

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Spain
(Spec(82)6)

1. Introducing his country's submission, the representative of Spain said that after the civil war in 1939 Spain was left with obsolete industrial structures. Recovery was very difficult during World War II and also after the war Spain did not benefit from any of the international assistance plans. As a consequence the Spanish economy remained a closed one until 1959 when an economic stabilization plan was initiated. The Spanish economy enjoyed a very positive development in the 1960's and early 1970's. By 1970 it had achieved a rather high degree of industrialization. The first oil crisis in 1973, however, brought a serious setback and slowed down this development. The Spanish economy was heavily dependent on crude oil imports and as a consequence serious current account problems emerged hand in hand with growing unemployment. The second oil crisis in 1979 which coincided with significant changes in Spain's political and social structure led to even more severe imbalances in the country's economy. Domestic and foreign demand stagnated which in turn created serious difficulties for a great number of enterprises. In 1982 over 2 million people were unemployed representing 16 per cent of the labour force.

2. In this grave situation the normal market mechanisms were not sufficient to cope with the requirements for adjustment and government intervention was considered necessary to bring about the necessary changes in the economic sectors finding themselves in difficulties. Belatedly, a legal framework was adopted in 1980 and 1981 in the form of Royal Decrees concerning the reconversion of electrical household appliances, special steels, textiles, the integrated iron and steel sector, and in the form of Law 21 of 9 June 1982 for the industrial sector in general. Law 21 expired at the end of 1982 but it was likely that this year a new bill would be introduced in parliament containing new directives for industrial restructuring.

3. The basic objectives of Spanish adjustment policy were to make, within a free market economy, Spanish firms internationally competitive. This should be achieved by modernization of their production facilities and not by an increase of their production capacity. The legal rules referred to constituted a framework for general action and were based on concertation between management and workers with a view to arriving at agreement on the preparation of a plan for re-habilitating their sector, and were of a temporary and exceptional character in view of the sacrifices which reconversion meant for all economic agents.

4. The new restructuring law was not aimed at restricting imports as most measures foreseen were of a labour or fiscal nature. Trade measures were taken only in the integrated iron and steel sector; they related exclusively to production arrangements among the three integrated iron and steel enterprises in Spain and to the establishment of the ECSC pricing system for iron and steel products in order to achieve greater transparency in connection with the fixing of prices for those products.

5. The Spanish delegation provided extensive information on structural adjustment in the agricultural sector which is contained in Spec(82)6, Suppl.2.

6. One member of the Working Party noted that it had been three years since Spain last had added items to its liberalized list. He wanted to know what percentage of Spain's total imports and imports of consumer goods respectively were not liberalized and what the average tariff level was in these categories. The representative of Spain replied that 97.6 per cent of industrial goods were liberalized and that only 2.4 per cent were subject to quotas. The average tariff level applicable to imports of industrial goods from the EEC was 8.1 per cent. For third countries the level was about 9 to 9.5 per cent owing to the fact that these countries did not benefit from the reductions negotiated as a result of the bilateral agreement of 1970, the first step of Spain's accession to the EEC.

7. The same member enquired whether Spain proposed to make permanent the temporary tariff reductions made in 1977 and extended quarterly thereafter. He was furthermore interested to know what percentage of Spanish imports was affected by these temporary reductions. The representative of Spain stated in response that the temporary and conjunctural tariff reductions initiated in 1978 were adopted as a means of combating the escalation of prices as an anti-inflationary instrument. As the conditions and circumstances which gave rise to the adoption of that measure had continued, the reductions had been extended, and in future it was intended, after the necessary legislative changes were enacted, to lengthen the period of validity of the measure from three months to one year. The conjunctural reductions affected all imports into Spain, excluding, of course, goods whose import was already duty-free.

