1. In accordance with its terms of reference the Committee has conducted a consultation with Spain on its balance-of-payments restrictions. The Committee noted that the previous consultation of the same nature had been held in September 1968 (cf. BOP/R/27 and BOP/84). In conducting the present consultation the Committee had before it a basic document transmitted by the Government of Spain (BOP/98), a decision of the Executive Board of the International Monetary Fund dated 27 June 1969 (Annex I) and two papers dated 27 May and 28 October 1969 respectively containing background material supplied by the Fund.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation took place on 18 November 1969. The present report summarizes the main points of discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES 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 was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of June 27, 1969 taken at the conclusion of its most recent Article XIV consultation with Spain and particularly to paragraph 4 which reads as follows:
In the past three years there has been little progress toward liberalization of the Spanish trade and payments system. The main restrictive elements continue to be the limitation of imports through quantitative restrictions and the maintenance of bilateral payments agreements with a number of countries. The Fund urges the Government to renew its efforts at further reducing restrictions and welcomes the intention of the Spanish authorities to make a determined effort to terminate as many as possible of the remaining bilateral payments agreements with Fund members.

"As is stated in the supplementary background paper, the external payments position of Spain has deteriorated somewhat over the recent months and official gold and convertible currency reserves declined from $1,095 million at the end of December 1968 to $1,017 million at the end of August 1969.

"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 representative of Spain

4. In his opening statement, the full text of which is annexed to the present report, the representative of Spain described the balance-of-payments situation of his country in 1968 and analyzed the factors which, in his view, should be taken into account in evaluating the results and in judging the import policies of his Government. It was noted that the surplus on the overall balance of payments and the increase in foreign exchange reserves should not be taken to indicate the existence of an economically stable situation. The deficit on trade account had persisted in spite of larger exports, and the surpluses achieved on the invisibles sector of the current account should also be regarded as precarious, and the uncertainties surrounding future earnings in these
sectors as well as the prospect of future capital inflows all indicate a need for caution. In the circumstances Spain has not found it possible to allow a further increase in imports which in fact had risen substantially in the first half of this year. The frequent international monetary crises which had caused some countries to resort to import surcharges and restrictions on capital movement showed a lack of stability and constituted a further factor of uncertainty. On the other hand, it should be noted that in spite of these uncertainties the main aim of the Government of Spain continued to be to pursue a policy of import liberalization and it was to be hoped that a more favourable international trading situation would permit the resumption of progress in that direction.

