REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH TURKEY AND EXAMINATION OF THE TURKISH STAMP DUTY

1. In their Decision of 30 January 1973, extending the Turkish Stamp Duty waiver, the CONTRACTING PARTIES expressed the desirability of having the request for a further extension of the waiver examined in the Committee on Balance-of-Payments Restrictions in the context of the 1973 consultation with Turkey. The Committee has examined the measure in conjunction with the regular consultation with Turkey on its balance-of-payments import restrictions, which took place on 1 and 2 May 1973. Part I of the present report summarizes the main points on the discussion in the course of the regular consultation. Part II sets forth the Committee's views concerning the Stamp Duty, together with a draft decision attached.

2. The Committee had before it a basic document supplied by the Turkish authorities (BOP/129, Adds.1-4.), and a Supplementary Background Paper on Recent Economic Developments supplied by the International Monetary Fund dated 3 April 1973. It generally followed the plan for such consultations (see BISD, 18th Supplement, pages 52-53).

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 both with the regular consultation with Turkey and with regard to the Stamp Duty. The representative of the Fund made a statement concerning the position of Turkey as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the supplementary background information on Recent Economic Developments dated April 3, 1973.

"Turkey had a substantial basic surplus in her balance of payments in each year during 1970-72 and a cumulative surplus of about US$700 million during this period. This favorable outcome rested mainly on two developments: a remarkably sharp growth in workers' remittances and the buoyancy of commodity exports. These developments in turn were due primarily to the comprehensive exchange reform of 1970 and to favorable external factors, including particularly the sustained high level of employment in Western Europe and the realignment of exchange rates among the major currencies. The growth in receipts was accompanied by large increases in imports, which in 1972 were in U.S. dollars terms nearly twice the level of 1969 and 33 per cent greater than in 1971. The trade deficit rose steadily and was US$678 million in 1972; however, the current account strengthened and was in virtual balance in 1972. International reserves climbed sharply, growing in 1972 by US$640 million, in part due to a large inflow under..."
the convertible lira accounts (sight and time deposits arising largely from Euro-money borrowings by Turkish enterprises). Even after adjusting for the convertible lira account liabilities of US$464 million, reserves at the end of 1972 stood at US$937 million or equal to about 7 months' imports; without such an adjustment, they equalled about 11 months' imports.

"The large increase in imports in 1972 reflected buoyant economic activity and rising prices but also a more liberal administration of the restrictive system. The rate of price increase abated somewhat in 1972 but still was about 15 per cent and a further improvement in this respect remains an objective of high priority. A favorable development in 1972 was a notable improvement in the fiscal performance as the budget moved from a large deficit in 1971 to near balance in 1972. A further strengthening of the fiscal position is important for containing inflation and thereby creating conditions more conducive to the achievement of the sharply increased investment goals of the Third Five-Year Plan.

"Turkey's Third Five-Year Plan seeks to effect a major restructuring of the economy designed to raise living standards while reducing unemployment, both open and disguised. A steady and substantial liberalization of the external trade and payments system would contribute to a better allocation of resources and help in the achievement of greater price stability. The Government reviewed the restrictive system at the beginning of 1973 and adopted certain liberalization measures. However, given the continuing strength of the basic balance of payments and the comfortable level of reserves, further liberalization measures are feasible and should be introduced. Given the importance of improving the fiscal position and achieving greater price stability, a temporary continuation of the stamp duty may be warranted. In view of this consideration, liberalization measures may be directed towards other features of the restrictive system such as increasing the scope of Liberalized List I and thereby assuring a progressive increase in the share of imports under that list in total imports. It is hoped, however, that the Turkish authorities will soon be in a position to phase out the stamp duty and to replace it with other fiscal revenue measures."

