GENERAL AGREEMENT ON
TARIFFS AND TRADE

DRAFT 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 (BOF/84) and a Decision of the Executive Board of the International Monetary Fund dated 3 June 1968 (see Annex .), together with a background document dated 17 May 1968 supplied by the Fund.

2. In conducting the consultation the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was held on 11 September 1968. This 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 was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of June 3, 1968 taken at the conclusion of its most recent Article XIV consultation with Spain and particularly to paragraphs 2, 2, and 4 which read as follows:

'2. In 1967, the growth rate of GNP fell sharply to about 3.5 per cent in real terms, from an average of around 7.5 per cent in the period 1962-66. Notwithstanding the slowdown in real growth, the inflationary pressures of the last few years persisted in 1967; there was no abatement in the rapid rate of credit expansion, and the index of the cost of living rose by 6.5 per cent between December 1966 and December 1967 while, on the average, contractual wages in industry were some 13 per cent higher in 1967 than in 1966. The external payments position improved somewhat and the decline in official reserves (including the IMF gold tranche position) narrowed from $204 million in 1966 to $156 million in 1967. At the end of 1967, official reserves amounted to the equivalent of $1,049 million."
3. On November 20, 1967 an austerity program was introduced to halt inflation, and the peseta was devalued by 14.3 per cent in order to strengthen Spain's external payments position. The Government expects the rate of economic expansion to gain momentum in the course of 1968, and equilibrium in the over-all balance of payments to be restored. The Fund considers that the achievement of these objectives requires the continuation of a cautious economic and financial policy in 1968. The improvements in Spain's fiscal policy in recent years are to be welcomed, but it is essential that early measures be taken to improve the monetary policy also and to allow interest rates to play a greater role in the allocation of resources. The Fund notes that the authorities are alert to the present deficiencies of the financial markets in Spain and welcomes the proposals to reorganize the credit system.

4. The recent devaluation was not accompanied by further liberalization of the trade and payments system. The Fund believes that major action in this field, together with the appropriate fiscal and credit policies, would help secure the beneficial effects of the devaluation, and hopes that the Government will include among the major priorities of its economic policy a reduction of the reliance on restrictions and the termination of payments agreements with Fund members.

"Since that consultation was completed official reserves have fallen seasonally and amounted to $959 million at the end of June 1968 compared with $990 million at the end of June 1967.

"At the present time the general level of restrictions of Spain which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

Opening statement by the Spanish representative

4. In his opening statement, the full text of which is contained in Annex ... to this report, the representative of Spain discussed the progress of the trade liberalization programme launched by Spain in 1960 and the factors which had hampered its progress, noting in particular, however, that progress in the reduction of duties in the agricultural sector had been very limited in the Kennedy Round and that the maintenance of non-tariff barriers stood in the way of the normal development of Spain's exporting sectors. Nevertheless, though Spain's rate of economic development had decreased, his Government had made progress, though more slowly, towards trade liberalization by reducing the number of products under global quota, by reducing tariffs on eighty-two items, as well as by reducing temporarily border charges (Bonificaciones en el Impuesto de Compensacion de Grava Menes Interiores) on sixty-nine tariff headings. Concerning Spain's balance of payments the representative of Spain mentioned that the two sectors - tourism and remittances from emigrants - which traditionally offset the large trade deficit in the overall balance were unreliable sources of foreign exchange; in 1967 these important receipts had declined compared with the preceding year. They felt that there might be continuing difficulties in these sectors so that extreme caution was indicated with respect to balance-of-payments policies. He reaffirmed his Government's intention to persevere towards the progressive liberalization of international trade to the extent that the balance of payments permitted and meanwhile called on the goodwill of other contracting parties.
Balance-of-payments position and prospects and alternative methods to restore equilibrium

5. Members of the Committee expressed their appreciation for the clear and concise manner in which the representative of Spain had presented his country's balance-of-payments problems. They congratulated him on the overall improvement of Spain's balance of payments and expressed the opinion that Spain's balance-of-payments prospects for 1968 seemed even better than last year. It seemed clear that Spain's internal measures following the devaluation of the peseta in 1967, especially those directed to the control of inflation, were steps in the right direction. Although import restrictions seemed to be inevitable for the present, given the difficult economic problems the Government of Spain faced, some representatives considered that the better prospects for the 1968 balance of payments made the opening statement of the Spanish representative sound unduly pessimistic. It was pointed out that notwithstanding the high trade deficits incurred by Spain in 1965-66, the trade balance improved in 1967, leading to a surplus in the basic balance (composed of the current account and long-term capital movements), with a deficit on the overall balance brought about on a presumably non-recurrent movement of short-term funds. Even this overall deficit was smaller than in 1966 and prospects for 1968 held promise of a possible overall balance-of-payments surplus.

