

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/60

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Limited Distribution

Committee on Balance-of-Payments Restrictions

1982 CONSULTATION WITH PORTUGAL

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes adopted by the CONTRACTING PARTIES on 28 November 1979 (BISD, 26S/205).

I. Portugal's previous consultations in the Committee on Balance-of-Payments Restrictions

2. Since its accession to the GATT in 1961 Portugal has consulted six times in the Committee on Balance-of-Payments Restrictions, namely in 1975, 1976, 1978, 1979, 1980 and 1981. In the last consultation, which took place on 20 May 1981, the Committee noted that the Portuguese authorities had not relaxed substantially the restrictive import measures in place nor announced a timetable for such relaxation as had been recommended by the Committee last year. The Committee recognized that some of the factors adversely affecting Portugal's balance of payments were outside the control of the Portuguese authorities but that the current account deficit appeared to be manageable, especially if appropriate internal policies were followed. The Committee considered that further efforts towards relaxation of the restrictions should be made with a view to their early removal, and recommended that a timetable for the removal of the measures should be announced by Portugal in the near future (BOP/R/118, page 7).

II. Portugal's restrictive import measures taken for balance-of-payments purposes

3. Portugal has notified the GATT that it maintains the following two restrictive import measures for balance-of-payments purposes:

(a) Import surcharges

4. Ten per cent surcharge. This surcharge was introduced in 1975 with a rate of 20 and 30 per cent. In May 1979 the rate was reduced to 10 per cent. The items covered by the surcharge are listed on pages 11 to 74 of document BOP/216. Of the tariff headings subject to the surcharge, 37 headings or subheadings are bound in Portugal's GATT schedule of tariff concessions. The surcharge applies to imports from all countries. In 1981, about 21 per cent of total imports were covered by the surcharge. At the last consultation the representative of Portugal informed the Committee that about 50 per cent of the imports subject to the surcharge had been exempted from it in conformity with domestic legislation under which the taxes on certain imports for social and economic development purposes may be waived (BOP/R/118, page 8). The secretariat has no information on the conditions for the import tax exemptions and their legal bases, nor any statistical information permitting an evaluation of the exemptions' trade effects.

5. Sixty per cent surcharge. This surcharge was introduced in October 1976. It covers a group of goods described as non-essential, a list of which has been notified in document BOP/216, pages 75-86. Of the tariff headings subject to the surcharge, five headings or sub-headings are bound in Portugal's GATT schedule of tariff concessions. Also this surcharge applies to imports from all countries. In 1981, about 0.8 per cent of total imports were covered by the surcharge. At the 1980 consultation, members of the Committee suggested that Portugal replace the surcharge by adjusting the rate of the domestic transaction tax on the products concerned (BOP/R/111, page 5). At the 1981 consultation, the Portuguese representative informed the Committee that the surcharge would be replaced by value-added taxes, at the latest at the time of Portugal's accession to the EEC (BOP/R/118, page 6).

6. The ten and sixty per cent surcharges were extended by Law 40/81 of 31 December 1981 until the end of 1982.

(b) Import quotas.

7. By Decree Law 720/-A/76 of 9 October 1976, the Portuguese government is authorized to introduce import quotas on "non-essential" goods if the balance-of-payments situation is serious. On the basis of this authority the Portuguese government has introduced quotas on some consumer goods and on unassembled vehicles.

8. Quotas on some consumer goods. These quotas were introduced in February 1977 for one year and subsequently extended on an annual basis. The quota system was prorogated by Government Order 310-D/81 from 1 April 1981 to 31 March 1982. The Basic Document submitted by Portugal for the 1982 consultation (BOP/226) does not indicate whether the quota system has been further extended. In the first half of 1981, 0.89 per cent of total imports were covered by the quota system. The quotas apply to imports from all sources.

9. The latest notification of the quota system is contained in document L/5330. This notification, which covers the period 1 April 1981 to 31 March 1982, was received by the secretariat on 4 June 1982. It indicates that certain cleaning, drying and wrapping machinery, including dishwashing and drying machines for domestic use, and certain sound recorders and reproducers, including record players and tape decks, were taken off the list of restricted imports. The total value of the import quotas for the remaining items was raised by 50 per cent from Esc 2,495 million in 1980/81 to Esc 3,754 in 1981/82, partly to take into account the effects of rising import prices.

