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/41) and a decision by the Executive Board of the International Monetary Fund (see Annex II) together with a background document supplied by the Fund, as mentioned in paragraph 3 below. At the consultation, the representative of Spain also submitted for the information of the Committee the Spanish Economic and Social Development Plan.

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 3 November 1964. 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 procedures, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Spain. The statement made at the consultation by the representative of the Fund was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision and background material from the 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 October 16, 1964 taken at the conclusions of its recent consultation with Spain, and particularly to paragraph 5 which reads as follows:

"Some progress has been made in reducing import restrictions and discrimination, and reliance on bilateralism. The Fund considers that the over-all balance-of-payments position permits a substantial reduction of import restrictions, and believes that Spain should take energetic steps to terminate discriminatory practices and bilateral payments agreements."

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

Opening statement by the Spanish representative

4. In his opening statement, the full text of which is annexed to this report, the representative of Spain described in broad outline the Spanish economy with emphasis on its preponderantly agricultural character, notwithstanding the rapid development of industry which has taken place in recent years. He noted the resultant heavy dependence of Spain upon agricultural commodities for its export earnings and the uncertainty and difficulty which weather conditions and also foreign trade barriers place in the way of the development of Spain's foreign trade. At the same time, he noted, Spanish industry is much newer than that of many European countries, even though starts have been made in the establishment, modernization or expansion of various sectors. Consequently Spain has recently formulated an Economic and Social Development Plan designed to foster a still more intensive development of industry, and while this Plan should
eventually enable Spain to export a variety of products, its immediate effect is to increase Spain's import requirements without providing additional exports.

5. Consequently Spain still maintained some quantitative restrictions, especially as various other sources of foreign exchange earnings are regarded as somewhat uncertain, notably tourism, remittances from emigrants and long-term capital inflow. Currently, these receipts, along with receipts from exports, more than cover present imports, but imports are expected to grow rapidly under the impetus of the development plan, while exports are likely to continue to stagnate for the time being. Since 1960 imports have grown by 257 per cent while exports have grown by only 6 per cent.

6. The Spanish Government nevertheless has the desire and purpose to continue to eliminate gradually existing quantitative restrictions on imports. Their purpose is evidenced by eight liberalization lists which have been issued, the rapid growth in the size of global quotas and a whole series of tariff measures which include in some cases complete suspension of duties. The Government of Spain has continued to accord these benefits to imports, notwithstanding the sensitivity of certain competing Spanish industries, as rapidly as conditions giving rise to restrictions have been overcome.

**Balance-of-payments position and prospects**

7. The Committee acknowledged that Spain's balance of trade as such is unfavourable but it was emphasized that the balance of payments as a whole was the most important consideration in this consultation. It was noted that Spain's gold and foreign exchange reserves as of July 1964 were $1,313 million (equal to seven months' imports). In the light of the over-all position it was felt that Spain might make considerable further progress toward dismantling restrictions and that progress up to now has been too slow for Spain's own best interest. Restrictions, it was noted, tend to shelter high-cost industries and to remove the necessity for them to become competitive without delay. There is even danger that new uncompetitive industries may be established. Spain's intention to complete the removal of restrictions was noted and Spain was asked for more definite indications concerning timing of further moves.
8. The representative of Spain replied that he could give no definite reply at this time, though no one was more interested than Spain herself in rapid liberalization. He understood that a new liberalization list was being prepared. As to Spain's reserves, he described these as having been obtained largely from non-commercial sources. Tourism, for example, could decline in various circumstances, of which perhaps the most important was the possibility that Spain might cease to enjoy the reputation of a country where prices were relatively low. Emigrant remittances could not be counted on to continue at present levels over a long period of time, as emigrants tend to send for their families to follow them out of Spain and, in any case, remit little or nothing after they have been away from Spain for a long time. Emigration might also decline as more and better jobs were provided in Spain. As for long-term capital receipts, which had been an important source of foreign exchange, this flow could not be counted on beyond a time when transferability of capital and earnings could be guaranteed. Finally, some industries do need protection, though Spain is making efforts to ensure that new industries are established only on a scale large enough to be economically viable. He urged that the Committee not forget the great progress made since 1959, when the liberalization process began, and stressed the need for care, so as to avoid having to regress later.