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

5. Members of the Committee welcomed the statement by the representative of Spain in which he reaffirmed his Government's continued adherence to the aim of liberalizing trade to the fullest extent permitted by the trade and payments situation. In this connexion they noted that Spain's total external reserves, after a significant rise in 1968, had again declined somewhat this year; the total of $981 million at the end of September was about 12 per cent below the $1,120 million at the corresponding date in the preceding year and was equivalent to about three months' imports at the current rate. The view was expressed that Spain's continued trade balance deficits and reserve losses appeared to result from excessive demand pressures on available resources and might be improved by appropriate monetary and fiscal measures. Under these conditions attempts to intensify existing trade and exchange controls might not only be inappropriate but counterproductive. After reviewing the situation members of the Committee expressed the hope that the general trend of rising exports, coupled with a stabilization of imports as well as favourable developments in receipts on the invisibles and capital accounts might soon help to restore the general balance of payments so as to enable the Spanish authorities to renew their efforts at further reducing the import restrictions.
6. On the trade account the Committee was informed that the growth of exports had substantially accelerated in 1969, but that a similar rise had also been seen in imports. According to estimates furnished by the Spanish authorities to the IMF, total exports in 1969 should be 10 to 12 per cent higher than in 1968 and total imports should increase by 8 to 10 per cent. Trade returns for the first two quarters of 1969 showed that these expectations had in both cases been substantially exceeded. The representative of Spain said that the improvement in the trade balance that had occurred in 1968 was due to temporary circumstances; exports of manufactures and industrial products in general had risen appreciably, as a result of some recession in the Spanish economy and a decline in domestic demand; the reduction that had become apparent in imports of capital goods was attributable to the same phenomenon. As regards income from travel and tourism, which was the second largest source of foreign exchange, the net receipts had declined somewhat in 1968 and had remained stable since then. The Spanish representative stressed the unreliable nature of this industry; tourist spending was subject to wide fluctuations as the result of a multitude of factors such as competing attractions in other countries, exchange controls and restrictions on tourist spending applied by foreign governments, all of which were beyond the control of the Spanish authorities. Workers remittances were similarly unpredictable as they depended on the labour market conditions in Spain as well as abroad. As the standard of living rose in Spain and work opportunities became more numerous in industry and services, employment in other countries became less attractive for Spanish workers. The same was true also with capital movements, which depended on the capital market conditions abroad as well as other exchange control policies of foreign governments. These considerations were invoked by the Spanish representative in support of his Government's view that the present situation did not justify a new move to liberalize imports. Some members noted, however, that Spain's total exports had shown a growth of over 20 per cent in the first nine months of 1969, which was significantly higher than the growth of imports during the same period. Even though the trade deficit would remain, the tendency was nevertheless
encouraging. Furthermore, tourist receipts, transfer payments and capital inflow had all risen in the first eight months of this year, although inflow of official capital had somewhat slowed down. The only disquieting item in the balance of payments would seem to be the movement of short-term capital. It was suggested that a firm control of incomes and costs, with increased emphasis on costs rather than on prices, the development and institutionalization of the money market and the harmonization of domestic and foreign interest rates might contribute to improving the situation. The Spanish representative pointed out that all those aspects were naturally of concern to the Spanish authorities. The cost policy had been pursued since November 1967, but the freezing of wages could not be maintained for a long period without giving rise to social problems. The questions of interest rates and all those relating to monetary policy were the subject of special consideration by an Inter-Ministerial Commission.

7. One member of the Committee noted that as the Spanish economy was operating close to the limits of capacity, the trade deficit was likely to persist if not substantially to increase. Receipts on services and transfers accounts were unlikely to rise sufficiently to cover the trade deficit, and the difficulties were accentuated by erratic movements of short-term capital. It was only to be hoped that the Spanish authorities realize that the situation would not be helped by the recourse to any new payments or trade restrictions as these would only exacerbate lack of confidence and inhibit the inflow of foreign capital. It was suggested that Spain might give serious consideration to devising measures which would strengthen confidence in the Spanish economy or would serve otherwise to attract investment capital from abroad. Alternatively, steps might be taken to attract and make use of foreign short-term funds for the finance of imports or for the replenishment of working capital funds. The representative of Spain said that he had taken due note of these suggestions, pointing out, however, that at the present stage of its development, Spain considered it essential to have available to industrialists and entrepreneurs funds on reasonable terms for industrial investment. The maintenance of a low interest rate policy would seem to place a limitation on the
possibilities of attracting foreign capital as well as on the use of monetary policy as a means of restoring internal equilibrium. The high rates of interest prevailing in world capital markets in the last two years had rendered the problem even more difficult. As mentioned above the Spanish Government had created an Inter-Ministerial Commission to study these monetary problems.

8. A member of the Committee commented on the laws and regulations as well as administrative procedures and practices in Spain which, in his view, tended to deter foreign investments in Spain. Regulations forcing foreign owned firms operating in Spain to bring in foreign capital for expansion purposes or even as working capital tended to discourage other firms from entering the country. Impediments to royalty and dividend payments would greatly detract from the advantages of investing in the country. It might contribute significantly to the easing of the country's balance-of-payments difficulties, not to mention its need for long-term investment capital essential to industrial development, if less governmental interference in and greater freedom for capital movement were ensured. The Spanish representative said that his Government welcomed the fact that Spanish undertakings, as well as foreign undertakings established in Spain, were turning to international financing sources in order to obtain the necessary funds for their development. The Spanish legislation on foreign investments dated from 1959 and provided for the unrestricted transfer abroad of profits as well as the original investment and capital gains. That legislation had not, of course, been enacted with retroactive effect, but the Government was following a definitely liberal course and consideration was being given to automatic transferability of capital and capital gains corresponding to investments made in Spain since 1 January 1950. The Spanish Government was following that line and when circumstances permitted would move back the date still further.
9. Commenting on the statement in the "basic document" supplied by the Spanish Government (BOP/98) that "in 1963 capital export restriction measures taken abroad caused United States and French investments to decline by 50 per cent and 75 per cent respectively" from the 1967 levels, the representative of the United States pointed out that no United States restrictions had been imposed on investment abroad by United States companies or their foreign affiliates; United States restrictions had been directed at the transfer of funds from the United States to finance investment abroad. Contrary to the statement quoted above, net transfers of funds from the United States to Spain for direct investment purposes had increased from $70 million in 1967 to $111 million in 1968. Also, plant and equipment expenditures by United States affiliates in Spain had also been larger in 1963 than in 1967. In fact, American firms generally encountered little difficulty in 1968 in obtaining funds from sources outside the United States for foreign investment purposes.