I. CONSULTATION ON IMPORT RESTRICTIONS

Opening statement by the representative of Turkey

4. The representative of Turkey made an opening statement, the full text of which is reproduced in Annex I, in which he explained the relationship between the Turkish import programme and Turkey's Five-Year Development Plan. He also explained the methods used in controlling imports and supplied details on the types of goods affected by the various measures. In particular, he stressed the fact that commodities affected by restrictions were primarily consumer goods. He went on to describe his authorities' efforts to move towards liberalization of imports.
while keeping within the limits of external payments possibilities. The rate of the Stamp Duty had been lowered and was at present 9 and 9.5 per cent for all contracting parties. Following the 1970 devaluation, a prompt payment system for importers' application was introduced in order to meet foreign exchange application without delay. Customs duties, mainly on investment goods and raw materials had been reduced, in some cases to zero; and in view of various exemptions granted as tax incentives for investment promotion, one third of total imports were virtually duty free. Consular formalities had been abolished in 1973, and the rates of advance guarantee deposits had been reduced. He analyzed several aspects of the balance-of-payments situation of Turkey, and in particular of the current account which was expected to continue to show a deficit until the end of the Third Development Plan ending 1977. In concluding, he stated that the ultimate objective of the Third Five-Year Plan was to achieve self-sustained growth and development with stability. He also stated that complete liberalization of trade was an important objective but would have to be achieved in gradual stages.

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

5. Members of the Committee thanked the Turkish delegation for the comprehensive information given in the basic document and in the statement. It was asked whether details on the balance-of-payments situation were available for the first months of 1973, in particular with regard to the level of reserves and the share of these reserves attributable to convertible TL accounts; and within the convertible TL accounts, how much was held by foreign banks and other international investors, and how much attributable to Turkish workers' remittances from abroad.

6. The representative of Turkey recalled that as recently as 1969 Turkish reserves had been very low, and that the improvement had started after the 1970 devaluation of the TL, and was helped by loans granted by members of the Turkish Consortium and drawings on the IMF, as well as the growth of foreign workers' remittances and export proceeds. Also, there had been a change in 1969 in the accounting system for foreign reserves. At the time convertible TL accounts were encouraged in order to attract funds for investment. By the end of 1972 these funds had grown from zero to $465 million, creating excess money supply in the economy, and hence distorting prices. Gross reserves at the end of 1972 were of the order of $1,312 million. Latest data indicated reserves as of 14 April 1973 of $1,615 million, which reflected inter alia the effects of the February currency realignments. Of this, $488 million were convertible TL accounts; the part attributable to workers' remittances was negligible, in the order of $20 million. He added that new regulations had been introduced and that convertible TL accounts would now only be accepted for investment purposes on a two- to three-year basis. Accounts not meeting these regulations would be refunded. These measures had been adopted to dampen the excess money supply thus created.

7. Balance-of-payments figures for the first three months of 1973 showed exports at $312 million ($50 million more than for the same period in 1972); imports at $463 million ($100 million more than for the same period in 1972); workers' remittances at $193 million (some $70 million more than for the same period in 1972); and finally tourism, with some $10 million.
8. In reply to a question on short- and medium-term forecasts for the current account and for the volume of workers' remittances, the representative of Turkey pointed out that the target for the Third Five-Year Plan was to achieve balance in the current account by the end of 1977. A reasonable forecast for imports for 1977 could be obtained by compounding adjusted 1972 import figures by 7.1 per cent per annum. The present trade deficit was more than compensated by workers' remittances and net income from tourism. Questions were asked about the forecasts for the volume of workers' remittances. Some members pointed out that the volume of workers' remittances had almost doubled in each year from 1969. They asked why the Turkish authorities forecast a drop in 1973 over adjusted 1972 and wondered whether in view of the extraordinary growth in this item, the Turkish authorities were being too pessimistic. The representative of Turkey replied that there was considerable uncertainty attached to the future level of workers' remittances, as these depended on a number of economic and social factors outside the control of the Turkish authorities. For this reason remittances were not to be considered as reliable a source of income as export receipts.

9. In reply to questions asked as to the effects of the February currency realignment on Turkey's trade expectations for 1973, the representative of Turkey explained that the 1973 Import Programme had been drawn up on the basis of 1971 prices, in terms of United States dollars. Since then the dollar had been devalued by 8 per cent and the Deutschmark and other major currencies had appreciated by some 3 to 4 per cent; for example, Turkish trade with the Federal Republic of Germany would have to be recalculated with upward adjustments made for imports in terms of United States dollars. On average, import figures as forecast in the Development Plan were expected to be adjusted by some 12 per cent for this reason. One estimate put final 1973 imports, after readjustment for the parity changes and other factors, at over $2,000 million.

