

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

DRAFT REPORT ON THE 1975 CONSULTATION WITH PORTUGAL - IMPORT SURCHARGES

1. On 2 June 1975 the Council was informed by the delegation of Portugal that a temporary surcharge on imports had been introduced on 31 May 1975 in Portugal to assist the deteriorating balance of payments, (see documents C/M/106 page 7 and L/4185). The Council decided to refer the matter for examination to the Committee on Balance-of-Payments Restrictions. The Committee held a preliminary examination of the Portuguese surcharge on 4 July 1975 and held the consultation on 28 July 1975. The Committee noted that this was the first consultation under the GATT's balance-of-payments provisions with Portugal.
2. The Committee had before it a basic document supplied by the Portuguese authorities (BOP/156 and Addenda 1 and 2), and a supplementary background paper supplied by the International Monetary Fund dated 9 July 1975. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (see BISD, Eighteenth Supplement, pages 52-53). 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 the consultation with Portugal. Upon the invitation of the Committee, the representative of the Fund made a statement as follows:

"The economy of Portugal has been subjected to considerable disturbances since early 1974 resulting from domestic as well as external developments. After growing at a rate of about 7.5 per cent per year during the period 1970-73, the rate of growth of real GDP fell sharply in 1974 when it is estimated to have been no more than about 2 per cent. The principal factors behind the slower growth were a stagnating volume in the exports of goods and services (including tourism) and a decline in fixed investment. On the other hand private consumption is estimated to have grown considerably in response to increases in the purchasing power of households.

"The rate of increase in consumer prices, which amounted to 13 per cent a year in 1972-73, almost doubled to 25 per cent in 1974. The rise in import prices and substantial increase in incomes, especially wages, which increased by about 35 per cent, were the major factors behind this development. As a result of internal economic changes which led to a low rate of growth of output, reduced emigration, and the return of soldiers and civilians from overseas territories, the rate of unemployment which amounted to 3 per cent of the active population at the end of 1974, is estimated to have increased to 8 to 10 per cent by mid-1975.

"Preliminary estimates indicate no real growth in total output in 1975. The rate of unemployment is expected to remain high while the rate of increase in prices may decline to perhaps 20 per cent.

"Portugal's balance of payments position worsened considerably during 1974. The trade deficit, which amounted to SDR 816 million in 1973, more than doubled to SDR 1,685 million in 1974 as exports increased by 28 per cent while imports rose by about 58 per cent. The growth of imports was in large part due to an increase in prices of over 40 per cent while the increase in

import volume continued unabated, sustained by a particularly strong increase in consumer goods imports. A major factor was the higher payments on account of net oil imports amounting to SDR 276 million. Although exports increased in value by about 28 per cent, it is estimated that largely on account of weakness in European markets and a sharp fall in exports to the Escudo Area, export volume fell somewhat. Net receipts on account of services declined sharply to SDR 55.6 million in 1974 from SDR 130.0 million in 1973 mainly because of a decline in tourism and tourist receipts. Net transfers which had risen by 18 per cent in 1973, increased at a much slower rate. This was due to a slower pace of emigration and some uncertainty on the part of emigrant workers. The current account of the balance of payments, for the first time in many years, registered a substantial deficit amounting to SDR 713.4 million. This compared to a current account surplus of SDR 191.8 million in 1973 or a turnaround of SDR 905.2 million. The overall balance of payments moved from a surplus to a substantial deficit; gross official international reserves declined from SDR 2.35 billion at the end of 1973 to SDR 1.9 billion at the end of 1974 or to the equivalent of about six to seven months' imports in that year.

"Only partial data are available regarding balance-of-payments developments in 1975. While the balance of payments is expected to deteriorate for 1975 as a whole, the probable outcome is difficult to forecast with any degree of precision at the present time because of a number of uncertainties including the effect of the import surcharge and other measures and the possibility of favorable repercussions from an economic recovery in Western Europe on Portugal's exports, tourist receipts and emigrant transfers. Reserves continued to decline in 1975 and as of 30 April they stood at SDR 1.8 billion.