6. The Committee was aware of the great importance of tourism for Spain, but some representatives added that the prospects for Spain's tourist trade were less gloomy than the representative of Spain had described them. On the one hand representatives of some countries whose citizens accounted for an important part of the tourists visiting Spain considered that their governments' measures having a possible effect on travel were in reality of little relevance to Spain and did not impose any real limits on tourism. Further, such measures at most could have only temporary effects on Spain's tourist trade as prospective tourists would find ways of managing their travel expenses to remain within allowances permitted by their governments. Also a certain economic upturn foreseen for some Western European industrialized countries could be of positive value for this sector of Spain's balance of payments though some economic depressions abroad did not have negative effects. The representative of Spain stated that the outlook did not seem bad in general; nevertheless he thought it premature to assert that tourism would constitute a reliable factor in offsetting deficits, for he feared that Spain's inflation would raise prices for tourists while at the same time competition from other developing tourist sites would become stronger. In 1966 total receipts from tourism amounted to $1,201 million but declined to $1,110 million in 1967. All this confirmed tourism's fluctuating and uncertain character in spite of its continuing importance. In answer to another question he added that the devaluation of the peseta did nothing more than keep in step with devaluations in some other countries.
7. It was noted by members of the Committee that the influx of capital had increased considerably in 1967, and that this underlined the need to continue the positive policies which the Spanish Government had adopted. Some representatives expected that the influx of long-term capital would be at least as high in 1968 as it had been in 1967. It was also mentioned in reference to the basic document (BOP/0) that recent foreign investment programmes in some countries did not envisage a reduction in the volume of investment but only a change in the manner of financing with no disadvantage to Spain's balance of payments. It was also noted that Spain's Second Development Plan anticipated a continued inflow of non-monetary capital. It was recalled that in the previous year's balance-of-payments consultation with Spain the Spanish representative had stated that restrictions applied by Spain would not affect global investment in his country, since most investments were committed to projects which had already been started or which were not particularly sensitive to restrictions being applied in other sectors of the economy. The Committee was of the opinion that if all these positive factors for Spain's balance of payments were taken into consideration, Spain should be able to continue its movement towards free multilateral trade barring only an unexpected outflow of short-term capital. The representative of Spain did not share this optimism regarding his country's economic situation. He recalled that the monetary reserves of his country were declining due to a continuing deficit in the balance of payments and that for a long time Spain was likely to face recurring deficits in the trade balance. It was clear from the basic document (BOP/0) that these deficits were caused by factors external to Spain's control, the principal ones being the deficit in the balance of services and the rigidity of foreign demand for her agricultural exports caused in large part by other countries non-tariff barriers.

8. Some members asked that the Spanish Government concentrate on relaxing its restrictions on imports and, instead of trying to increase its reserves, give priority to the relaxation of trade and financial transactions giving appropriate attention to internal measures. They recognized that overall reserves, including the net IMF position, have declined by 37 per cent since the end of 1967 to $959 by the end of June 1968, yet reserves still seemed to them to be average for the world as a whole in relation to imports. The representative of Spain replied that the optimistic view on which such a question was based did not coincide with his Government's view of the present situation. He reaffirmed his country's policy of continuing to seek opportunities to liberalize what trade was restricted, but stated that in present circumstances he could not foresee that his Government would substantially modify its careful approach towards the easing of restrictions. In regard to internal financial and fiscal measures he recalled that the economic crisis in his country had been due essentially to a disequilibrium between supply and demand. Consequently the Spanish Government took a series of economic measures to correct the resulting balance-of-payments deficit: first it devalued and then, in November 1967, by Decree-Law No. 15, it took the necessary complementary measures to devaluation. On the one hand it froze wages and other
types of incomes, while taking the pertinent steps to stabilize prices and restrict consumption. On the other hand it embarked on a policy of austerity affecting public expenditure and other measures of a fiscal nature, such as a modified tax system on income and the introduction of other taxes on luxury products. In the field of foreign trade a series of tariff reductions were effected so as to make essential goods available for consumption. The Spanish Government hopes to eliminate the deficit in its balance of payments in 1966 mainly by dampening consumption. However, he pointed out that the freezing of wages could understandably not be a permanent remedy and already the pertinent measures to raise wages from January 1969 on were already envisaged. This was one of the reasons why, in his opinion, it was difficult to forecast. Consequently it would also seem premature to proceed with further liberalization.