10. Quotas on unassembled vehicles. Since February 1977, Portugal maintains a quota system for completely knocked down vehicles with a kerb weight not exceeding 2,000 kgs. The quota system for 1979 was notified to GATT in L/4568/Add.5. Since then no notifications have been received. The import quotas for 1982 were established on 31 December 1981 through Government Order No.1129/81. No information on the content of this Order is available to the secretariat. In 1981, the unassembled vehicles subject to the quota represented 1.4 per cent of total imports, down from 2.6 per cent in 1977. The quotas are allocated by automobile manufactures. The government has indicated its intention to phase out the existing restrictions protecting the automotive industry by the end of 1984, when a transitional period for the restructuring of the industry is to come to an end.

11. In the 1980 and 1981 consultations, some members stated that there had been delays in the issuing of import registration certificates (BOP/R/111, page 6 and BOP/R/118, page 7). In Portugal practically all foreign trade operations are subject to prior registration with the Ministry of Trade and Tourism, which issues import certificates. In the case of imports not subject to quantitative restrictions, the certificate allows the importer to obtain the necessary foreign exchange. For imports subject to quantitative restrictions, the certificate is equivalent to an import licence (COM.IND/W/55/Add.64/Rev.1 - COM.AG/W/72/Add.64/Rev.1). The IMF report "Portugal - Recent Economic Developments", dated 14 May 1982, states on page 100 that, beyond the formal import quotas on some consumer goods and unassembled motor vehicles covering only a small portion of foreign trade, the major non-tariff barrier had been in the form of import registration certificates. These had been informally used, both for protective and balance-of-payments purposes, as a discretionary barrier against imports, inter alia, of steel, paper, textiles, ceramics and food products.

III. Time schedule for the removal of the restrictive import measures

12. In the 1978 consultation, the Committee expressed with the International Monetary Fund the view that "the public announcement of a schedule for the gradual removal of the restrictive measures and their early abolition would help avoid a further aggravation of the existing resource allocation problems in Portugal and would facilitate the return to a liberal trade regime" (BOP/R/96, page 11). In May 1978, in connexion with a standby arrangement with the Fund and following the 1978 consultation with the Committee, the Portuguese authorities announced a time-table for the phasing out of the 30 per cent surcharge. Under this time-table, the surcharge was to be reduced to 20 per cent on 1 October 1978, to 10 per cent on 1 April 1979 and to zero on 1 October 1979 (BOP/R/106, page 3 and L/4709). As pointed out in paragraph 4 above, the planned reduction to zero was in fact not carried out.

13. In the 1980 consultation, the Committee, recalling paragraph 1(c) of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes which states that "whenever practicable, contracting parties shall publicly announce a time schedule for the removal of the measures", recommended that the Portuguese authorities announce a time schedule for the removal of the surcharges and the quota system and it expressed the hope that they would find this possible before the next consultation (BOP/R/111, page 6). At the 1981 consultation, the Committee again recommended that a timetable for the removal of the restrictive import measures be announced in the near future (BOP/R/118, page 7). To the knowledge of the secretariat no timetable has as yet been announced.

IV. Recent developments in the Portuguese economy

14. In 1981 Portugal was hit by one of the severest droughts in its history. It contributed to a 5 per cent drop in agricultural output and depleted water supplies in hydroelectrical dams, with the consequent fall in domestic power supplies leading to increased energy imports. The manufacturing sector appears to have suffered mainly from the sluggishness of foreign demand; total manufacturing production is estimated to have registered a marginal increase in 1981, compared with 5 per cent gain in the year before.

15. With real GDP progressing by only $1\frac{1}{2}$ per cent, Portugal's 1981 growth rate was the lowest in six years. Both domestic consumption and fixed investment continued to grow, however, and import demand was considerably increased. The rate of inflation in consumer prices, which had been declining in 1980, picked up again strongly early last year (Chart I). In mid-1981, the Portuguese authorities were reported to have tightened their monetary policy in an attempt to contain inflationary pressures, and by the end of the year the inflation rate is estimated to have levelled off at about 25 per cent (monthly figures at annual rate).

16. According to Bank of Portugal statistics, the trade-weighted nominal effective exchange rate for the escudo depreciated by about 7 per cent between December 1980 and December 1981, with a much stronger depreciation of the escudo against the dollar (by nearly 20 per cent) being partially offset by appreciation against the currencies of a number of major European trading partners. A "real" effective exchange rate index, export-weighted and adjusted for differentials in consumer price movements between Portugal and its trading partners, can be found in table 31, page 61, of the IMF report "Portugal - Recent Economic Developments", dated 14 May 1982. According to that index, the escudo followed a real depreciation trend until end-1980; throughout 1981, the Portuguese currency has been appreciating on a real effective basis.