9. It was noted, at this point, that when the time came when there was no migration from Spain, if it did, that would imply a quite different internal situation in Spain in which the manpower remaining in Spain would presumably be engaged in additional production, including production of exports. Optimism was also expressed concerning the continuation of a substantial tourist trade such as France and Italy still enjoy. Some doubt was expressed as to whether over the last four years imports into Spain had increased as much as might appear from the statistics, in view of the fact that there had been widespread undervaluation of imports on invoices, which had only very recently been brought to an end. At the same time, there appeared to be no reason to doubt that the liberalization programme had been responsible for an increase in imports, especially in capital equipment goods. It was also noted that, notwithstanding ambiguous
wording in the basic document, it is the need for net capital receipts, not
total foreign exchange reserves, which is estimated at between $280 million and
$387 million in the years 1964-67; this estimate includes all foreign
investment in Spain, both portfolio and direct, and whether supplied privately
or by governments or by intergovernmental institutions, but it does not
include commercial credits. There was a brief discussion of recent improvements
in some of Spain's leading exports, but the representative of Spain maintained
that this could not be regarded as more than the upswing of a trade that is
notable for its cyclical tendencies, even though Spain is doing all it can to
promote exports by such measures as market surveys, provision of export credits
and other measures short of subsidization.

System and methods of restriction

10. Various members of the Committee put questions to the representative of
Spain concerning the working and status of restrictive measures. This information
is summarized below.

11. Temporary export duties, which were imposed in 1959, have all been removed
with the exception of that on olive oil, which is the only export duty of any
kind. There is no legislation of general application concerning floor prices.
Until 1964, Spain had no anti-dumping legislation so that interventions by
customs officials on grounds of suspected dumping may have given rise to the
mistaken notion that Spain maintained floor prices, but this is not the case.
The pertinent question in suspected dumping cases is the relationship of the
export price to the international prices or to the price of the same merchandise
in the country of origin. Currently, Spain also imposes a countervailing duty to
offset subsidies; this levy is equivalent to the subsidy granted on the export of
the product, and is not higher than was the level of the fiscal tax which was
formerly in effect.
12. It was confirmed that the importation of wool is completely liberalized, and not subject to any State trading. The General Food Supply Board is a government trading organization and not an industry board. Its purchases are made from other countries on a competitive auction basis, which is non-discriminatory as to country of origin, except in the case of purchases from State-trading countries. Amounts purchased are designed to meet Spanish consumption needs taking account of expected domestic production, but the object is often to keep prices down, though support occurs in some instances. It is only on a select range of products that this Board is concerned with stabilizing prices on the domestic market. Besides wheat, sugar and tobacco, of which the domestic crop is entirely purchased by the State organization, there are some stabilization purchases of rice, barley, oats, cotton and olive oil. Import operations in these cases are designed primarily to supplement domestic production and to control prices, though imports are sometimes restrained in this connexion. Beyond the major products for which stabilization operations are carried out, food prices find their levels without State intervention.

13. There was a discussion of Spain's global quota system in which it was established that Spain has liberalized about 60 per cent of her imports from a long list of countries and has undertaken to increase global quotas by at least 20 per cent per year. In this connexion, it was noted that actual import authorizations under global quotas have very considerably exceeded the announced global quotas. In 1963 they were nearly three times the total of the quotas. The Committee therefore considered that it was of great importance that the Spanish Government accelerate the increase in global quotas to the fullest extent possible in the period just ahead in order to help give effect to the Fund finding that Spain's overall balance-of-payments position permits a substantial reduction of import restrictions. The Committee also noted that the amount of liberalization which has been achieved means that 40 per cent of trade remains subject to global quotas or to individual licensing. One, but only one of the 840 items
liberalized, has been deliberalized. If some of the trade still subject to quotas is de facto liberalized, as indicated by the representative of Spain, this should, in the view of the Committee, make it easier for Spain to effect formal liberalization of such items. The representative of Spain took note of this comment. The Committee also considered that the mere fact that Spain's imports have increased was no guarantee that the remaining quantitative restrictions cause no serious obstacles to normal trade. It was consequently urged that Spain move items to the free list as rapidly as possible and meanwhile establish or increase global quotas and exceed them wherever possible.