10. The question was asked why a deficit of $55 million was expected in 1973 on inflows on convertible TL accounts, whereas this item of the balance of payments had shown a steady growth over the past two years. The representative of Turkey explained that this was expected to result in part from the new regulations introduced recently to discourage such accounts unless destined for investment.

11. Some members of the Committee pointed out that further reserve accumulation would create problems for domestic monetary management. In this context and noting that the IMF representative's statement had stressed the need to achieve price stability, members of the Committee asked what measures were being adopted to fight inflationary pressures and why no additional taxes were being envisaged. The representative of Turkey explained that all domestic taxable sources had been exhausted and that the present level of taxation in Turkey was over 18 per cent of GNP, which was high for a country at that stage of development. Increased revenue from taxes could only result now from a reform of the fiscal system and its administration. This was being envisaged, but the Committee could readily understand that any such reform was a long-term effort. As for the question concerning monetary management, the representative of Turkey stated that his Government had taken the following measures in 1972: (a) the rate of reserve
requirement had been increased from 20 per cent to 25 per cent; (b) a new policy had been adopted for the convertible TL accounts maintained with commercial banks; (c) an additional quota for private sector investment had been introduced and the import régime relaxed to the extent possible; (d) the 1972 budget had been balanced and a balanced budget was prepared for 1973.

12. In response to questions on the development of prices, the representative of Turkey explained that price levels in Turkey had grown alarmingly and were expected to rise by a further 8 to 10 per cent in 1973. Wholesale prices had risen faster than consumer prices, but the latter were expected to catch up in the course of the year. The Government had decided to set up a "National Wage-Price Committee" to co-ordinate the various measures which would be taken in this field.

13. Some members of the Committee commented on the importance their own authorities attached to trade liberalization measures as anti-inflationary tools. Some members pointed out that recently their governments had made tariff cuts which were expected to contribute toward price stability to deal with domestic inflation. The question was asked whether the Turkish Government was adopting measures in this field. The representative of Turkey said that his authorities were aware of the importance of trade liberalization as a means to fight inflation. He recalled that tariff rates had been lowered and about one third of imports were now entering the country duty free; also quota limits had been relaxed on a number of items.

14. One delegation asked whether quotas had been relaxed on producer goods or on consumer goods, which were more likely to have an impact on prices. The representative of Turkey said that quotas were relaxed very selectively and only if the product in question was in shortage. This had occurred for different foodstuffs, and larger imports had helped maintain prices at a more stable level. Noting that price normally balanced supply and demand, one delegation asked how the Turkish authorities determined the existence of a shortage requiring relaxation in quotas. The representative of Turkey replied that the supply and demand situation was determined on the basis of information supplied by various Government agencies and other market sources.

II. System and methods of restrictions

15. One delegation asked what was the percentage of 6-digit Turkish customs tariff item numbers (a) appearing in Liberalized List I (BOP/129/Add.1), (b) appearing in Liberalized List II (BOP/129/Add.2), (c) explicitly appearing in the List of Import Goods subject to allocation (i.e. covered by quota item numbers 1-423, 501 and 502 in BOP/129/Add.3). It was recognized that goods covered by other tariff item numbers could be imported, if they qualified for inclusion in one of the basket quotas (i.e. quota items 424-500 in BOP/129/Add.3). It was felt that this information would serve as a useful benchmark for future examination of the Turkish import control system. The representative of Turkey pointed out that while the exact information was not at hand, an indicative set of figures could be given. The Liberalized List I contained some 993 6-digit Turkish customs tariff item numbers, corresponding to some 40 per cent of total
items; List II contained some 375 items, corresponding to 15 per cent of total items; the List of Goods subject to Allocations contained some 423 items corresponding to over 16 per cent of total items. Total 6-digit Turkish customs tariff items amounted to 2,538, and those enumerated above amounted to 1,791 a little over 70 per cent of the total tariff. The Liberalized List consolidated to the European Communities had an additional thirteen items. The representative of Turkey added that the Turkish list of prohibited imports, such as weapons and certain drugs, appeared in the Tariff Law. These were legal under Articles XX and XXI of the General Agreement.