8. The same member wanted to know on what basis different sectors were selected for inclusion in the industrial reconversion plan. In his reply the representative of Spain stated that a pragmatic approach was used, depending on the situation of each sector and consistent with the provisions of Articles 1 and 2 of Royal Decree 9 of 5 June 1981, which constituted the legal basis. Article 1 of that Decree stated that in those industrial sectors of general interest which were experiencing crisis situations of special gravity, the government, upon recommendation of the Ministries of Finance, Labour, Health and Social Security, Industry and Energy, and Economy and Trade, might exceptionally apply, by Royal Decree, reconversion measures among those contained in this Royal Decree-Law. Article 2 stated that measures should be applied following preparations and negotiation of a reconversion plan between employer's associations, the trade-union organization most representative of the sector and the competent organs of the administration.

9. Another member of the Working Party enquired whether reconversion plans mentioned on page 42 of the Spanish submission included subsidies that affected trade. In response the representative of Spain pointed out that the Royal Decree Law 9 of 1981 stated in its preamble that the fiscal measures contained benefits both for the reconversion companies which might have been formed for the purposes of the present provision and for enterprises which had recourse to the process of industrial reconversion. The general purpose of the fiscal benefits established was to permit greater flexibility in the use of arrangements and the legal acts necessary for reconversion, without the need for proceeding in accordance with general legislation, thus adopting a realistic approach to the problem. Provision had also been made for the possibility of establishing a special régime for the postponement of payment, and for payment in instalments, of taxes owed prior to 1 March 1981. There was provision for subsidies for technological research, for credits for amortization of machinery and acquisition of new equipment, and for aid for early retirement and compensation for termination of worker's employment. These measures did, however, not affect foreign trade.

10. In reply to a question from the same member whether there was provision for extension of the reconversion plans over the initially foreseen five years the representative of Spain said that Law 21/1982 ceased to be valid on 31 December 1982 and that the submission to parliament of a new law regulating and promoting structural adjustment was pending.

11. The same member asked for information about the commercial policy measures mentioned in the Spanish submission and in particular whether other than tariff measures were used as protective devices in the iron and steel sector. The representative of Spain replied that Royal Decree 878 of 8 May 1981 which dealt with the reconversion measures for the integrated iron and steel sector, stated in its preamble that the reconversion plan for the integrated iron and steel industry sought to achieve, as its basic objectives, the financial rehabilitation of the enterprises concerned, the reduction of the share of wage costs in invoicing to the levels registered by European iron and steel industries and the development of programmes that reduced unit operating costs and improved the return on other costs through a commercial policy similar to that of the ECSC. The commercial policy measures in question were dealt with in articles 9 and 10 of the Royal Decree. Article 9 stated that the ECSC pricing system was established for iron and steel raw materials and products. The Ministries of Industry and Energy and of Economy and Trade should regulate, by ministerial order, the conditions of its application. Article 10 stated that a recommendation should be made annually to the Ministry of Industry and Energy, through the Integrated Iron and Steel Co-ordinating Commission concerning production levels and the exchange of semi-products among the three integrated iron and steel enterprises. Such recommendation should be based on certain criteria, e.g. maximum utilization of production capacities for supplying the domestic market, including the enterprises' own needs for balancing their production processes. The Spanish representative furthermore pointed out that all items in the steel sector had been liberalized and protection was granted only through tariffs which had been cut on a temporary basis. Import quotas had been requested by the industries concerned but consent for their establishment had not been given because of Spain's policy of fulfilling the

obligations contracted under the General Agreement. Provision was made for reducing tariffs to facilitate the importation of the capital goods needed to carry out the restructuring of the sectors. The reduction amounted to 95 per cent and thus imports had not only not been restricted but had been promoted.

12. Another member of the Working Party was interested to know how employment by sectors such as textiles, agriculture, steel and electronics had changed as a percentage of the total active workforce. The representative of Spain stated that as regards changes in the active agricultural workforce, the question was answered in the Spanish statement on agriculture. There existed no separate data for the "electronics manufacturing" sector, which was included in the global "electrical machinery" sector. Figures for that global sector would not at all be representative of changes in the active workforce employed in the electronics sector. In the textiles sector, the figures were 2.25 per cent for 1970, 2.19 per cent for 1975 and 2.18 per cent for 1979. For the steel sector, the figures were 0.51 per cent for 1970, 0.56 per cent for 1975 and 0.55 per cent for 1982.

