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). It updates the background paper prepared for the 1982 consultation (BOP/W/60).

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

2. Since its accession to the GATT in 1961 Portugal has consulted seven times in the Committee on Balance-of-Payments Restrictions, namely in 1975, 1976, and every year since 1978. In the last consultation, which took place on 23 June 1982, the Committee encouraged Portugal to pursue monetary and fiscal policies which would foster an improvement in the current account and allow a gradual elimination of the restrictive import measures and a more liberal administration of the import licensing system. The Committee reiterated the recommendation made in previous consultations that Portugal announce a time-schedule for the removal of the restrictive import measures in the near future.

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

(a) Import surcharge

3. 30 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 and in February 1983 again increased to 30 per cent. The items covered by the surcharge are listed on pages 5 to 67 of document L/5145/Add.2. 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.

4. In 1982, about 21 per cent of total imports were covered by the surcharge. At the last consultation the representative of Portugal informed the Committee that there was a very broad range of laws permitting import tax exemptions. There was legislation permitting duty-free imports of raw materials and capital goods. Other laws exempted certain entities from the payment of import duties, such as Air Portugal, the national railways, the tramways of Lisbon and the Red Cross. Imports for re-export, or for incorporation in goods for export, were also exempt.
from import duties. This applied in particular to components used by the electronics industries. As a result of the import tax exemptions, import tax revenue had in 1981 been only 52 per cent of what it would have been in the absence of the exemptions.

5. **60 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.

6. 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).

(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. 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/5534. This notification, which covers the period 1 April 1982 to 31 March 1983, was received by the secretariat on 5 September 1983. It indicates that there were no changes in the product coverage of the quota system. The total value of the import quotas was raised by 22 per cent from Esc 3,754 million in 1981/82 to Esc 4,580 million in 1982/83, 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. The import quotas for 1982 are set forth in Government Order No. 1129/81 of 31 December 1981.

11. Imports of passenger automobiles of non-EFTA and non-EC origin are allowed up to 15 units a producer a year for those makes not assembled in Portugal and, for other makes, up to 2 per cent of the number of passenger automobiles of the same make that were assembled in Portugal in the preceding year. Imports of some makes of EFTA and EC origin were allowed up to 350 units for each producer in 1981 and are allowed up to 500 units
for each producer in 1982. 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 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.

12. Notification of quota systems. At the 1982 consultation, members of
the Committee expressed regret that the latest quota system for consumer
goods and unassembled vehicles had not been notified to the GATT. The
representative of Portugal stated that this would be done as soon as the
applicable laws were published. No further notification of the system for
unassembled vehicles has been received by the GATT. The system for
consumer goods for the period March 1982 to April 1983 was notified four
months after it had elapsed, namely in September 1983. The 1983/84 system
has not yet been notified.

(c) Procedures for the issuing of import certificates

13. 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). 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
the 1982 consultations, many members noted with regret that Portugal had
used the procedures for the issuing of import certificates, both for
protective and balance-of-payments purposes, as a discretionary barrier
against imports, inter alia, of steel, paper, textiles, ceramics and
food products (BOP/R/125, page 4).

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

14. 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 connection
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 3 above, the planned reduction to zero was in fact not carried
out.
15. In the 1980 consultation, the Committee, recalling paragraph 1(c) of the Declaration of 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 time-table for the removal of the restrictive import measures be announced in the near future (BOP/R/118, page 7). In the 1982 consultation, the Committee noted with concern that the surcharges and import quotas had been applied for more than six years. The Committee considered it important to ensure that investors do not expect the measures to be permanent features of the import regime since this expectation would lead to a misallocation of resources and render the eventual abolition of the measures more difficult. The Committee therefore reiterated the recommendation made in previous consultations that Portugal announce a time-schedule for the removal of the restrictive import measures in the near future. To the knowledge of the secretariat no time-table has as yet been announced. The last increase in the surcharge from 10 to 30 per cent was made without any time limit.

IV. Recent developments in the Portuguese economy

16. Portugal's real GDP growth rate trebled to nearly 3 per cent in 1982. Agriculture and the energy sector, which had been severely hit by drought in 1981, recovered to more normal output levels. Manufacturing also progressed faster in 1982 than in the previous year, with particularly brisk activity in a few branches in response to new export opportunities. Total manufacturing output increased on average at an accelerated rate (4 per cent, against 1 1/2 per cent in 1981), but showed signs of weakening in the closing months of 1982 and early months of 1983. Credit restrictions and a cutback in public works led in 1982 to a slowdown in construction, which was largely responsible for the fall in the rate of growth of real fixed investment to 3 1/2 per cent. Both private and public consumption expenditure also increased at lower rates than in the previous year. Total domestic demand expanded by 3 1/2 per cent in real terms, a rate faster than GDP growth for the third consecutive year and only slightly slower than in 1981, due to an exceptional rise in stocks.