16. In reply to a question concerning the share of imports from the European Community, the representative of Turkey informed the Committee that imports from the EEC had amounted to $456 million in 1971 and $653 million in 1972, thus showing an increase of 43.2 per cent. Their share in total imports, which amounted to $1,171 million in 1971 and $1,563 million in 1972, were respectively 38.9 per cent and 41.7 per cent.

17. One delegation referred to the list of items, appearing on pages 18-22 of BOP/129, which had been transferred to the Liberalized Lists in 1973, and enquired what the total trade value of these commodities had amounted to in 1972. The representative of Turkey replied that the 120 new items transferred to Liberalized Lists in 1973, had had a trade value of $62.6 million in 1971; the estimated value for 1972 was of the order of $84 million. Taking into account the transfer of investment imports (mentioned in paragraph 14) from the Quota List to the Liberalized Lists in 1973, the total value of trade in goods transferred to Liberalized Lists was of the order of $200 to $250 million.

18. In reply to a question as to the average time needed to obtain import licences under the three categories of imports, the representative of Turkey stated that for goods in Liberalized List I, licences were processed daily and could be obtained in twenty-four hours; licences for goods in Liberalized List II, if recently placed on that List would require one or two days to be obtained; and licences for quota list goods, for which applications were accepted twice a year, could also be obtained in two days at the most.

19. In response to queries on import charges, the representative of Turkey gave the following explanations:

(a) Customs duty

He explained that the Turkish customs tariff was based on the Brussels Tariff Nomenclature. It contained twenty-one sections, ninety-nine chapters, and some 1,200 tariff divisions. These were sub-divided into sub-positions and statistical sub-positions, according to administrative statistical needs. The tariff consisted of three columns. The first, the legal rate; the second, the most-favoured-nation rate; and the third, the preferential tariff for the EEC.
Customs tariffs varied between 0–150 per cent ad valorem, and the arithmetic average of the rates was a little more than 20 per cent. However, exemptions granted under Law 474 reduced this average to some 12 per cent. Since 1964 customs duties had been calculated on an ad valorem basis. The valuation system was based on the Brussels standard of valuation, which was an integral part of the Turkish customs law.

(b) "Municipality share" (surcharge)

This was a tax which had existed in Turkey since 1933 and which was earmarked for municipalities. The rate was 15 per cent of the applicable customs duty. When Turkey acceded to the GATT in 1953 under the Torquay Protocol, this "surcharge" had already been in force for some twenty years and it should be considered that it was part of the negotiations, as the basis for this "surcharge" was the customs duty itself. This charge could be considered legal and fair from the point of view of the General Agreement, and particularly under the relevant provisions of Article II:2.

(c) Quay duty

The quay duty was a tax which had been in force since 1936. The rate, which was at the time 1 per cent, was raised to 2.5 per cent in 1957 and today was of the order of 5 per cent. The tax was levied to cover services rendered by port authorities, who were the sole beneficiaries. There was no flag discrimination involved in the application of the tax, and its rate was limited to the cost of services rendered. The tax was in conformity with the GATT - in particular with reference to paragraph 2(c) of Article II and 1(a) of Article VIII.

(d) Production tax

This tax had been in force since 1933. It underwent some modification in 1957, but the rates had remained unchanged. This tax, which was in conformity with the relevant provisions of Article II:2, had as its objective the affording of a measure of compensation to national products which were subject to a production tax during their manufacture. For example, the domestic production of the following products was taxed as follows: cement 12.5 per cent, copper 30 per cent, iron 20 per cent, rubber 30 per cent. For the similar products imported, the rates of production tax were as follows: cement 10 per cent, copper 25 per cent, iron 18 per cent, rubber 25 per cent.