14. With respect to trade subject to individual licensing, the representative of Spain explained, in response to a question, that the increase in imports authorized under individual licenses in 1963, shown on page 82 of the Fund background paper, does not mean that any items have been removed from global quota and does not reflect an increase in bilateral trade, since individual licensing covers considerable trade other than that under bilaterals, as explained on page 55 of the Fund document. The Committee urged Spain to establish global quotas for as much of this trade as possible in those cases in which liberalization was not yet possible.

15. In response to several questions, the representative of Spain explained that he wished to present a supplemental statement on Spain's bilateral agreements. Out of the twenty-four bilaterals still maintained, seven are with countries having centrally-planned economies; these are countries with which Spain does not even have political relations, so that these agreements between central banks provide the only framework for trade. An eighth agreement is also with a non-GATT country with which Spain has no political relations. Of the remainder, eight are with non-GATT countries and do not contain any purchase commitments or binding quotas concerning commodities to be purchased or sold; these agreements to some extent provide the equivalent of a most-favoured-nation commitment which would not otherwise exist. Of the others, two are with countries which trade only through State-trading enterprises and the five others have no bilateral quotas but contain only indicative lists. During the discussion it was also indicated that there are no binding quotas or purchase commitments in any bilateral agreement affecting
purchases by Spain of wool, wheat or cereals. As indicated by the list of countries which may trade under the liberalization list and participate in global quotas, on page 7 of the basic document, Brazil, Pakistan and Tunisia, which are bilateral agreement countries, also figure among countries eligible for liberalized treatment. Nevertheless, the Committee noted that a substantial part of Spain's trade is still under bilateral agreements and that such agreements are not absolutely necessary to the conduct of trade even with centrally-planned economies; attention was called to the Fund recommendation that Spain take energetic steps to terminate discriminatory practices and bilateral payments agreements.

Effects of the restrictions

16. The Committee considered that in its earlier discussions with the representative of Spain most of the points which members wished to make concerning effects of the restrictions had already been made. The intention of the Spanish authorities to eliminate existing quantitative restrictions and to give effect to full liberalization was noted and welcomed. It was felt however that the remaining restrictions may have more restrictive effect than was reflected in various statements in the basic document. Reference was made to the advantage for Spain of liberalization as a guarantee that new and existing industries would be obliged to keep their costs competitive, and a move in this direction would be the best insurance that the development programme on which Spain has embarked would succeed in raising Spanish production and in providing more, and more profitable, employment opportunities and a revival of Spain's export trade. One member of the Committee noted his country's sympathy for the difficulties involved in eliminating restrictions and discrimination when a country has not yet completed its own development programme, although he also noted that his own country had suffered from the effects of the Spanish restrictions.
17. The Committee thanked the representative of Spain for the full and frank replies which had been given to its questions. It expressed confidence that Spain's balance-of-payments situation would continue to benefit from substantial invisible receipts, especially from tourism and emigrant remittances, and felt that the principal danger against which Spain needed to guard in implementing its development programme was that of an unduly high cost structure in its new and expanded industries. It therefore urged Spain to implement its promise to eliminate import restrictions as rapidly as possible and in the meantime to establish global quotas at a minimum, where full liberalization was not immediately possible. It would be important also that authorizations to import under global quotas and individual licensing should continue to rise. It was also urged that Spain should rely on the customs tariff to provide shelter for developing Spanish industries rather than quantitative restrictions. The Fund's recommendations, noted in paragraph 3 above, were noted both as to reduction of import restrictions and as to the need for energetic steps to terminate discrimination and bilateral agreements. The Committee received assurance that Spain would consult with the CONTRACTING PARTIES next year if the balance-of-payments situation should require the maintenance of restrictions of imports.

18. The representative of Spain thanked the Committee and promised to convey to his Government the suggestions and comments that had been made. He felt that the Committee might have been over-optimistic concerning the suggestions that Spain could liberalize all its imports within the year, but affirmed that his country was most anxious to advance in that direction as rapidly as conditions permit.