

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## Committee on Balance-of-Payments Restrictions

### REPORT ON THE 1973 CONSULTATION WITH SPAIN

1. In accordance with its terms of reference, the Committee met on 18 June 1973 to conduct a consultation with Spain on its import restrictions. The Committee noted that the previous consultation with Spain had been held on 17 July 1970 (see BOP/R/47). The Committee had before it a basic document supplied by the Spanish authorities (BOP/134), a Background Paper supplied by the International Monetary Fund dated 3 May 1973, and the text of a decision by the Executive Board of the International Monetary Fund taken on 1 June 1973. This report summarizes the main points of the discussion.

#### Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the IMF to consult with them in connexion with the consultation with Spain. 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 1 June 1973 taken at the conclusion of its most recent Article XIV consultation with Spain, and particularly to paragraphs 2 and 4 which read as follows:

'Since late 1971, the Spanish economy has expanded strongly. Following an increase in GNP in real terms of 7.5 per cent in 1972, output and employment continued to expand rapidly in early 1973. The rise in wages has in large part been offset by substantial productivity gains. However, the persistent upward pressure on prices is a cause for concern. Despite a sharp increase in imports, the current account of the balance of payments remained in considerable surplus in 1972 as a result of the continued rapid rise in exports of goods and services. Taking into account a rising inflow of private long-term capital in recent years, the basic surplus rose to SDR 1.5 billion in 1972. Spain's international reserves more than doubled in the two-year period 1971-1972 to SDR 4.6 billion.

The Fund welcomes the exchange rate decision taken by Spain in February 1973 and the easing of restrictions on imports and on capital outflows. The Fund believes that import liberalization should be pursued vigorously with a view to restoring relative price stability and achieving

external balance. The Fund also welcomes the termination of a number of bilateral payments agreements, and the intention of the Spanish authorities to end the three remaining arrangements with Fund members at an early date.'

The Fund believes that in view of Spain's balance of payments and reserve position, restrictions on imports can no longer be justified on balance-of-payments grounds."

Opening statement by the representative of Spain

3. The representative of Spain made an opening statement (the full text of which is reproduced in Annex I) in which he recalled that the last consultation with his country had been held in July 1970. Since then there had been a complete change in Spain's balance-of-payments situation which had moved from a heavy deficit position in 1969 to a considerable surplus. However, Spanish authorities were preoccupied with the persistent and growing trade deficit which, together with the potential cyclical variations of the other items in the balance of payments, could bring about a sudden change for the worse in the situation, as had been known to happen in the past. He also stressed that international economic relations were overshadowed by many uncertainties and that these factors taken together did not allow Spain to commit itself to a definite plan for full liberalization but rather called for great caution. However, Spain had, since the beginning of 1972, taken measures towards trade liberalization. In the last months of 1972 the State had handed over to the private sector trade in products that amounted to some 5 per cent of the total Spanish imports and had suspended temporarily, in part or wholly, customs duties on more than 100 tariff items. Monetary readjustments in the past two years had resulted in the appreciation of the peseta by nearly 20 per cent vis-à-vis the dollar, and some 7 per cent in relation to Spain's principal trading partners. The representative of Spain then recalled briefly the developments of Spain's imports in the last decade and stressed the fact that their value had multiplied by nine, whereas exports had not followed at the same pace. As a result, the deficit on trade account had grown very sharply in the past twelve years, moving from \$57 million in 1960 to the considerable figure of \$2,253 million in 1972. He concluded by stating that the measures applied by Spain under Article XVIII:B of the General Agreement did not have any unduly detrimental effects on imports and that his authorities were prepared in the future to continue moving towards further liberalization of trade as circumstances would permit.

4. The representative of Spain called for the Committee's understanding for the uncertainties attached to Spain's balance-of-payments situation - in particular for the unstable nature of its three main sources of receipts, namely tourism, workers' remittances from abroad, and foreign investment in Spain. In the view of the Spanish authorities, these components of the balance of payments, which mainly accounted for the recent surplus position, together with the growing deficit on the trade account, entailed a potential threat of an important decline in Spain's monetary reserves. In response to a question in this connexion, the representative of the Fund pointed out that all relevant aspects of the Spanish balance-of-payments situation had been considered by the Executive Board when it took its decision on 1 June 1973.

5. The representative of Spain drew the Committee's attention to the numerous trade liberalization measures taken in 1972. These were detailed in the basic document BOP/134. Further similar measures were being taken in 1973. He explained that stability in the balance-of-payments situation would have to be achieved before full liberalization could be effected. In the meantime, the Spanish authorities had persistently shown their intent to achieve free trade by gradually liberalizing imports as conditions permitted.

6. One member of the Committee drew attention to the discriminatory restrictions contrary to Article XIII still applied by Spain on a considerable number of tariff items. The representative of Spain recalled some of the details of the bilateral negotiations which preceded and followed the disinvoication by his Government of Article XXXV. A clear divergence of views between the two delegations concerned was noted on this issue.

