MINUTES OF MEETING

Held in the Palais des Nations, Geneva,
on 27 May 1974

Chairman: Mr. P.S. LAI (Malaysia)

Subjects discussed: 1. Icelandic temporary import deposit scheme 2. Portugal - temporary trade measures

1. Icelandic temporary import deposit scheme (L/4035)

The representative of Iceland stated that the temporary economic measures introduced by the Icelandic Government, including the import deposit scheme, were necessitated by certain events in 1973 which had led to excessive inflation and by internal political developments since then.

He explained that last year's volcanic eruption at Vestmannaeyjar had put Iceland's main fishing centre out of operation at the beginning of the winter fishing season. This had resulted in a loss of output for the economy and had made necessary a large scale use of resources for evacuation and salvage work and later for the reconstruction and replacement of damaged and destroyed property. Considerable Central Bank and foreign financing had been required for this emergency, and had helped to inflate the money supply. Inflation had, furthermore, been imported through increases in prices of primary products and to some extent of manufactures. Nevertheless, during the second and third quarters of 1973 the balance of payments and terms of trade had remained favourable as prices of Icelandic exports also rose. These external influences, however, had added to domestic expansion and their combined effect had resulted in a rate of inflation in excess of 30 per cent for the past twelve months, as measured by the consumers' price index.

From the beginning of 1974 the balance-of-payments deficit had deteriorated progressively as a result of rising import demand on top of the worsening terms of trade caused by rising prices of imported goods - fuel in particular - and by falling export prices. In the first four months of 1974 general imports rose by over 60 per cent above the 1973 level and foreign exchange reserves of the banking system had fallen by more than half since the beginning of the year until the middle of May. The net foreign exchange reserves at the end of April had covered the equivalent of 1.8 months' imports, as compared to the equivalent of 4.2 months' imports a year earlier.
He said that his Government had not been in a position to curb demand by conventional measures as it had been unable to get enough support in Parliament to pass the necessary legislation. General elections had now been called for 30 June, creating a period of uncertainty which would last until a new parliament was assembled. In the meantime his Government was taking temporary measures to prevent the wage/price spiral from getting out of hand and to limit the severe deterioration of the external position. These measures included increased consumer subsidies on agricultural produce, direct action to limit wage and price rises, some devaluation of the exchange rate and increases in excise taxes on motor vehicles and State monopoly prices for tobacco and alcohol.

He explained that the import deposit scheme was part of this temporary package. It would be valid no longer than 30 September 1974 and covered about 60 per cent of commodity imports. The main exceptions were cereals and fodder, coffee, sugar, tea, cocoa, salt, petroleum products, fishing gear, fertilizers and seeds, raw materials for industry, wine, spirits and tobacco, pharmaceutical products and newsprint. Apart from these exceptions, which had been notified in detail in document I/4Q35, importers of all goods were required to deposit with the Central Bank 25 per cent of the value of the imports. This sum would be blocked for a period of ninety days and then refunded with an interest rate of 3 per cent per annum. This measure was intended in general to reduce liquidity in the hands of the public as the only available temporary substitute for tax increases, but in particular it was expected to curb a speculative rise in imports of consumer and investment goods until conditions were normal again.

He added that, since the economic difficulties of Iceland necessitated strong corrective measures, it could be questioned whether the measures were sufficiently drastic or extensive. Considering the 60 per cent rise in imports and the 50 per cent decline in foreign exchange reserves this year, it was inevitable that current account measures be included in the temporary programme. It was the opinion of his authorities that an import deposit scheme, non-discriminatory and temporary, was to be preferred among available options. He expected that the scheme would reduce this year's excessive expansion of imports but that it would not curtail the high level of imports reached last year. There seemed to him, therefore, to be no valid reason for fearing that the temporary scheme would aggravate the problems of the trading partners of Iceland.
The Chairman suggested that this matter could best be referred to a working party for more substantive examination. The Council agreed to establish a Working Party on the Icelandic Temporary Import Deposit Scheme with the following terms of reference and membership:

Terms of Reference:

To examine the Temporary Import Deposit Scheme introduced by the Government of Iceland and its implications, to report to the Council and to continue to be available for consultation as necessary.

Membership:

Membership would be open to all contracting parties having an interest in the matter and wishing to serve on the working party.

Chairman: Mr. Teese (Australia)

Since the Icelandic measures had been taken principally for balance-of-payments reasons, the Council invited the Director-General to make the necessary arrangements with the International Monetary Fund for consultations with the Fund.

The representative of the United States, while expressing his delegation's understanding for Iceland's situation, was concerned because of the impact these measures could have on the international community. He noted that the measures were temporary and hoped that they would be rescinded at the earliest possible moment. He was particularly concerned about the increasing number of countries which had taken restrictive measures and he urged that this trend should be stopped in order to avoid the trading community getting into a spiral of self-defeating trade restrictions which would cause serious difficulties for everyone. His delegation certainly did not want to see a repetition of the situation of the 1930's.