10. The Spanish representative stated that according to available statistics (statistics relating to officially authorized direct investments) the amount of United States capital entering Spain had indeed fallen by about a half in 1968 from the level of the previous year. The relative importance of the United States as a supplier of capital to the Spanish market had also been greatly reduced; in 1967 the United States accounted for 43.9 per cent of total foreign direct investment in Spain whereas in 1968 the proportion had fallen to 26.1 per cent. By contrast the share of European countries had risen over this same period from 25 per cent to 41.2 per cent of total foreign direct investment in Spain. From the Spanish point this development had resulted directly from the United States measures entering into force at the beginning of 1968 as a part of President Johnson's programme to restore the United States balance of payments. The measures affecting capital movements had, furthermore, been applied in a discriminatory manner, affecting most severely European countries aiming at reducing United States direct investment in these countries by 65 per cent. The United States representative, commenting on the apparent discrepancy between the
United States and Spanish figures, pointed out that what he had referred to was the decline in net transfers of funds from the United States to Spain for the purpose of direct investment, which had shown a substantial increase in 1968. With reference to the statement quoted at the beginning of the last paragraph the French representative pointed out that the serious social unrest in mid-1968 and the ensuing stringent economic policies must have been the cause of the decline in French capital exports to Spain in that year, and expressed the hope that with the return to normality France would regain her position as an important supplier of capital to Spain and other European markets.

11. A member of the Committee noted that the balance-of-payments data for 1967 and 1968 both contained a sizable negative entry under "short-term capital (including errors and omissions)", and wished to be informed of the reasons for this sustained outflow of short-term funds (apart from the possible explanation of the discrepancy between Spanish and foreign interest rates, as well as the anticipatory outgoing payments for goods and services prior to the 1967 devaluation). Recognizing that the imposition of trade and payments restrictions could not correct the underlying economic problems of Spain, a member asked what short-term external measures the Government might take in the foreseeable future to meet the attrition on its reserves. The representative of Spain replied that the large outflows of floating funds from the country both in 1967 and 1968 had indeed been largely due to the attraction of high interest rates outside Spain. As already indicated above, all matters relating to interest rates and monetary policy in general were subject to special consideration by the Spanish authorities through an Inter-Ministerial Commission. The Spanish representative underlined that by maintaining low capital costs, the authorities were attempting to foster a high rate of investment, and that accordingly such policy could contradict the policy intended to attract foreign capital and to restore a sound balance-of-payments position.
Alternative measures to restore equilibrium

