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/56) and a decision by the Executive Board of the International Monetary Fund (see Annex I), together with a background document supplied by the Fund, as mentioned in paragraph 3 below.

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 28 March 1966. 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 International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision and background material from its last consultation with Spain under Article XIV of the Fund Agreement.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of February 18, 1966, taken at the conclusion of its recent consultation with Spain, and particularly to paragraph 4, which reads as follows;"
The Fund notes that there has been further progress in reducing import restrictions and discrimination, and welcomes the determination of the Spanish authorities not to tighten the restrictive system as a means of reducing the balance of payments deficit. At the same time the Fund welcomes the progress made by Spain in the liberalization of the restrictive system and encourages the Spanish authorities to make further progress in this direction and to reduce and eliminate as soon as feasible their reliance on bilateralism.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund invites attention to the decision taken at the conclusion of its recent Article XIV consultation with Spain. The Fund has no additional measures to suggest at this time."

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 described the evolution of various elements entering into Spain's balance of payments, which showed an overall deficit in 1965. He reported on the progress of the Development Plan, on production and trade, on tourist earnings, remittances and investments and noted some of the factors which have led to increased domestic prices. He reiterated Spain's intention gradually to eliminate the quantitative restrictions still applied and said that his country looked to an expansion of imports as one measure to combat present inflationary tendencies.

Balance-of-payments position and prospects

5. Members of the Committee welcomed the statement made by Spain on the balance-of-payments position. While acknowledging that poor weather and possibly other factors had adversely affected agricultural output, they felt that there were encouraging elements in the development of tourism and in smaller improvements elsewhere. Spain was to be congratulated for having persevered in its programme of liberalization of imports, and it was felt that the level of Spain's reserves of gold and foreign exchange at $1,250 million at the end of 1965 provided an encouraging factor so far as the immediate future was concerned. The representative of Spain was asked to comment on prospects for 1966. In reply, he stated that the outlook was unfortunately for balance-of-payments developments even less favourable than in 1965. Imports would continue to increase as a result not only of higher demand for consumption goods but also of the needs of industry for capital goods. It seemed unlikely that more tourists would come this year than last though they might spend more partly due to higher prices prevailing in Spain. There was no expectation of increased receipts on transfers, and the deficit on "other services" was likely to rise with imports. Finally, it could not be expected that exports would be much larger, since the course of exports was so closely bound up with Spain's agricultural exporting capacity. As concerned agriculture, it was true that drought had been partly responsible for the poor showing in the recent past, but a more obstinate source of difficulty was the faulty structure of Spanish
agriculture and the prevalence of methods of production much less efficient than those in use in the countries with which Spain must compete. Spain would pursue her efforts to improve productivity in agriculture but did not look for quick success.

6. Members of the Committee then enquired about Spain's further intentions with respect to liberalization of imports. Some felt that, with liberalization as low as 65 per cent, Spain could well afford to move more rapidly, especially in view of the fact that reserves are as high as they are. Specifically, it was asked whether Spain intends to maintain the pace of liberalization which has prevailed over the last seven years, working toward gradual complete removal of restrictions. The representative of Spain replied that as concerns Spain's import régime one should not overlook the fact that in addition to liberalization achieved, Spain has steadily increased global quotas, which amounted to $138 million in 1965; moreover Spain has consistently issued licences far in excess of the amount of quotas announced, the total for 1965 having amounted to $450 million, or more than three times the amount of the announced quotas. For 1966, quotas amount to $148 million and the increase is even greater than the figure would suggest because some of the items formerly subject to quotas have now been liberalized. For 1967, it is intended to increase quotas at the same pace and this practice could be expected to continue.

7. Interest was also expressed in Spain's statement, in BOP/56, on bilateral agreements in force. The representative of Spain was invited to indicate something about Spain's intentions with respect to termination of these agreements and to indicate how much of Spain's trade was conducted under bilateral agreements. In reply the representative of Spain indicated that the position varied from one agreement to another. In the case of State-trading countries of Eastern Europe, Spain has liberalized some imports from these countries but the agreements are needed to ensure access for Spanish goods; moreover, banking agreements are needed for arrangement of settlements since Spain has no diplomatic relations with these countries. The two agreements with the United Arab Republic and Cuba are also payments agreements and are conditioned by the trading structure of the two countries in question. Of the other agreements, the trade and payments agreement with Mauritania contains only indicative lists and results may reveal some possibility of amending this agreement. So far as the agreement with Uruguay is concerned, Spain is prepared to terminate it or to modify it or to transform it to an agreement providing for settlement on a fully multilateral basis. Six other agreements are maintained with non-GATT countries in order to obtain most-favoured-nation treatment which Spain would not otherwise enjoy. As concerns the trade importance of these agreements, 1965 results would not vary much from those obtained in 1964, when about 7.5 per cent of Spain's imports were subject to all bilateral payments agreements and about 9.2 per cent of all exports were sold under such agreements.