9. Members of the Committee recognized the efforts made by the Spanish authorities to control inflation. Nevertheless some members asked whether monetary policy could not be improved by eliminating the system of special bills and special lines of rediscount with the Central Bank. This system provided an excess of liquidity over which the relevant authorities did not have sufficient control. Members expressed an interest in learning what actions were being taken to maintain price stability and preserve the competitive benefits obtained from devaluation. Also it was asked whether another inflationary element was not manifest in the bank financed subsidies extended to the agricultural sector: would this sector not be better controlled by budgetary financing instead? In reply the representative of Spain underlined that his Government was aware of the importance of monetary policy and that it had taken measures in this sense in November 1967 by modifying interest rates in agricultural and savings institutions as well as those applied by the Central Bank in rediscount operations: instalment sales had been made less attractive in order to restrict demand.

10. In reply to several questions relating to possible plans of the Spanish Government for improving the climate for foreign investment in Spain, as a means of obtaining funds to finance needed imports to facilitate further relaxation of restraints, the representative of Spain replied that Spain had very liberal legislation governing investments. In fact capital movements into Spain continued to increase and had risen from $539 million to $626 million between 1964 and 1967. In response to a request by the representative of Spain for information regarding specific laws and measures which might tend to deter foreign investors, one member mentioned the following:

(1) apparent efforts to have foreign-owned firms operating in Spain to finance expansion and sometimes working capital from imported capital;

(2) the difficulty of securing the authorization for transfers abroad of principal of investments made by non-residents before 28 July 1959;

(3) a Decree Law passed on 27 November 1967 restricting the distribution of earnings.
11. Members of the Committee pointed out that the Spanish 1967 balance-of-payments deficit was much aggravated by two factors, the extraordinary outflow of short-term capital that year, which was probably speculative in anticipation of the devaluation, and advance payments made for imports. The outflow was reflected in the errors and omissions item and was responsible for turning a modest surplus into a deficit. If both phenomena could be reversed, there could be optimism in the balance-of-payments outlook and consequently an opportunity for further liberalization. The representative of Spain agreed that the amount of the "Errors and Omissions" item of the 1967 balance of payments was very high; it was partly due to a short-term capital movement which was not all of a speculative nature but even so had been very difficult to control, and it was in the interest of Spain's authorities to avoid the recurrence of such an outflow in the future.

III. System and methods of the restrictions and effects of the restrictions

12. Members of the Committee suggested that the encouraging reduction in Spain's balance-of-payments deficit in 1967 and the probable surplus in 1968 should make possible a significant reduction in Spain's reliance on import restrictions. In this sense it was urged that the Government of Spain should resume the policy of liberalization it had started in 1959, but which had come to a near halt in 1967, by transferring more items from the list of global quotas to the free list. It was argued that this was possible without affecting the foreign exchange position of the country, since imports permitted under global quotas were consistently much larger than the global quotas themselves, amounting sometimes to 250 per cent of quotas. Some members of the Committee considered that Spain should abandon this practice of over-licensing and should instead increase the announced global quotas by at least 20 per cent annually as Spain had itself suggested. This would ease matters for both exporters and importers of products entering Spain in that it would remove present uncertainties regarding the effective volume of imports to be permitted under the global quota régime. One representative suggested that the need for such an increase in global quotas was especially great with regard to capital goods, which were normally imported without difficulty, but where the need for any restriction was less evident. In reply, the representative of Spain reaffirmed his Government's commitment to a policy of free trade but noted that its full implementation depended on an improved balance-of-payments situation. The restrictions now applied were only one aspect of an economic policy designed to cope with the balance-of-payments deficit and the resulting shortage of reserves. Referring to comments by Committee members that the amount of imports under global quotas had declined from $443 million in 1965 to $290 million in 1967, the representative of Spain noted that global quotas in 1968 had increased by $18 million, or by nearly 20 per cent of last year's nominal value. Again, the licences granted this year attained a value of $290 million while the global quotas that had been stipulated were of the order of $166 million. He informed the Committee that he had no news regarding any increase in the global quotas and that in view of Spain's present economic situation it was important that the Government should maintain close control of permitted imports. He added that the announced intention of his Government to increase global quotas by 20 per cent had in practice been realized with great generosity.
13. In reply to several questions relating to delays in delivery of import licences and other time elements under the quota system, the representative of Spain said that import licences were generally given without delays. For most cases concerning liberalized imports requiring "declarations" the delay was roughly forty-eight hours. It did occur occasionally that certain requests took more time to handle because of misunderstandings in the written requests. Regarding the period of time during which imports are permitted, he said that such cases could not be considered as obstacles to trade since the relevant authorities always extended these periods to permit import licences to be used. Some members put questions referring to a general order of July 1967 specifying that imports under thirty-four custom headings could be suspended when "abnormal pricing" was suspected. They said they were pleased the order was no longer being enforced, but they asked when it would be revoked. The representative of Spain stated that, though the Committee was not the place for dealing with anti-dumping problems, the purpose of the regulation was to discourage the importation of products with abnormally low prices by setting up a valuation commission to study questions relating to dumping. The commission could undertake investigation on request of private entities as well as its own initiative. In fact, the representative of Spain added, this commission had not acted in months. Further, he added that Spain's growing import figures made it clear that none of these import procedures implied any obstacle to imports. To another question, the representative of Spain answered that the same licensing time-limits are applied to overseas trading partners as to neighbouring European countries; no discriminatory treatment was applied; but one member felt that absence of differential treatment in this case implied discrimination.