17. Inflation in consumer prices averaged 22 1/2 per cent in 1982 (20 per cent in 1981); it has apparently accelerated in the first months of 1983 (Chart I). Despite measures to reduce the size of the public sector deficit, it remained at nearly 10 per cent of GNP.

18. An acceleration in the monthly effective depreciation of the escudo from December 1981 was insufficient to compensate for the much faster inflation in Portugal than in its major trading partners; a 9 1/2 per cent devaluation, in effective terms, took place in June 1982 in an attempt to overcome the deterioration in the country's price competitiveness. On average, the escudo depreciated by about 12 per cent both in effective terms and against the ECU in 1982, and by 22 1/2 per cent against the US dollar. In the first six months of 1983, its depreciation reached 24 per cent in dollar terms.
Chart I
PORTUGAL'S CONSUMER PRICES
AND INTERNATIONAL LIQUIDITY

Consumer price index
(1975 = 100)

Gross international
reserves (excl. gold)

Sources: IMF, International Financial Statistics, and
OECD, Main Economic Indicators.

Chart II
PORTUGAL'S QUARTERLY TRADE DATA

Imports (c.i.f.)

Exports (f.o.b.)

TRADE BALANCE

Sources: Monthly averages; customs data.
Exports (f.o.b.) less imports (c.i.f.).
Source: OECD, Main Economic Indicators.
19. Portugal's terms of trade remained virtually unchanged in 1982, but a faster volume growth for exports than for imports led to a narrowing of the trade deficit to some $5.2 billion, from $5.7 billion in 1981 (Chart II).

20. Imports declined by about 5 per cent in dollar terms in 1982 (to $9.4 billion), but showed a relatively fast volume growth (estimated at some 6 per cent). Volume increases were particularly strong for imports of petroleum - which accounted for over one-quarter of the total - and iron and steel. The volume of imports of food apparently increased in 1982, (with much larger purchases of rice, soybeans and fish but lower imports of wheat and maize), though imports tended to decline in the course of the year as domestic supplies increased. The share of food in total imports declined from 16 per cent in 1981 to 14 per cent in 1982. Imports of machinery were sluggish and imports of transport equipment are estimated to have fallen sharply.

21. At $4.16 billion, the value of exports was in 1982 roughly the same as in the previous year, despite volume growth of 11 per cent. This volume increase was almost entirely accounted for by chemicals - a marginal export item until the previous year - due to the coming on-stream of a hydrocarbon production plant. The volume of chemical exports grew by about one-half in 1982 and their share in total exports rose to nearly 9 per cent, from 6 per cent the year before. Among traditional exports, wine shipments doubled while there was a substantial reduction in the volume of cork exports. Of more significance was an expansion in exports of textiles, clothing and footwear, accounting for one-third of total revenue and going mainly to the EC and, to a lesser extent, the EFTA countries. With volume increases estimated at about 10 per cent, Portugal undoubtedly improved its relative position in the European market. Other notable features were a marked decline in exports of petroleum products and the continuing expansion of exports (in volume terms) of electronic components and car parts.

V. Economic aspects of the Portuguese measures

22. The secretariat background paper for the 1980 consultation (BOP/W/39) contained a quantitative analysis, based on statistics supplied by the Portuguese authorities, of the import restrictions applied for balance-of-payments purposes then in force (quotas, and the 10 and 60 per cent surcharges). No new analysis was presented for the 1981 and 1982 consultations, since the restrictive system had remained practically unchanged and detailed statistics were not available (see BOP/W/50 and BOP/W/60).

23. An updated account based on data supplied by the Portuguese authorities is given below, together with an assessment of the effects of the recently notified increase in the rate of the 10 per cent import surcharge.

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Trade balance based on customs data: exports, f.o.b., less imports, c.i.f.
(a) Quantitative restrictions

24. The proportion of imports subject to the quota system for consumer goods declined from nearly 3 per cent of total imports in 1977, when the system was introduced, to about 1 per cent in 1981, the latest year for which data are available. Imports under quotas accounted for around one-third of imports of consumer goods in 1977, but only about one-tenth in 1981.

25. The value of imports under the quota system for CKD unassembled vehicles represented some 2.5 per cent of total imports in 1977, when the system was set up, and slightly more than 1 per cent in the 1978-1981 period. The share of the above restricted imports in total imports of road motor vehicles into Portugal was roughly halved (to some 15 per cent) between 1977 and 1981.