Alternative measures to restore equilibrium

8. Members of the Committee agreed with the representative of Spain that the emergence of a deficit in the balance of payments and the prospect that it might increase in the coming year were rightly to be viewed with concern. They expressed
views which tended in various ways to draw attention to the need for measures of fiscal and monetary restraint to restore internal and external equilibrium. Restraint was needed, they felt, in the control of credit and in the financing of public sector enterprises; they suggested that there might, in addition, be merit in seeking to curb demand by measures to increase the yield from direct and indirect taxes. The representative of Spain recognized that there has been a certain amount of inflation in Spain, resulting, he thought, from higher salaries and wages, even though these were still below levels in the rest of Europe. Spanish authorities are aware that they must curb demand but they are anxious to do so in ways which do not interfere with the successful implementation of the Development Plan. Consequently, they contemplate the following measures: continued increase of imports, which will help to offset increases in domestic prices, selective credit curbs which will not hamper the growth of essential goods production or the expansion of industries needed to promote exports, and a policy of selective reduction in public expenditures. Throughout, an effort will be made to continue to facilitate essential investments, and to implement the Development Plan while trying to bring about more efficient distribution methods within the country and to encourage industry to find ways of avoiding price increases, even though this might mean lower margins of profit. Efforts to promote exports will of course continue at the same time. The representative of Spain said that he doubted whether it would be possible for his Government to alter direct taxation but that the possibility of increasing certain indirect taxes was being studied sector by sector.

System and method of the restriction

9. Members of the Committee expressed interest in exploring with the representative of Spain the precise working of the global quota system, with a view to providing satisfaction to exporters who find that there is less than adequate publicity as regards inviting for quota-bidding, who feel that quotas are not always allocated on a competitive basis or find that licences are given for periods which vary from time to time and which are often too short. The representative of Spain was unable to explain how interested traders failed to hear of the announcement and inviting for quota-bidding. The list of global quotas for 1966 appears as an annex to BOP/56, which also indicates the method of inviting for quota-bidding. The relevant information also is published in Spain’s official gazette and reprinted by the daily press. He also affirmed that licences are granted strictly on commercial considerations, taking account of traditional sources of supply. The period of validity of licences has, he agreed, varied to some extent and has sometimes been short, but he did not believe there was usually any difficulty about obtaining an extension. He promised to bring to the attention of his Government the difficulties encountered on this account.

10. A related difficulty concerning trade under global quotas was the uncertainty as to how much trade with Spain could be done in any given year, so long as quotas continue to be announced on a basis which does not correspond with actual intentions.
Members of the Committee urged the representative of Spain to convey to his Government the Committee's feeling that it would be preferable to set the quotas initially at a much higher level, as this would greatly facilitate the planning of foreign suppliers in their trading relations with Spanish importers. From the point of view of the individual exporter abroad it certainly cannot be said that Spanish restrictions have no appreciable effect. Any quota on the trader's particular product is a barrier, and it is all the more so if the quota indicates a figure much below what may be the actual total permitted in the year. The representative of Spain promised to convey these views to his Government.

11. Trade in liberalized commodities, it was noted, is subject to the requirement that the importer obtain an "import declaration"; the question was asked whether it is true that these declarations also have a limited validity. The representative of Spain confirmed that this is the case but said there was no difficulty about renewing the declaration.

12. Finally, with respect to trade in general, the point was made that Spanish customs formalities sometimes appeared, according to trade complaints, to require an amount of detail concerning the specifications of the goods in question which exceeds requirements of most other countries. For example details concerning the yarn count, the finish used, and the weight of the fabric had been asked for on the importation of wool textiles, although the requirements may now have been modified. The representative of Spain was asked to convey to his Government the view that these formalities should be simplified so as not to impair or nullify the value of the liberalization which has been effected.