"In an effort to stem the continuing sharp deterioration in the balance of payments and, in particular, to check the rapid growth of imports, the Government, on May 31st introduced an import surcharge effective until December 31, 1975. It is estimated that the surcharge will affect about 45 per cent of imports with the 30 per cent rate applying to around 10 per cent of imports and the 20 per cent rate to approximately 35 per cent of total imports. Imports considered essential are exempted. The surcharge is being applied in a nondiscriminatory manner and certain goods included in the surcharge lists (such as imports incorporated into export products and imports that benefit from exemptions under existing laws) may nevertheless be exempted by the Minister of Finance.

"The imposition of the import surcharge which, as mentioned above is effective until December 31, 1975, should assist in slowing the sharp and continuing deterioration in Portugal's foreign exchange reserve position and thereby provide time for the authorities to formulate alternative economic policy measures consistent with the Rome Communiqué, including monetary and fiscal measures, designed to bring about an improvement in the balance of payments of the country."

Opening statement by the representative of Portugal

4. In his opening statement, the text of which is annexed to this report the representative of Portugal described the general features of the Portuguese economic situation which had led his authorities to impose an import surcharge. Important changes had occurred in the Portuguese economy in the last year and

and these had coincided with the international economic recession. Portugal was suffering from a decline in its economic growth accompanied by an increase in unemployment and in inflation compared with 1973. There had been a shift in the use of resources from investment and exports to private and public consumption. As a result the balance of payments had shown a sharp deterioration changing from an overall surplus in 1973 of \$330 million to a deficit in 1974 of \$630 million. Several factors had contributed to this deterioration; the price of imports had increased with regard to foodstuffs and to petroleum and petroleum products, which alone accounted for as much as 30 per cent of the swing in the balance of payments. Portuguese exports and receipts from tourism had declined; exports in volume decreased some 2 per cent in 1974 and the level of emigrants' remittances had fallen. Portuguese exports to its former colonies had declined by some 6 per cent in value (20 per cent in the case of Mozambique). Meantime the internal inflation was beginning to affect the competitiveness of Portuguese exports. As a result of this the total deficit in Portugal's balance of payments represented in 1974 6 per cent of GNP, and the deficit in the balance of trade represented 16 per cent. Foreign exchange reserves had fallen by 20 per cent and by the end of 1974 made up only six months' imports. The deterioration of the balance of payments had continued in 1975. An overall deficit of \$1.2 billion was expected for 1975 representing some 10 per cent of total GNP.

5. Such a severe imbalance called for solutions to finance the deficit; Portugal still had some \$1.7 billion in foreign exchange reserves if its gold were valued at \$42.22 per ounce, but of this amount only \$550 million were in convertible currencies, the rest being in gold which was difficult to mobilize in the short term. By the end of 1975 total foreign exchange reserves, including gold and existing credit arrangements, would represent only two to three months of imports.

6. For these reasons the Portuguese Government had decided to introduce an import surcharge of 20 per cent, which affected 36 per cent of total imports, and a surcharge of 30 per cent which affected some 9 per cent of total imports. However a significant number of exemptions and refunds were to be expected. Judging by the receipts collected in the month of June 1975 and the first twenty-five days of July it was forecast that the receipts expected from the collection of the surcharge would represent about 30 per cent of the annual value of customs duties; as a consequence of the surcharge imports were expected to be reduced in volume by 2.5 per cent.

7. The Portuguese authorities had also taken other measures to assist its balance-of-payments problems. Since 1974 restrictive monetary conditions prevailed in the Portuguese economy; the growth in the money supply had been sharply reduced so that the Portuguese economy was now suffering a liquidity problem. Other selective measures had also been introduced in 1974, such as stricter regulations for hire-purchase credit and enlarging the area of selectivity for preferential credit and preferential rediscount by the Central Bank. With regard to fiscal policy, although there had been some increase in tax rates in 1974 (mainly the sales tax and income tax) the budget for 1975 was expected to show a deficit of \$600 million against a \$360 million deficit in 1974, mainly due to a sharp increase in investment expenditure. However it was felt that this deficit was not excessive in the light of the present economic situation. With regard to income policy, after an important increase in wages in 1974 the Government had introduced some restraint by freezing, until the end of the year, wages over Esc 12,000 per month and by fixing a maximum national wage at Esc 48,900. More detailed measures were expected to be taken shortly in the field

of income policy. An energy restraint programme had been introduced in 1974 and consisted mainly of sharp increases in the price of petrol. However so far this measure had not produced significant effects as the importation in volume of crude oil had increased in the first five months of 1975. More stringent measures were in preparation in this field.