20. The members of the Committee thanked the delegation of Turkey for the detailed information supplied. With reference to the surcharge, or municipal tax, it was pointed out that Schedule XXXVII - Turkey contained no mention of this charge. The representative of Turkey stated that the existence of the "surcharge" pre-dated Turkey's accession to GATT, that it was certainly known to the contracting parties at the time, even if not mentioned in Turkey's Schedule. He confirmed that the 15 per cent of the Municipality share was levied over and above the bound duty rates listed in Schedule XXXVII.
21. In reply to a question, the following example of the application of Turkish import taxes was given:

If the c.i.f. value of commodities (except petroleum) is LT 100, taxes would be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 per cent customs duty</td>
<td>20.0</td>
</tr>
<tr>
<td>15 per cent municipalities share on customs duty</td>
<td>3.0</td>
</tr>
<tr>
<td>Base of port tax</td>
<td>123.0</td>
</tr>
<tr>
<td>5 per cent port taxes</td>
<td>6.15</td>
</tr>
<tr>
<td>Base of production tax</td>
<td>129.15</td>
</tr>
<tr>
<td>18 per cent production tax</td>
<td>23.25</td>
</tr>
<tr>
<td>9 or 9.5 per cent stamp duty</td>
<td>9.00</td>
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<tr>
<td></td>
<td>9.50</td>
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<td></td>
<td>161.40</td>
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The incidence is therefore 61.4 per cent or 61.9 per cent.

As already explained in paragraph 19(a) above, however, incidence of total import taxes decreased with exemptions granted under Law 474, the reductions being of the following order: customs duties from 20 per cent to 12 per cent, municipalities share from 3 per cent to 1.8 per cent, production tax from 18 per cent to 11.2 per cent, stamp duty from 9.5 per cent (or 9 per cent) to 6.4 per cent, and port tax from 6.15 per cent to 5.7 per cent.

The incidence of total import tax had dropped from 61.4 per cent (or 61.9 per cent) to 37.1 per cent. These figures applied only to goods imported by sea. Imports other than by sea were not subject to the port tax. Therefore the incidence of total import tax for 1972 had been 33.7 per cent.

22. It was asked what criteria were used to allocate goods between Liberalized List I or List II, and why the rates of prior import deposits mentioned on page 4 of BOP/129 were higher for List I items. The representative of Turkey explained that goods placed in List II were subject to the relevant Ministries' control as to quality and real requirement on the domestic market. Items in List II were usually more technically complex, such as pharmaceutical products, and prior approval by the relevant Ministry was required in order to ensure that importation of these items responded to a justifiable demand. The higher rate of prior deposit for List I goods was designed to avoid speculative importation. The import deposit requirement was applied without discrimination as to source of supply.
23. Asked how the quality control of imports was enforced through the licensing system, the representative of Turkey stated that quality control for the Liberalized List No. II was made by the competent Ministries which were already equipped with the necessary information and were also authorized to make further investigation if the existing information in their files was not enough.

24. Referring to the provisions of the General Agreement as regards balance-of-payments restrictions, several delegations raised the question of the elements of discrimination in the administration of quantitative restrictions in Turkey. It was recalled that this subject had been discussed at the Working Party on the Agreement of Association between the EEC and Turkey (Additional Protocol) and that the report of that Working Party (L/3750) recorded divergent views on the subject. Several delegations reiterated their statements made at the time and urged the Turkish authorities to remove all elements of discrimination. The other views, expressed in the Working Party's report, were also reiterated. The representative of Turkey, while reserving his authorities' legal position, stated that his Government was prepared to examine with great care all representations made to it on this question. Some delegations noted with appreciation that the Turkish authorities had moved in 1973 to substantially reduce the degree of this discrimination.

25. The question was asked whether domestic manufacture of any item in List II precluded its importation. The representative of Turkey explained that customs tariff items in List II included some products manufactured in Turkey: when these were judged to be of adequate quality, no import licence was granted for the foreign product. This was left to the judgement of the relevant Ministry, based on carefully collected information. There was no similar control for goods in List I.