13. Certain specific questions were also raised concerning the way in which trade in meat is conducted. In reply, the representative of Spain stated that for certain products Spain applies a regulatory levy in addition to the tariff. These charges, which apply to poultry, cereals for animal feeding, certain fats and oils and now also to chilled and frozen beef without bones, are fixed weekly and are published. Prior to 1965, beef imports were made by a single importer, a State-trading body which is an agency of the Ministries of Agriculture and Trade. Now, however, although the State-trading body still maintains nominal control of imports, products on which regulatory levies are applied may be imported by any private importer without approval of the State-trading body and without quantitative limitation. For the beef products mentioned above, this system has replaced the former arrangement under which the State-trading body called for public tenders, but for other beef products the tender system continues in effect. For imports from Eastern countries the State-trading body makes direct purchases. In reply to a further question as to how trade with Argentina is conducted, the representative of Spain said that the agreement between Spain and Argentina is a trade agreement only and the payments are on a fully multilateral basis.
Effects of restriction

14. Members of the Committee hoped that in considering the balance-of-payments outlook of Spain undue emphasis would not be placed upon the trade balance, as an overly pessimistic view might result. As had already been remarked in another context, some unfavourable factors, notably the unfavourable weather, might be regarded as temporary and the increase in exports of manufactured goods in 1965 was encouraging. Tourism, transfers and the inflow of capital all presented favourable elements. The problem of greatest immediate importance was undoubtedly that of controlling inflationary demand, and progress in liberalization of imports would undoubtedly help in that direction. At the same time, liberalization would help to ease real barriers for foreign suppliers; fixing of global quotas at higher and more realistic levels would also make a significant contribution, as would elimination of bilateral trade and payments agreements.

15. Members also expressed the hope that Spain would consider carefully the dangers inherent in keeping quantitative restrictions beyond the time when they were needed on balance-of-payments grounds. Mention was made of the case of agricultural tractors, which Spain had once liberalized and then placed under quota again; this sort of case might be taken as suggesting that protective considerations were playing a rather large part in maintenance of some quantitative restrictions and Spain was urged to liberalize this particular item as well as to bear the general point in mind. The representative of Spain acknowledged that special circumstances had led to this exceptional action, which constituted the only case of reimposition of quota restriction on a product once liberalized. He hoped that it might soon be liberalized again in Spain's own self-interest and assured the Committee such action would be taken as soon as possible.

General

16. The Committee thanked the representative of Spain for the material and information supplied. The representative of Spain indicated that he would convey to his Government the views that had been expressed.
ANNEX I

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with Spain on 18 February 1966

1. The Government of Spain has consulted the Fund under Article XIV, Section 4, of the Fund Agreement, concerning the further retention of its transitional arrangements.

2. The Spanish economy continued to grow very rapidly in 1965. Important advances were made in industry and services, and agriculture recovered from the setback of 1964. The growth of the economy led to a further substantial increase in the level of employment and absorbed much of the large-scale migration from the land; in certain sectors shortages of labor became apparent. The Government continued to foster the establishment of industries in less industrialized areas and it increased the incentives for the modernization of industry. The Spanish authorities have adopted policies which have maintained economic growth at a high level for a number of years.

3. Growth has, however, been accompanied by a wage-price spiral which has led to excessive demand pressure, reflected in rapid price increases and in the emergence of an over-all balance of payments deficit in 1965 for the first time since 1958. The Fund feels that the swift implementation of fiscal and monetary restraint is required to restore internal and external equilibrium in the near future, thus providing the basis for further sound and rapid growth. In framing these policies efforts should be made to minimize the undesirable effects on the growth of investment. The Fund therefore welcomes the measures taken by the Spanish Government to curb excessive credit expansion and to curtail the growth of the public sector deficit.

4. The Fund notes that there has been further progress in reducing import restrictions and discrimination, and welcomes the determination of the Spanish authorities not to tighten the restrictive system as a means of reducing the balance of payments deficit. At the same time the Fund welcomes the progress made by Spain in the liberalization of the restrictive system and encourages the Spanish authorities to make further progress in this direction and to reduce and eliminate as soon as feasible their reliance on bilateralism.

5. In concluding the 1965 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Spain.
ANNEX II

OPENING STATEMENT BY THE REPRESENTATIVE OF SPAIN

At the end of October 1964 my country consulted for the first time with the Committee on Balance-of-Payments Restrictions. Then, as now again, our desire was to co-operate and to contribute as much as possible to the common objective of promoting trade between the contracting parties to the General Agreement.