The representative of Brazil pointed out that, while the whole world was suffering from imported inflation, the developed countries were moving towards measures restricting trade. Furthermore, no special consideration had been given to the trade interests of developing countries. While some primary products were expected from the scheme, it appeared that this was done for domestic reasons. As there had been no reference to developing countries being exempted from the measures, he felt that prior consultations should have been held with such countries.

The representative of Spain expressed his understanding for the situation which had led Iceland to adopt the measures under consideration. He was concerned about the effect the example could have on other countries. His main concern, however, related to the underlying factors which had given rise to a situation of imported inflation and he suggested that serious consideration should be given to this problem.
The representative of Japan deplored that this was the second time during the month that the Council had been convened to examine a scheme of import deposits introduced by a contracting party. At the last Council meeting his delegation had expressed its concern about the danger of restrictive trade measures spreading from one country to the next and thus opening dark perspectives of a proliferation of restrictions. He reiterated his delegation's concern and called upon all trading nations to cooperate in order to avoid such a calamity.

The representative of the European Communities regretted that the Icelandic Government felt that its balance-of-payments situation required it to introduce import restrictive measures. However, he noted with satisfaction that the measures would be temporary which reduced the risk of cumulative effects.

The representative of Switzerland also expressed his understanding for the difficult economic situation in which Iceland found itself. He regretted, however, that Iceland had taken recourse to trade restrictive measures. The measures taken would not only be harmful to countries directly concerned in trade with Iceland but they could also have a snowball effect. He hoped that the examination in the Working Party would take account of all relevant circumstances. He wondered, however, whether GATT should not also consider the problem of import measures in a more general way in order to examine the features and effects of such measures. Such examination could lead to giving more clarification to the current situation and could help to prevent meetings such as the present one from becoming a tradition in GATT.

The representative of Norway did not fear as much as other representatives that the Icelandic case would serve as a precedent. He referred to the fact that 30 per cent of Iceland's exports resulted from fisheries and 15 per cent from aluminium, and felt that the Icelandic case was a very special one. The matter should, therefore, be judged on its own merits in the Working Party.

The representative of Austria said that in spite of the fact that his country's trade with Iceland was relatively modest, the measures introduced had given rise to concern in his country. He noted that it was intended to withdraw the measures soon and he pointed to the dangers resulting from repeated recourse by contracting parties to unilateral action. Trading conditions could be impaired in this way and could lead to a handicap even for those countries which had originally introduced the measures. He expressed the hope that all trading nations would endeavour to maintain the system of rules governing international trade and maintain the high degree of liberalization achieved so far.

The representative of Sweden expressed regret that the Icelandic Government had felt compelled to restrict the flow of imports. He had understanding for the special circumstances which forced Iceland to take these steps and noted with satisfaction the temporary nature of the measures.
The representative of Iceland expressed his appreciation for the comprehension shown for the exceptional situation in his country. He took note of the statements made and agreed to the setting-up of a working party whose work he intended to facilitate in every way possible. He also took particular note of the concern expressed on behalf of the developing countries. In conclusion he pointed out that Iceland had made considerable progress in trade liberalization since it joined the GATT at the end of the Kennedy Round and that these measures, necessitated by special circumstances, were not a departure from Iceland's basic policy.

2. Portugal - temporary trade measures

The representative of Portugal said that far-reaching political and social changes were taking place in his country.

In those exceptional circumstances, the Portuguese administration had had to take some transitional measures designed to ensure control of capital movements, current payments and imports of non-essential products as well as exports of goods essential to the normal supply of the internal market. Those exceptional measures had had to be taken rapidly in order to keep the economic life of the country under control following the sudden transition from a régime nearly a half century old to a completely new one having among its fundamental objectives that of ensuring greater economic and social equity.

The principal measure adopted in the field of invisible transactions had been the establishment of a control system on the purchase and sale of foreign currencies. One of the prime concerns in that field had been to avoid disorderly movements of capital through practices of over or under-invoicing.

Furthermore, the need to ensure the normal supply of the country in essential goods had led the Portuguese administration to establish, as a matter of urgency, a mechanism for the control of external trade, the basic provisions for which had been established by Decree-Law No. 191/74 of 6 May 1974. That Decree-Law was valid for one month, i.e. until 6 June.

The Portuguese representative underlined that his national authorities were ready to comply with the relevant procedures for examination of those measures and to furnish, if need be and at the appropriate time, any additional information that might be requested to that end. Nevertheless, considering the period of validity of the Decree-Law and the fact that his delegation had not yet received information concerning any measures effectively taken in pursuance of that instrument, he wondered whether, from a practical point of view, it would be useful to initiate forthwith the customary consultation and examination procedures.
The Chairman noted that the enabling legislation had been passed but as it was his understanding that the measures relating to import and export restrictions were still to be taken there seemed to be no need to set up a working party at the present time. When measures were taken the Portuguese authorities would inform the contracting parties and the Council could then consider the matter.