II. STAMP DUTY

Statement by the representative of Turkey

26. The representative of Turkey made a separate statement, the full text of which is reproduced in Annex II. He explained that the principal aims of the Stamp Duty were to reduce the pressure on the balance of payments; to contribute to the financing of the Third Development Plans; and to help maintain internal price stability. Ir regard to the balance-of-payments aspect, he stressed that although it was the policy of the Turkish Government to strive for a continuing relaxation of import restrictions, with a view to complete liberalization, it was nevertheless necessary to act with caution and due deliberation. Regarding the internal revenue aspect of the problem, he drew the Committee's attention to the fact that his authorities had decided to carry out a complete reform of the taxation system and to eventually substitute the present Turnover Tax by a Value-Added Tax. At that time the Stamp Duty would be abolished. However, he pointed out that such a fundamental change in the taxation system would require a lengthy transitional period for its realization. Lastly, the Stamp Duty contributed to price stability by syphoning off excess purchasing power and so
containing inflationary pressures. In view of the above explanations, the representative of Turkey asked the Committee to recommend that the current waiver be extended for an additional period of five years.

27. Members of the Committee commended the Turkish authorities for the elimination of the discriminatory elements in the application of the Stamp Duty. In reply to a question, the representative of Turkey confirmed that the Stamp Duty would continue in the future to be applied on a uniform basis to all contracting parties. The reductions in the rate of the Stamp Duty, in 1976, provided for in the Agreement of Association with the European Community (Additional Protocol) would be extended to all the other contracting parties.

28. Some members of the Committee referred to the statement made by the representative of the IMF concerning the Stamp Duty, and noted that the Stamp Duty contributed only a small part to Government revenue. Furthermore, one member recalled that, according to the Turkish authorities, the Stamp Duty had no price effect on imports. The representative of the IMF explained that it was the Fund's view that, given the importance at present of achieving greater price stability in Turkey, a temporary continuation of the Stamp Duty could be warranted. The Stamp Duty could not be considered as an anti-inflationary measure per se; however, in a period when greater price stability had such a high priority, its removal would make the task of combating inflation more difficult. He recalled that the Stamp Duty was a not insignificant source of revenue for the Turkish Government; were that revenue to be eliminated the Government might have to rely on deficit financing by borrowing from the Central Bank. This alternative could well create further inflationary pressures. He drew attention to that part of his statement which called for liberalization of imports in other ways as desirable measures in the context of Turkey's present situation.

III. CONCLUSIONS

(a) Balance-of-payments consultation

29. While taking note of the statement by the representative of Turkey that the Turkish Government did not consider workers' remittances as reliable a source of income as export receipts, the members of the Committee welcomed the continuous improvement over the past three years in the Turkish balance-of-payments situation, and noted with satisfaction the strength of the basic balance and the comfortable level of reserves at the end of 1972, and the generally good prospects for the future. They also commended the Turkish authorities for efforts made towards the removal of restrictions, in particular the addition of a number of import items to Liberalized List I, the reduction of certain tariff duties and of the rates of prior import deposits, and the reduction in the rate of the Stamp Duty. In view of the comfortable level of reserves and favourable balance-of-payments situation, several members of the Committee invited the Turkish authorities to undertake more substantial liberalization of their quantitative restrictions.
They pointed out that such liberalization could be advantageous as an additional tool for combating inflation and would allow Turkish producers to prepare themselves for international competition. They expressed the hope that the Turkish authorities would strive toward complete liberalization. Some members of the Committee also hoped that the rates of the prior import deposit would be further reduced. Other members of the Committee expressed the hope that the situation would be such as to allow the Turkish authorities to achieve at an early date further progress towards liberalization.

30. While welcoming the non-discriminatory application of the Stamp Duty and the significant reduction in the degree of discrimination in the application of other liberalization measures, several members of the Committee invited the Turkish authorities to remove the remaining discriminatory elements in the application of quantitative restrictions. Finally, the Turkish authorities were urged to review their procedures with a view to their further simplification.

