DRAFT REPORT ON THE 1973 CONSULTATION WITH SPAIN

1. In accordance with its terms of reference, the Committee met on 18 June 1973 to conduct a consultation with Spain on its import restrictions. The Committee noted that the previous consultation with Spain had been held on 17 July 1970 (see BOP/R/47). The Committee had before it a basic document supplied by the Spanish authorities (BOP/134), a Background Paper supplied by the International Monetary Fund dated 3 May 1973, and the text of a decision by the Executive Board of the International Monetary Fund taken on 1 June 1973. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the IMF to consult with them in connexion with the consultation with Spain. Upon the invitation of the Committee, the representative of the Fund made a statement as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of 1 June 1973 taken at the conclusion of its most recent Article XIV consultation with Spain, and particularly to paragraphs 2 and 4 which read as follows:

"Since late 1971, the Spanish economy has expanded strongly. Following an increase in GNP in real terms of 7.5 per cent in 1972, output and employment continued to expand rapidly in early 1973. The rise in wages has in large part been offset by substantial productivity gains. However, the persistent upward pressure on prices is a cause for concern. Despite a sharp increase in imports, the current account of the balance of payments remained in considerable surplus in 1972 as a result of the continued rapid rise in exports of goods and services."
Taking into account a rising inflow of private long-term capital in recent years, the basic surplus rose to SDR 1.5 billion in 1972. Spain's international reserves more than doubled in the two-year period 1971-72 to SDR 4.6 billion.

The Fund welcomes the exchange rate decision taken by Spain in February 1973 and the easing of restrictions on imports and on capital outflows. The Fund believes that import liberalization should be pursued vigorously with a view to restoring relative price stability and achieving external balance. The Fund also welcomes the termination of a number of bilateral payments agreements, and the intention of the Spanish authorities to end the three remaining arrangements with Fund members at an early date.

The Fund believes that in view of Spain's balance of payments and reserve position, restrictions on imports can no longer be justified on balance-of-payments grounds.

Opening statement by the representative of Spain

3. The representative of Spain made an opening statement (the full text of which is reproduced in Annex I) in which he recalled that the last consultation with his country had been held in July 1970. Since then there had been a complete change in Spain's balance-of-payments situation which had moved from a heavy deficit position in 1969 to a considerable surplus. However, Spanish authorities were preoccupied with the persistent and growing trade deficit which, together with the potential cyclical variations of the other items in the balance of payments, could bring about a sudden change for the worse in the situation, as had been known to happen in the past. He also stressed that international economic relations were overshadowed by many uncertainties and that these factors taken together did not allow Spain to adopt a trade policy of a definite character, but rather encouraged it to pursue a prudent road. However, Spain had, since the beginning of 1972, taken measures towards trade liberalization. In the last months of 1972 the State had handed over to the private sector trade in products that amounted to some 5 per cent of total Spanish imports and had suspended
temporarily, in part or wholly, customs duties on more than 100 tariff items. Monetary readjustments in the past two years had resulted in the appreciation of the peseta by nearly 20 per cent vis-à-vis the dollar, and some 7 per cent in relation to Spain's principal trading partners. The representative of Spain then recalled briefly the developments of Spain's imports in the last decade and stressed the fact that their value had multiplied by nine, whereas exports had not followed at the same pace. As a result, the deficit on trade account had grown steadily in the past twelve years, moving from $57 million in 1960 to the considerable figure of $2,253 million in 1972. He concluded by stating that the measures applied by Spain under Article XVIII:B of the General Agreement did not have any unduly detrimental effects on imports and that his authorities were prepared in the future to continue moving towards further liberalization of trade as circumstances would permit.

4. The representative of Spain called for the Committee's understanding for the uncertainties attached to Spain's balance-of-payments situation - in particular for the volatile nature of its three main sources of receipts, namely tourism, workers' remittances from abroad, and foreign real estate investment in Spain. In the view of the Spanish authorities, these components of the balance of payments, which now accounted for the recent surplus position, together with the growing deficit on the trade account, constituted a threat of an important decline in Spain's monetary reserves. In response to a question in this connexion, the representative of the Fund pointed out that all relevant aspects of the Spanish balance-of-payments situation had been considered by the Executive Board when it took its decision on 1 June 1973.
5. The representative of Spain drew the Committee's attention to the numerous trade liberalization measures taken in 1972. These were detailed in the basic document BOP/134. Further similar measures were being taken in 1973. He explained that stability in the balance-of-payments situation would have to be achieved before full liberalization could be effected. In the meantime, the Spanish authorities had persistently shown their intent to achieve free trade by gradually liberalizing imports as conditions permitted.

Conclusions

6. The Committee noted the statement of the representative of Spain. The Committee noted that liberalization measures had been taken and welcomed them as the Fund had welcomed them in the Executive Board decision of 1 June 1973, and considered that the elimination of the remaining restrictions would be in Spain's own economic interest. One member of the Committee was particularly concerned with the maintenance of discriminatory restrictions contrary to Article XIII on 327 tariff items which affected his country's trade interests directly.

7. The Committee, having heard the determination of the Fund, and in particular the Fund's view that Spanish restrictions could no longer be justified on balance-of-payments grounds, recalled the provisions of Article XV:2 of the General Agreement, and concluded that GATT balance-of-payments provisions, under Articles XII or XVIII:B, were no longer applicable in the case of Spain. The Committee therefore invited the Spanish Government to reconsider its position and called for the removal of all remaining restrictions.