14. Members of the Committee noted with satisfaction that Spain has recently dropped one of its payments agreements since the last consultation. However, they expressed their concern over Spain's bilateral quota agreements with countries listed in Annex I to BOP/84, since these individual licensing systems led to discrimination between suppliers and were inconsistent with obligations of contracting parties under GATT. They expressed their hope that Spain would continue to eliminate bilateral agreements since they were unjustified for use in trade with convertible currency countries. Some members stated that they had had complaints from exporters in their countries concerning discriminatory effects of Spain's agreements with other countries. It was noted that foreign exporters trading with Spain under a bilateral agreement were favoured over third parties in the issuing of licences. Spain has even increased its reliance on bilateral trade in recent years, its exports (f.o.b.) under bilateral trade as a percentage of total exports have almost doubled from 9.2 per cent in 1963 to 17.4 per cent in 1966. Members of the Committee urged Spain to terminate these bilateral agreements as soon as possible. The representative of Spain replied that the current bilateral quotas with convertible currency countries are the last remains of Spain's past bilateral agreements with those countries. On the other hand, even if Spain's balance of payments should improve, he stated, it would be difficult to liberalize most trade now subject to bilateral agreements since many of the countries involved were State-trading nations or nations with which Spain lacked normal diplomatic relations. He felt that other
members exaggerated this issue since in 1967 only 4.9 per cent of Spain's total imports were purchased through bilateral agreements, and the percentage had substantially decreased compared to the previous year.

15. Members of the Committee expressed their concern with regard to the "individual licensing system" under which licences were granted on a case by case basis. They believed this system permitted excessive discretion over what quantities might be imported and at times discriminated between suppliers on arbitrary grounds. They requested assurances with respect to what Spain intends to do to eliminate this "individual licensing system".

16. In reply to another question, the representative of Spain affirmed that no discrimination existed in the granting of licences among different sources of supply within global quotas; great care was taken not to distort traditional channels of trade while maintaining a flexible attitude towards new suppliers. He added that importers were free to choose their suppliers.

17. A member of the Committee expressed his regret that Spain still relied on a basically bilateral commercial policy: he regrettcd still more that hundreds of his own country's exports to Spain were still subject to discriminatory treatment. In reply, the representative of Spain pointed out that discriminatory treatment in question was applied in accordance with the provisions of Article XXXV of the GATT. Moreover, he said, a trade agreement involving liberalization and globalization of imports from that country had been signed on 22 February 1966 and that, apart from 303 items subject to import licences and Spanish market disruption provisions, only forty-nine imports from that country remained prohibited. He reaffirmed that his country's policy was oriented towards free multilateral trade and adherence to GATT.

General

18. The Committee thanked the representatives of Spain for the information which had been presented and for the views expressed. They did not share the pessimism expressed by Spain concerning either the magnitude of present obstacles to further progress towards liberalization or the outlook for the future and strongly urged Spain to reconsider whether it might not be possible to act favourably upon some of the suggestions made with respect to liberalization, increase in quotas and especially reduction of bilateralism. The representative of Spain in turn thanked the Committee and promised to convey certain queries to his Government.