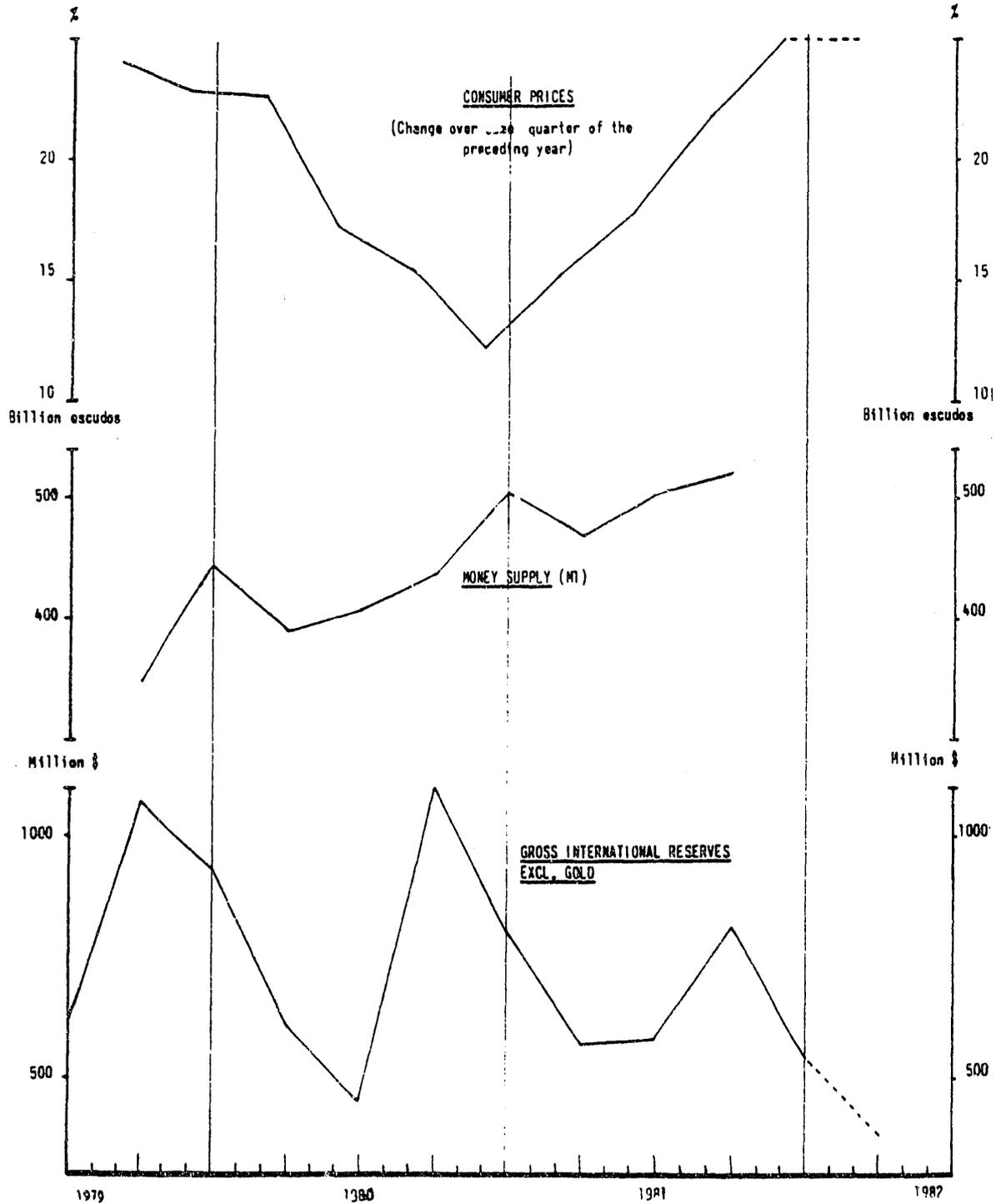
17. In 1981, the dollar value of exports fell by more than 10 per cent (to \$4.1 billion), while that of imports increased by nearly 5 per cent (to \$9.8 billion). The terms of trade did not change significantly, but export volume contracted by about 8 per cent and import volume rose in approximately the same proportion. The drought is estimated to have played a major role in the 20 per cent volume decline in exports of food products and wines. Shipments of wood and cork declined by 25 per cent, while deliveries of textiles, clothing, footwear, machinery and transport equipment expanded by some 5 per cent. On the import side, purchases of food products rose in volume terms by some 10-15 per cent, as did those of chemicals, paper, and machinery. The sharp increase of transport equipment imports reflected mainly purchases of ships. The country's trade deficit (customs basis: exports f.o.b. less imports c.i.f.) expanded in 1981, in particular during the first half of the year (Chart II).