12. In discussing the question of using internal fiscal and monetary measures to restore equilibrium, a member of the Committee commented on the relatively low internal interest rate structure in Spain and the continued and accelerated expansion of the money supply, especially to the private sector. In the circumstances the Spanish authorities had concluded that a reduced rate of real growth in the gross national product was called for if resumed inflationary pressures were to be avoided. Although it was recognized that the monetary and fiscal machinery available to the Government was inadequate to bring about a complete solution to the underlying problems of the Spanish economy, it would appear that greater and more effective use might be made of monetary and fiscal measures to reduce liquidity and contain domestic demand so as to allow a higher projected rate of growth. Greater reliance on fiscal measures might facilitate the maintenance of the near equilibrium position in the external accounts achieved during 1967-68. Another member of the Committee noted that in resorting to internal measures to control internal demand and to restore economic equilibrium, the Spanish Government would seem to place only limited reliance on monetary measures as compared with other measures. He asked whether in present circumstances it would not be useful to take effective steps to restrain bank credit which seemed to have been excessively expanded recently. The representative of Spain recalled that as part of the austerity programme adopted in November 1967 following devaluation some credit control measures had been introduced, consisting of instalment credit limitations, adjustments in various interest and rediscount rates. These steps had been found useful and effective in deflating demand pressures at the time. With the easing of the inflationary pressures in the following years these measures had been softened. Some members stated that in 1968 partly owing to the expansion of credit base arising from public sector borrowing and partly owing to the emergences of a balance-of-payments surplus, the liquidity of the commercial banks had increased considerably. The representative of Spain said that the situation was being carefully watched, and appropriate remedial action was being studied.
13. A member of the Committee referred to the Spanish Second Development Plan formulated for the period 1963-1971 and approved in February 1969 which aimed at ensuring the maximum possible rate of economic growth and strengthening Spain's competitive position in world markets, and provided for fast growth of both exports and imports with the objective of basically improving the balance of payments, and asked about the rate of growth that the Spanish authorities expected to attain in exports and imports during the Plan period, and what specific measures would be relied upon for achieving the projected expansion of exports. The representative of Spain said that among the basic objectives of the Plan were: the creation of 1 million jobs, the raise of per capita income to Ptas 56,000 for a population of 33,800,000; to raise private consumption by 19.3 per cent; to raise investment to a level of 23.5 per cent of gross national product; to improve education at all levels and social security; to modify the agricultural bases from wheat production to livestock breeding; of correcting the structure of 2 million hectares for agricultural production; the development of hydraulic power; the development of nation-wide markets for foodstuffs. One important element was to increase exports and to arrive at a more balanced distribution in imports of various products. Animal feed production would be increased at the expense of wheat in order to expand cattle breeding and to reduce reliance on imports for meat. As regards exports, the Second Plan provided that they would increase by 15 to 20 per cent in 1968 and at an average annual rate of approximately 9 per cent over the ensuing three-year period. In answer to a question on the nature and purpose of the regional developed projects provided for under the Plan, the representative of Spain stated that the purpose of regional development was to bring the standards of living in the less-developed regions into line with the industrially more advanced regions so as to avoid migration to crowded centres of population.
System and methods of the restrictions and effects of the restrictions

14. Members of the Committee noted that no new liberalization measures had been undertaken in Spain since the last consultation on the restrictions in 1968, and that in fact no product had been transferred from the global quota list to the free list since 1967. While appreciating the circumstances justifying the maintenance of the present general level of restrictions, they regretted that the Spanish authorities had been unable to introduce adjustments with regard to some particular items so as to demonstrate its readiness to move in that direction. It was suggested that Spain should be urged to adopt a timetable for the reduction of its restrictions. Meanwhile pending full liberalization, Spain was urged to substitute global quotas for individual licensing.

15. A member of the Committee recalled an announcement which had been made some time ago by the Ministry of Commerce regarding a policy of increasing the total value of global quotas by 20 per cent annually, with individual quotas raised by at least 10 per cent annually, and registered disappointment at the apparent failure to implement this policy. Moreover, present import quotas seemed unrealistically low in terms of actual Spanish needs, and increases seemed to be subject to arbitrary administrative decisions. Uncertainties were thus created which handicapped and discouraged importers and exporters alike. The representative of Spain said that the Spanish authorities had found it impossible to transfer items from the global quota lists to the free list or to take any other liberalization action mainly owing to the balance-of-payments situation and, in some rare cases, owing to particular problems affecting sensitive sectors of the economy. He assured the Committee that his Government had every intention to liberalize imports but had taken a cautious attitude on account of the various elements of uncertainty referred to above. Nor did it appear likely that Spain could implement further liberalization measures in the near future. In order to do so, a clear improvement in Spain's balance of payments and the development of its export market would first have to be achieved. He explained that the statement concerning the increase of global quotas by
20 per cent per annum was a unilateral expression of intention on the part of the Spanish Government; it was an indicative aim and was not meant to be a commitment. The 10 per cent increase in each global quota had been applied in general terms. It was not possible to achieve an annual increase of 20 per cent in total global quotas because of the fact that some global quotas, including very important ones, had been replaced by liberalization of the goods concerned. Notwithstanding this fact, the quotas opened had increased by no less than 10 per cent annually.