26. From available information on major suppliers of consumer goods and CKD vehicles subject to quantitative restrictions it is estimated that the Portuguese quota systems affect mainly imports from the country's European partners and, to a lesser degree, those from other industrial areas.

(b) 60 per cent surcharge

27. The coverage of imports subject to a 60 per cent surcharge, expressed as a share of total imports, has remained in the 0.7-1.2 per cent range since 1977, the first full year of its imposition. European countries are Portugal’s major suppliers of the surcharged products.

(c) 10 per cent surcharge

28. The 10 per cent surcharge scheme covered around 20 per cent of total imports throughout the 1979-1982 period, when it was applied. Manufactured imports for consumption and investment are the items most affected by this scheme. In this case too, the goods liable to a surcharge overwhelmingly originated in the EEC, EFTA and Spain.

29. It has been reported that, owing to the many exemptions granted, the 10 per cent surtax has actually yielded a revenue lower than is suggested by the coverage of the scheme (see paragraph 4 above). This is confirmed by the following table, which is based both on data supplied by the Portuguese authorities for the consultations and on published information. 

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1 Banco de Portugal, Relatório do Conselho de Administração, Gerência de 1982, Lisboa, 1983.
### Table

<table>
<thead>
<tr>
<th></th>
<th>1980 (Billion escudos)</th>
<th>1981 (Billion escudos)</th>
<th>1982 (est.) (Billion escudos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of imports subject to a surcharge:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of 10 per cent</td>
<td>94.0</td>
<td>115.0</td>
<td>150.0</td>
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<tr>
<td>- of 60 per cent</td>
<td>3.4</td>
<td>4.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Hypothetical value of the surcharge:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- of 10 per cent</td>
<td>9.4</td>
<td>11.5</td>
<td>15.0</td>
</tr>
<tr>
<td>- of 60 per cent</td>
<td>2.0</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Government revenue from all import surtaxes</td>
<td>5.0</td>
<td>6.9</td>
<td>8.9</td>
</tr>
</tbody>
</table>

30. Government income from the 10 per cent import surcharge is roughly estimated to have represented 1.5 to 2 per cent of its total revenue in 1980-1982.

(d) **Effects of the recent increase in the import surcharge rate from 10 to 30 per cent**

31. The secretariat has no means of assessing the impact which a higher rate of the import surtax will have on import demand, *inter alia* because it cannot be foreseen how many exemptions will be granted to the scheme.

32. The budget presented in early 1983 foresaw a virtual trebling in collections of import surcharges from Esc. 8.9 million in 1982 to Esc. 24.8 billion in 1983. However, as a result of exemptions granted, surcharge collections in the first half of 1983 were running considerably below this rate. Accordingly, the estimate for surcharge collections for 1983 have been revised downward to Esc. 14.5 billion.
### TABLE: IMPORTS INTO PORTUGAL, BY COMMODITY GROUP AND AREAS/COUNTRIES OF ORIGIN, 1982<sup>a, b</sup>
(Billion US dollars, c.i.f.)

<table>
<thead>
<tr>
<th>Primary products</th>
<th>Industrial countries</th>
<th>Developing countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>World</td>
<td>European Community - 10</td>
</tr>
<tr>
<td>Primary products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>1.27</td>
<td>0.13</td>
</tr>
<tr>
<td>Fuels</td>
<td>2.42</td>
<td>0.36</td>
</tr>
<tr>
<td>Manufactures&lt;sup&gt;d&lt;/sup&gt;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.87</td>
<td>0.59</td>
</tr>
<tr>
<td>Textiles</td>
<td>0.24</td>
<td>0.17</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>0.37</td>
<td>0.26</td>
</tr>
<tr>
<td>Other semi-manufactures</td>
<td>0.30</td>
<td>0.13</td>
</tr>
<tr>
<td>Engineering products</td>
<td>2.63</td>
<td>1.72</td>
</tr>
<tr>
<td>Clothing</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>Other consumer goods</td>
<td>0.12</td>
<td>0.07</td>
</tr>
<tr>
<td>**TOTAL IMPORTS&lt;/sup&gt;</td>
<td>&lt;sup&gt;d&lt;/sup&gt;</td>
<td>9.01</td>
</tr>
</tbody>
</table>

<sup>a</sup> For detailed commodity group and area definition, see GATT, International Trade 1981/82, Appendix.

<sup>b</sup> Excluding imports of electricity, which amounted to about $0.25 billion in 1982.

<sup>c</sup> Includes the USSR.

<sup>d</sup> Detail may not add, due to rounding.

Source: United Nations, commodity trade tapes.