V. Economic aspects of the Portuguese measures

18. An economic analysis of the surcharges and quotas is contained in the secretariat background paper for the 1980 consultation (BOP/W/39, pages 4-6). Since there appear to have been no major changes in the restrictive system, no new analysis is presented in the present paper. Chart III provides a general picture of Portugal's import trade in 1980 by major product categories and major suppliers.

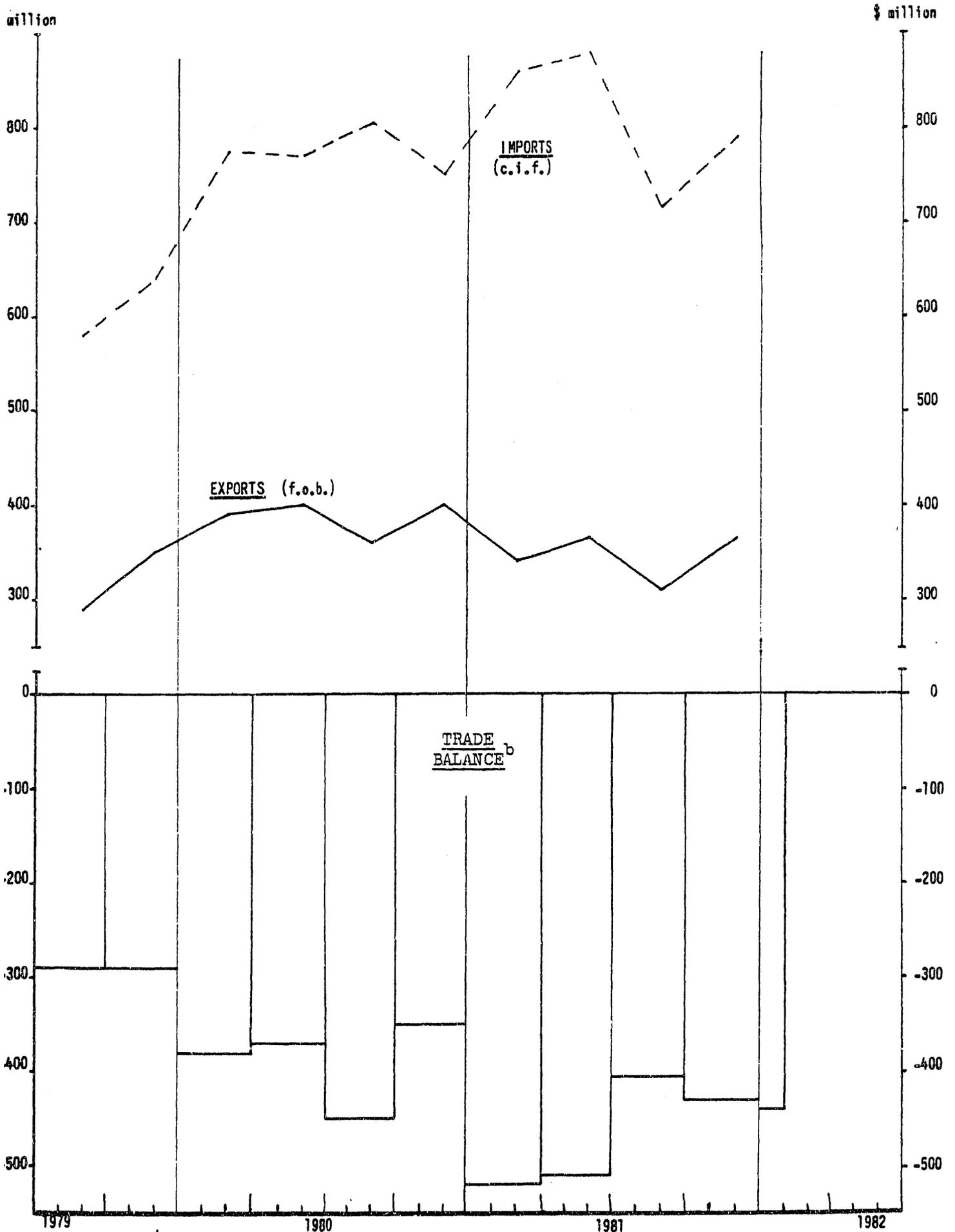
Chart 1

PORTUGAL'S CONSUMER PRICES
AND OTHER SELECTED VARIABLES



Sources: Instituto nacional de estatística, Boletim mensal de estatística, No. 3, 1982; IMF, International Financial Statistics, May 1982; OECD, Main Economic Indicators, May 1982.

Chart II
DEVELOPMENTS IN PORTUGAL'S AVERAGE
MONTHLY TRADE FIGURES^a



^a Customs basis. ^b Exports (f.o.b.) minus imports (c.i.f.).
Source: OECD, in *Annual Report*, May 1982.