8. Other measures to deal with the medium term problems of the Portuguese economy were now in preparation in the framework of an economic plan which was expected to be finished by the end of 1975. It was an economic plan for three years ranging from 1976-1978.

9. The representative of Portugal concluded by stating that the Portuguese economy was undergoing a process of change at a time of international economic recession and that all these factors together had created important difficulties which, in his authorities view, justified the introduction of the import surcharge. In the medium term the Portuguese Government felt that a change in structure of Portugal's foreign trade was necessary as a complement to the transformation of the Portuguese economy and its development.

I. Balance-of-payments position and prospects and alternative measures to restore equilibrium

10. The Committee recognized the seriousness of the economic situation in Portugal and particularly of the balance-of-payments situation and agreed that corrective action was now called for. All figures indicated that the economic situation that had prevailed in 1973 had undergone a severe deterioration in 1974 and 1975. While it was clear that Portugal would need co-operative help from other countries to find solutions to the short and medium term problems it faced, such help would have to be based on a realistic assessment of the situation and would be affected by the trend of Portugal's new economic policy. In this context one member of the Committee requested more details on very recent economic indicators such as the

current effective rate of unemployment, industrial production figures, overall balance-of-payments figures and details on invisibles and transfers etc. The representative of Portugal said that very recent figures were not available. There were no industrial production figures yet for 1974, let alone 1975. There were no national accounts rendered yet for 1974, only estimates. The more recent figures showed unemployment to be at 250,000 which would be some 8 per cent of the total labour force. There were no precise figures concerning tourism for 1975 but the number of hotel nights which served as an indirect indicator, showed a decline in the first six months of 1975 of some 30 per cent compared to the same period in 1974. There had been a decline in remittances from emigrant workers in February, March and April of 1975 although a small increase had taken place in May, June and July; so that for the period January-July 1975, the remittances from workers abroad remained practically stagnant compared to the same period for 1974.

11. The Committee expressed interest in the new economic plan which was in preparation for 1976-1978 and questions were asked concerning the trend and details of this plan. The representative of Portugal explained that the plan was in preparation and was not expected to be ready until the end of 1975; therefore it was difficult to give details at this stage of what it would contain. It would be appreciated that while there were no technical difficulties in formulating new economic policies, the political changes in Portugal delayed the adoption of a definite policy at this stage. However, some general lines of economic policy could be expected to remain, for instance in the areas of monetary, fiscal, and incomes policy as described in his opening statement. The Committee generally felt that the definition of a new economic policy would play a crucial rôle in the development of the short and medium term economic problems of Portugal. It was hoped that this policy would respect the trade interests of Portugal's trading partners.

12. It was noted that the import surcharge of 20 and 30 per cent was a temporary measure in force until 31 December 1975, and that it was applied on a non-discriminatory basis. It was asked whether alternative measures had been considered and whether replacement measures would be envisaged. The representative of Portugal explained that the other measures envisaged were not considered appropriate. Prior import deposits for instance would have been difficult to apply in view of the liquidity shortage in the banking area. Furthermore, the introduction of prior deposit requirements would most probably have reduced imports even more, and unpredictably. Quantitative restrictions had been considered administratively too burdensome. It was not considered the right moment for a change in the value of the Escudo since the negative effect e.g. on domestic prices could outweigh favourable effects due inter alia to rigid price elasticities that are usual in developing countries. Therefore the surcharge had been retained as the least harmful measure and the one that would have the more rapid effects on imports. The measure had been taken on a temporary basis and would be in force until the end of 1975, which should provide sufficient time to study the situation and find remedy for the medium term problems.
13. It was asked whether other alternatives had been considered such as drawing on international credit institutions; specifically it was asked whether Portugal had plans to make use of Fund resources. It was also asked why the Portuguese authorities felt that it would be difficult to mobilise their gold reserves in the short run. The representative of Portugal said that the Government's policy had not yet been defined concerning the revaluation of its gold reserves.

