on bilateralism.

Annex II

OPENING STATEMENT BY THE REPRESENTATIVE OF SPAIN

Once again we are consulting with the Committee on Balance-of-Payments Restrictions, and once again our intention is to co-operate to the utmost, and to achieve practical results that can contribute to the joint efforts being made to improve conditions of trade between contracting parties to the General Agreement.

Our report on the year 1966 comprises very little that is new as compared with the 1965 report. Over the past year, the trends already apparent in 1965 have continued, and although the volume of our exports has increased, there has been no appreciable improvement in the terms of trade of our agricultural exports, due to the fact that some countries that are traditional outlets for these products are hindering access to their markets; and despite the considerable effort that the negotiations of the sixth trade conference represented, this situation is bound to persist, at least in the immediate future, so far as agricultural products of the temperate zone are concerned, and it is essentially these which my country exports.

Furthermore, as has just been recognized by the mission sent to Spain by the International Monetary Fund to carry out the consultations provided for in Article XIV, the strengthening of supra-national associations of which Spain is not a member is adding to the difficulty of introducing new industrial exports into the various markets.

As a result, in the course of 1966 the trade deficit increased still further, and consequently the balance-of-payments deficit also increased further, because the items in the services account that up until 1964 had been sufficient to offset the deficit are no longer adequate. In 1966 our trade balance showed a deficit of \$2,338 million, representing an increase of almost 14 per cent over the preceding year; this is a matter of serious concern for my Government, particularly having regard to the fact that this figure is almost double the value of Spain's total exports in the same year.

The fact that for the first time in recent years the export increase (29 per cent) was greater than the growth in imports (19 per cent) is hardly reassuring if one considers that my Government has been applying severe measures to contain domestic demand ever since the end of 1965.

Unless the pressure exerted on the Spanish economy by credit restrictions is alleviated by improved access to external markets - and unfortunately this does not seem likely to result from the tariff negotiations that are now coming to an end - a crisis might occur that would not only prevent us from improving conditions of access of foreign products to our markets in the near future, but would also oblige us to introduce new selective restrictions in order to protect our balance of payments. I think it is beyond question that my Government is very desirous of maintaining the high degree of liberalization now existing in our external trade, and also of extending liberalization so far as possible; but this objective is encountering serious obstacles because some countries are continuing to apply import restrictions which are not in conformity with the principles and the spirit of the General Agreement. As a result, Spain will not in the near future be able to draw up plans for expanding certain production sectors, and agriculture in particular, in which exports could contribute to restoring equilibrium in our trade balance.