A year and a half has gone by since then, and the real situation in trade in agricultural products, of which my country is basically an exporter, can certainly not be said to offer very favourable conditions now for developing our shipments to traditional markets; this is of the utmost importance for Spain, for approximately 50 per cent of our total exports consists of temperate zone products.

In 1964 and 1965 the trends already apparent before have continued - imports have expanded rapidly, while exports have stagnated or even declined. The trade deficit has been growing: $294 million in 1961, $653 million in 1962, $1,016 million in 1963, $1,073 million in 1964 and probably more than $2,000 million in 1965. Although in earlier years the balance of payments was kept in equilibrium by tourist earnings, remittances from emigrants and long-term investments of foreign capital, in 1965 there was a deficit of approximately $145 million.

In this deterioration of the balance resulting from our commercial and financial transactions with other countries, the major factor has been and still is the disproportionate increase of imports in general, and more particularly imports of foodstuffs, raw materials and capital goods.

This import pressure undoubtedly stems from the development process of the Spanish economy, particularly in the sectors of industry and services, which has increased the demand for consumer goods; and this has had the two-fold and pernicious effect of raising internal prices and depleting export goods, since the domestic market has increasingly taken up any increase in the industrial output.
So far as the agricultural sector is concerned, the increase in demand has come up against a domestic supply shortage because of poor harvests; as a result, internal prices have risen and imports of foodstuffs have had to be stepped up, particularly meat and dairy products, cereals, sugar, coffee etc.

The Development Plan has had very appreciable effects on demand for capital goods and raw materials. As compared with 1963, domestic industry expanded by 14.4 per cent in 1964, with particularly rapid progress in metallurgy, mechanical engineering, transport equipment, and prepared foodstuffs; for example, cement production grew by 10 per cent, steel by 15 per cent, electricity by 12 per cent, automobiles by 52 per cent, and lorries by 24 per cent. On the other hand, output of tractors declined. In 1965, industrial output continued to grow, though more slowly. The chemical sector expanded faster than other sectors, while mining remained stationary.

The industrial growth has brought a higher standard of living for much of the working population; from the human aspect, this has resulted in a higher consumption capacity for non-durable goods, and from the industrial aspect, in a substantial increase in import requirements of raw materials and capital goods.

The upswing in the industrial sector has unfortunately not been matched in agriculture. Spain's agricultural production declined by 9 per cent in volume and 7 per cent in value in 1964 as compared with 1963. Harvests were better than in 1965, particularly wheat, citrus fruit and olive oil. Low productivity continues to be the major problem for Spain's agriculture, which still employs one third of the country's labour force while agricultural production accounts for one quarter of the national income.

The combined result of these factors has been that after remaining stationary in the first six months of 1964, the price level rose by 9 per cent in the second half of the year. In the first nine months of 1965 the increase fell to 4.6 per cent following the introduction of anti-inflationary measures. The principal factor in these increases was the rise in the prices of foodstuffs.

The cost of living, which rose by 5 per cent in 1963, increased by 13.5 per cent in 1964, and by the smaller figure of 6.7 per cent in the ten first months of 1965.
The Spanish economy can therefore be said to be traversing a period of inflationary demand which must be corrected as quickly as possible in order not to jeopardize the application and effectiveness of the 1964-67 Economic and Social Development Plan. One measure that is already being applied is to expand imports in order to offset and remedy the rise in internal prices. This means that in the coming period one must expect an increase in foreign purchases of foodstuffs, manufactures, raw materials and capital goods in general, and for this we intend to maintain and even step up the present rate of imports.

For all these reasons, I wish to state that despite Spain's delicate internal situation, the growing trade deficit and the balance-of-payments deficit in the last annual period, my Government has not only refrained from adopting any new restrictive measures in order to slow down the growing pace of imports, as might perhaps have been desirable in some cases - but is still observing our intention gradually to eliminate the quantitative import restrictions still applied in Spain, in accordance with the wish already expressed in the report previously submitted to this Committee. I consider that this intention has been fully observed, as may be seen from the measures adopted which are described in Part VI of the report now before you.

In presenting the report to the Committee on Balance-of-Payments Restrictions, it remains for me to reiterate my Government's intention of progressing towards the elimination of obstacles and barriers of all kinds, for this is the principal objective of the Trade Negotiations now in progress.