13. The same member asked how exports and imports by these sectors had changed as a percentage of total exports and imports respectively. The representative of Spain provided statistical data which are annexed to this report.

14. The same member enquired whether measures had been taken to promote adjustment in the agricultural sector, or alternatively, whether measures had been taken which had hindered such adjustment. The representative of Spain replied that significant steps had been taken to facilitate imports of various agricultural products, either by eliminating non-tariff barriers, e.g. by liberalizing all cocoa products contained in BTN Chapter 18 of the Customs Tariff, or by binding a considerable number of agricultural product headings in the context of the Tokyo Round, as could be seen from Schedule XLV. There might be doubt only concerning the import régime for the fishery products covered by BTN Chapter 3 of the Customs Tariff. That régime, which was communicated to the GATT more than a year ago and distributed in document L/5293, was not at all connected with the need for structural adjustment; it was rather the result of a certain sudden change in conditions of the utilization of maritime spaces, conditions that arose for reasons not sought by Spain, which continued to have a highly efficient fishing industry.

15. Another member of the Working Party wanted to know whether the food security concept had any importance in the agricultural policy of Spain, and in connection with the 1979 plan on agriculture production, what the criteria were for distributing funds under that plan. He was also interested in the mechanisms of government intervention in agricultural production. As to trade flows he enquired about the reasons for changes in the Spanish export patterns. The representative of Spain stated that the Ministry of Fisheries and Foodstuff was particularly concerned with food security questions. As to the 1979 legislation on agricultural production he explained that the basic criteria in this sector had changed since then. The present policy was to link up livestock to arable farming and to try to diminish the dependence on imports. The government's efforts were

directed, by means of a price support mechanism, to achieve more stability in food production and to avoid surpluses. As to changes in trade flows and export patterns he said that these reflected an adaptation process in consumer taste and demand in the countries buying the Spanish products.

ANNEX I

Reply to a question referred to in paragraph 13 above of the report.

IMPORTS

<u>Sector</u>	<u>BTN Chapter or Heading</u>	<u>1966</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Agriculture	Chapters 1 to 24	22.17	16.04	16.83	12.85
Textiles	Chapters 50 to 63	6.14	4.16	3.06	2.53
Steel	Chapter 73	7.84	9.65	6.72	4.43
Electronics	85.14, 85.15, 85.17) 85.19 and 85.21)	2.34	1.84	1.83	2.36

EXPORTS

<u>Sector</u>	<u>BTN Chapter or Heading</u>	<u>1966</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Agriculture	Chapters 1 to 24	47.42	35.98	22.79	18.46
Textiles	Chapters 50 to 63	5.87	5.20	5.09	4.91
Steel	Chapter 73	1.45	3.71	9.01	11.89
Electronics	85.14, 85.15, 85.17) 85.19 and 85.21)	0.37	0.85	0.87	0.83

IMPORTS ('000 pesetas)

	<u>1966</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Agriculture	43,315,039	53,331,820	156,864,155	314,950,886
Textiles	12,007,516	13,838,292	28,524,272	62,120,461
Steel	15,326,402	32,085,390	62,625,443	108,640,461
Electronics	4,507,309	6,126,889	17,088,228	58,060,828
Total	195,340,230	332,300,276	931,985,971	2,450,563,007

EXPORTS ('000 pesetas)

Agriculture	33,585,016	60,122,906	100,550,060	275,725,550
Textiles	4,163,840	8,703,701	22,481,519	73,348,807
Steel	1,030,660	6,210,364	39,746,609	177,665,754
Electronics	265,972	1,424,463	3,874,732	12,390,312
Total	70,823,893	167,086,593	441,091,236	1,493,186,648