16. Some members of the Committee thought that a significant gap seemed to exist between the announced quotas and the actual licences issue. The representative of Spain agreed that this situation might arise. For example Spain had announced global quotas for 1968 totalling $157 million, whereas licences had in fact been issued up to a total value of $347 million. One member of the Committee expressed the view that there should be no difficulty to increase the global quotas by 20 per cent or more, without adverse effects on the foreign exchange position, since imports permitted under global quota had consistently been much larger than the global quotas themselves. It was pointed out that the same problem had been discussed in the 1968 consultation when members of the Committee had considered that Spain should abandon the practice of over-licensing and should instead increase the announced global quotas, by at least 20 per cent annually. The representative of Spain replied that his authorities preferred to be cautious and issue normal global quotas supplemented by licences over and above the announced quotas as circumstances permitted. It was difficult to forecast in advance exactly what the level of foreign exchange reserves would be at any given time and thus it was felt more prudent to keep within a normal global quota figure.

17. Concern was expressed concerning the complexity of Spain's restrictive import system. One member of the Committee recalled that during the 1968 consultation with Spain it had been said that with respect to liberalized,
free-list imports requiring "declarations", the delay for the issue of the declaration was roughly forty-eight hours, but that there were occasional cases in which a much longer time was needed. Complaints had been registered by exporters in at least two countries that delays were often much longer and in some cases had amounted to as much as three months. The representative of Spain said that the system had been complex in the past, but that improvements had been made toward a more flexible mechanism for issuing licences. The Spanish representative expressed surprise at the statement that in some cases delays of three months had occurred in connexion with liberalized goods requiring declarations. That was quite unusual and he could only think that in the case concerned the importer had made mistakes concerning the classification of the goods, or possibly that the reference was to a few past occurrences where a declaration of unduly low prices had resulted in special consideration of the relevant documents.

18. It was asked in this context whether the Government had any plans for the removal of the import declaration requirement for free-list imports. The representative of Spain said that he could not reply but that the measure was only one of administrative control and for the purpose of establishing statistics; it did not amount to a barrier to trade requiring removal.

19. Another member of the Committee pointed out that the global quota restrictions applied to agricultural tractors had not changed since the last consultation in 1968. He recalled the question he had raised at that consultation concerning the division of the quota by engine size which resulted in providing allocations for very small and very large tractors for which no demand existed. Furthermore, this item which at one point had been liberalized was again subject to restriction in addition to high customs duty, and apart from the fact that
it was provided for in one of Spain's bilateral arrangements with a contracting party. It was suggested that a better distribution of the quota might solve the problem. The representative of Spain said that after last year's consultation he had tried to obtain information on the alleged discriminatory aspects of licensing for tractors but had found nothing that could indicate discrimination between the different sizes of tractors or in the allocation of the quota. Another member of the Committee referred to the bilateral quotas for automobiles and pointed out that the bulk of this quota was reserved for import into the Canary Islands and that it was difficult to obtain a licence for the import of automobiles to the mainland. The representative of Spain explained that a larger share of the quota was reserved for the Canary Islands because of the more urgent local need there. The member of the Committee raising the question suggested that the quota for imports to the mainland could be perhaps increased without the quota for the Canary Islands being reduced.