### Conclusions

7. The Committee noted the statements of the representative of Spain. The Committee noted that liberalization measures had been taken and welcomed them as the Fund had welcomed them in the Executive Board decision of 1 June 1973, and considered that the elimination of the remaining restrictions would be in Spain's own economic interest. Some members of the Committee expressed concern with the maintenance of discriminatory restrictions contrary to Article XIII.

8. The Committee, having heard the determination of the Fund, and in particular the Fund's view that Spanish restrictions could no longer be justified on balance-of-payments grounds, recalled the provisions of Article XV:2 of the General Agreement, and concluded that GATT balance-of-payments provisions, under Articles XII or XVIII:B, were no longer applicable in the case of Spain. The Committee therefore invited the Spanish Government to reconsider its position with regard to its remaining import restrictions.

ANNEX I

Opening Statement by the Spanish Representative

Three years have gone by since Spain last consulted with this Committee in July 1970.

Over this period, in which numerous events have occurred that are of undoubted significance for the commercial and monetary aspects of international relations, my country has shown its resolute desire to co-operate, as evidenced by its concern to comply with the GATT rules and also by the adoption of measures which will undoubtedly contribute to world trade expansion.

My country is, therefore, confident that in the course of this examination the Committee will show the generous spirit of understanding and collaboration which has always guided its activities.

In the years 1970, 1971 and 1972 a very rapid change occurred in Spain's balance-of-payments situation, which moved from a substantial deficit in 1969 to an appreciable surplus.

This evolution would not warrant any lack of concern on the part of my authorities over the continually growing trade deficit which, acting in conjunction with possible cyclical variations in other component elements of the balance of payments, could cause a rapid change in the situation as has happened on fairly recent occasions in the economic history of my country.

Furthermore, as I mentioned earlier, we are passing through a period of some uncertainty in the field of international economic relations. The numerous crises which have beset the present international monetary system in recent years and the possibility, not to be disregarded, of a toughening in the trade positions of certain countries do not allow the adoption of a commercial policy reflected in measures of a definitive character.

Despite this, in 1972 my country moved resolutely toward liberalization. In the latter months of last year provisions were introduced which have brought into the private sector trade in products representing approximately 5 per cent of total imports by Spain; in addition, a partial suspension of duties was introduced, varying from 5 to 100 per cent in respect of products falling within more than 100 tariff headings.

These measures, which were adopted on a transitional basis and having regard to the requirements of internal economic policy, are undoubtedly having an appreciable and positive effect on Spain's trade relations with other countries.

Almost exactly coinciding came the monetary readjustment which brought to an end the second major international monetary crisis of recent years, representing for the peseta a revaluation of 11.11 per cent in relation to the dollar. This meant that, taking into account the first revaluation in December 1971, the Spanish currency has appreciated by approximately 20 per cent in relation to the dollar, and this proportion is approximately 7 per cent in relation to the currencies of the principal areas with which my country maintains trade relations.

Acting in conjunction, the commercial and monetary factors which I have just mentioned will inevitably have appreciable effects on the future development of Spain's imports which have, in brief, developed as follows over the past twelve years:

In 1960, total imports by my country reached \$688 million; by 1962 they had more than doubled, reaching \$1,438 million, and then \$3,300 million in 1966; in 1972, the year under review, Spain's imports showed a further 32 per cent increase, reaching \$6,065 million.

In other words, over twelve years the value of Spain's imports has increased ninefold.

Although export growth has been satisfactory, it has not kept pace with the extremely high level of imports, and as a result the trade deficit has continually increased over this same twelve-year period, except in 1967, 1968 and 1971. The deficit, which stood at \$57 million in 1960, reached the very substantial sum of \$2,253 million in 1972, thus justifying the concern felt by my Government to which I have already referred.

In conclusion, I should like to underline that the import restrictions which my country is still maintaining under Article XVIII:B of the General Agreement, and which have been substantially alleviated by certain important measures which I have already mentioned, in no way constitute an insuperable obstacle to steady import growth, as has been validly shown.

Nevertheless, and to the extent that there is comparable progress by all countries toward trade liberalization, the authorities of my country are prepared in the future, as they always have done in the past, to contribute to the expansion of world trade.

ANNEX II

Closing Statement by the Representative of Spain

Now that we have reached the end of the Basic Document for the Consultation with my country, the Spanish delegation would like to state that it deeply regrets the Committee has not considered the measures that form part of my country's policy, measures which because of their importance and significance for the liberalization of trade, we hold not only to be consistent with the spirit and the provisions of the General Agreement, but also to have constituted advance compliance with the Fund's subsequent findings.

In any case we still believe the decisions recently taken were taken independently a good many months before the consultation with the International Monetary Fund took place, and that this road or, to put it differently, slow progress on the road toward liberalization, would have been much more effective; more lasting and more consistent with the international situation than any other course that could be followed in present circumstances.

My delegation will faithfully transmit to the authorities of my country the conclusions arrived at by this Committee; I would like to thank you, Mr. Chairman, for the fairness and the skill with which you have brought these discussions to their conclusion. I also want to thank, more particularly, the delegation of the European Economic Community and the French delegation for the comprehension which they showed at the last meeting.