It was of course always possible to obtain loans on the basis of the gold reserves. It was felt that in 1975 Portugal would be able to finance its deficit by using the rest of its convertible foreign exchange reserves and by drawing on some loans that it had already contracted on the international market. Thus a credit of \$250 million had been negotiated in 1974 with the Bank for International Settlements. So far only \$100 million of this credit had been used so that the balance could still be drawn on. Portugal had approached the Fund in connexion with a possible use of Fund resources and discussions would take place later in the year. Furthermore other stand-by credits with private banks had been arranged in 1975 for an amount of \$150 million over five years; this credit had not yet been used. The Committee noted that the duration of the surcharge, the formulation of the new triennial economic plan and the availability of loans from international credit institutions were linked in particular through the dates at which these various factors would come into play.

II. System, methods and effects of the restrictions

14. The Committee noted that the surcharge had been taken for balance-of-payments reasons, that it was a temporary measure, and that it was applied on a non-discriminatory basis. One member of the Committee felt that the rates of 20 and 30 per cent were high and it was asked whether the Portuguese authorities had any plans to reduce these rates and possibly phase out the surcharge gradually.

Some members of the Committee pointed out that their trade with Portugal was seriously affected. Questions were asked concerning the criteria used to classify goods in the 20 per cent category, in the 30 per cent category or as exemptions. The representative of Portugal explained that goods subject to surcharges included consumer goods, intermediate goods and capital goods. The 30 per cent surcharge was applied only to consumer and intermediate goods used by industries

producing non-essential or luxury products. Some consumer goods considered more essential and not produced in Portugal were subject to the 20 per cent surcharge. Intermediate and equipment goods subject to the 20 per cent surcharge were considered unnecessary in the sense that either they were used in the production of non-essential goods or they could be replaced by internal production. The principal concern in adopting these criteria was to bring about a change in the pattern of consumption in Portugal while not restricting imports which were relatively essential to the country.

15. The surcharge was applied on the value of the goods as defined in the Convention on Value of the Customs Cooperation Council, i.e. normally on the invoice value.

16. A clarification was asked of Article 4 of the Decree (L/4185, page 3) which provided that "the surcharges is levied on goods not yet cleared from customs, even if the duties have already been paid or in respect of which a bond has been deposited." The representative of Portugal explained that this concerned the way the surcharge was levied. It was at present under study as it needed to be aligned to Article 10 of the Tariff Law of Portugal (reproduced in Annex II).

17. In reply to questions concerning exemptions from the surcharge and Article 5 of the Decree the representative of Portugal explained that all goods which were subject to exemptions of one sort or another under specific legislation and the notes to the articles of the Portuguese Tariff might benefit from exemptions from the surcharge. That legislation provided for exemptions of duty for a wide range of goods to be used by industry, such as industrial plants, raw materials, goods for the steel mills, railways, television, radio etc. The broad criteria for exemptions was essential to Portuguese production.

18. Some members of the Committee expressed the hope that the Portuguese authorities would give special consideration to difficult cases with regard to the imposition of the surcharge. In their view such difficult cases included firm contracts already entered into, goods specially manufactured for the Portuguese market, manufacture completed or partly completed, alternative market impossible to find, or possibly only at an uneconomic price, serious liquidity problems for the manufacturer, goods already in transit, and import licence already held.

19. In reply to questions concerning the expected effects of the surcharge the representative of Portugal said that while it was too early to measure the effects it was expected it would bring about a reduction of some 2.5 per cent of imports in 1975 (in volume).

Conclusion

1. The Committee noted that Portugal invoked the applicable balance-of-payments provisions of the GATT, in the light of relevant precedents, to justify the application of its import surcharge.

2. The Committee also noted that the import surcharge was temporary, until 31 December 1975, and that in its application it conformed to the criteria laid down in the relevant Articles of the General Agreement on import restrictions for balance-of-payments purposes.

3. The Committee welcomed Portugal's early notification of the surcharge, and expressed understanding for the serious economic situation prevailing in Portugal. It hoped that an early removal of the surcharge would be possible and that alternative economic policy measures would take into account the interest of Portugal's trading partners.