20. A member of the Committee stated that complaints lodged by exporters in his country indicated that certain importers' groups in Spain tended to act in such a way as to limit imports. Two products were mentioned as being directly affected by such arrangements: synthetic rubber and wallpaper, and the representative of Spain was asked to forward this information to his authorities. Another impediment related to the control of imports was found in the varied manner in which certificates of origin were required; some custom officials insisted, while others might not, that each certificate bear a visa by the Spanish Chamber of Commerce. The Spanish representative pointed out that the Spanish authorities could not interfere with decisions made by private groups in their import planning, and that he had no knowledge of any quantitative restrictions on imports of synthetic rubber and wallpaper. So far as certificates of origin were concerned, he referred representatives to the information already supplied to the Committee on Trade in Industrial Products, to be found on page 201 of document Spec(69)64.
21. Referring to the different import régimes, one member of the Committee asked the representative of Spain to supply figures showing the percentage of trade effected under the free list, the global quotas and the individual licensing régimes. The representative of Spain said that some 70-75 per cent of total Spanish imports were brought in under the free list. He assured the Committee that trade under discretionary licensing was a very small part of total imports.

22. With regard to State trading, it was noted that this applied to agricultural products which made up a large proportion of total imports. It was recalled that this trade was to be transferred eventually to private firms and it was asked whether any plans existed for the transfer to be effected in the future. The representative of Spain said that the trend was to move away from State trading towards private trade. When imports subject to State trading were transferred to private trade, regulating duties were charged on the products concerned.

23. Several members of the Committee noted with satisfaction Spain's termination of two bilateral payments agreements - with Mauritania, Yugoslavia and China - and urged Spain to follow the International Monetary Fund's recommendation to terminate as many as possible of the remaining bilateral payments agreements with Fund members. In support of this, members of the Committee urged that Spain generally reduce its reliance on bilateral trade. The representative of Spain said that much progress had been made in this field; he recalled that not long ago almost all of Spain's trade had been carried on under bilateral agreements. Many of the remaining agreements were of long standing; and some of the more recent ones were different in nature and had been entered into mainly with countries with which Spain had no diplomatic relations. He assured members of the Committee that it was his Government's policy to move towards the termination of bilateral payments agreements; and that Spain could no longer be considered a bilateral agreements oriented country. In reply to a question the representative of Spain explained that the protocol to the payments Agreement with the United Arab Republic provided for the settlement in six annual instalments of the accumulated debt of the United Arab Republic. One member of the Committee said that exporters from countries having a bilateral agreement with Spain appeared to be favoured in relation to exporters from non-bilateral agreements countries. The representative of Spain replied that the bilateral payments agreements did not provide in many cases for import quotas or even lists of products and therefore could not lead to discrimination in the treatment of imports from different sources.
24. Another member of the Committee referred to measures introduced by the Spanish Government on 27 July 1967 authorizing the suspension of imports for goods falling under thirty-four customs headings when "abnormal pricing" was suspected. The Order was not presently being enforced but it remained on the books and could go into action should the Government want to use it. Presumably the measure was aimed at providing a mechanism of protection against dumping. However, as "abnormal pricing" was not defined the Government could conceivably use the authority to suspend imports regardless of prices. The use of anti-dumping legislation would be more appropriate in such cases, as the term dumping had been more precisely defined in Article VI of the General Agreement, and in the Anti-Dumping Code. Asked whether the Government of Spain had any intention to repeal the Order in question, and if so, when, the representative of Spain said that his delegation had provided detailed explanations of the measure to the Committee on Trade in Industrial Products. He assured the Committee that his Government had no intention of making recourse to this measure, and was in fact examining the possibility of accepting the Anti-Dumping Code.

Conclusions

25. Members of the Committee took note of Spain's present balance-of-payments position and the prospects in the near future and welcomed the statement of the Spanish representative that the Government would take further steps in liberalizing imports as soon as the balance-of-payments position permitted. The Spanish authorities were urged: (a) to proceed with the gradual and progressive removal of the existing import restrictions for implementation at the earliest possible moment; (b) to enlarge the import quotas pending the removal of the restrictions; (c) to reduce the scope of its trade covered by bilateral agreements.

26. The representative of Spain expressed appreciation for the opportunity that had been offered by this consultation to exchange views on his country's import policies, and said that the views expressed by members of the Committee would be given careful consideration by the competent authorities in Spain.

1See Inventory of Non-Tariff Barriers, Item 596 (Spec(69)77).