(b) Stamp Duty

31. The members of the Committee noted that the purpose of the Stamp Duty was primarily, at present, to raise revenue destined to finance the Development Plan. They also noted the view expressed by the representative of the IMF that, given the importance of improving the fiscal position of Turkey and of achieving greater price stability, a temporary continuation of the Stamp Duty could be warranted. While the Stamp Duty was not considered to be necessary to protect the Turkish balance-of-payments situation or its level of reserves, the members of the Committee were sympathetic to the explanation given by the Turkish delegation that time was needed to undertake the necessary fiscal reforms, such as the introduction of a value-added tax system which would lead to the elimination of the Stamp Duty. In view of these considerations, the members of the Committee agreed to recommend to the CONTRACTING PARTIES to grant a waiver for the application of the Stamp Duty, according to terms contained in the draft decision attached in Annex III.
ANNEX I

OPENING STATEMENT BY THE REPRESENTATIVE OF TURKEY

1. Introduction

The expansionist economic policy which had been initiated in 1950 was based on a liberal system of imports, the objectives being to increase investment and accelerate the rate of growth of the then stagnating economy.

The policy was, at the outset, a successful one. It had the essentially positive effect of linking the Turkish economy more closely with the outside world as a result of the establishment of many industries using imported raw materials and the realization of investments requiring a high volume of capital imports.

However, the development of exports failed to keep pace with the growing volume of imports, and the situation came to a head in the late fifties when the servicing of the foreign debt presented difficult problems and severe inflationary pressure was felt.

The Turkish authorities then embarked - with the assistance of the IMF and OEEC - on a firm stabilization programme which, among other measures, included certain restrictions designed to maintain the increase in imports at a level commensurate with external payment possibilities.

The measures - known as the August 1958 measures - introduced the import régime which is, basically, in effect today. Although quantitative restrictions were introduced to preclude an excessive rise in imports, as soon as the situation was stabilized the Turkish authorities were able to enlarge the scope of the list of commodities which remained liberalized and this policy has been followed ever since.

Foreign trade will be an important factor in the development of the country. A long-term foreign trade policy has therefore to be defined and implemented. In the past, with the exception of a few years, the long-term trend of Turkish foreign trade was characterized by the fact that it did not increase parallel to the increase in national income. Hence, its effect was to restrict rather than to encourage economic development. In other words, one of the main structural impediments to economic growth in the past was the fact that the foreign trade sector - or, to use a more general concept, the balance-of-payments operation - could not keep step with the general economic development.
In order to break the vicious circle of under-development in a feasible optimal and consistent manner, Turkey is planning its economy. Therefore, imports are regulated in such a way as to allow the attainment of targets set on a macro economic basis. As a result of this basic methodology, the country's needs of imported goods have been satisfied to an ever-increasing degree.

In these circumstances, the basic objective of the Turkish import programme is to assure the stable importation of the capital goods, raw materials and consumer goods needed for the orderly and timely implementation of Turkey's Five-Year Development Plans. Within the limits set by external payment possibilities, this programme attempts to increase import liberalization and complete liberalization remains the ultimate objective.

2. Methods used in restricting imports

In order to realize the objectives outlined in the introduction, since August 1958 imports have been effected in accordance with annual programmes.

The application of import programmes is explained in detail in the basic document B0F/129, pages 4 to 6. As may be seen from this explanation, imports are effected under an import programme which is planned to cover a whole calendar year. The import programme consists of three lists:

(a) the liberalized lists; (Annexes I, II and IV of the basic document);

(b) the list of products subject to foreign exchange allocation (or global quota list), Annex III of the basic document.

The import programme is prepared by the Ministry of Commerce. However, in preparing the programme, this Ministry consults extensively with the State Planning Organization, the Ministry of Finance and the Central Bank and other interested Ministries on the one hand, and with the Union of Chambers of Commerce and Industry on the other, to determine the requirements of the private and public sectors.

On the basis of these consultations and its own research and investigation, the Ministry of Commerce publishes the lists in January for a whole year. However, in order to give more flexibility to the system, the Ministry of Commerce is authorized to adapt it to changing circumstances within the context of the annual programme. In order to prevent unfair exploitation of consumers, and to preclude
any monopolization of trade in certain commodities, the Ministry of Commerce is authorized to satisfy integrally all applications made for a specific quota included in the list of import goods subject to foreign exchange allocation.

For imports in these lists, settlement is made in convertible currency.

In addition to the goods appearing in the liberalization lists and the global quota list, commodities included in the lists appended to the bilateral agreements can also be imported in accordance with the terms of these bilateral agreements. However, the commodities in the bilateral quotas are all items which are included in either the liberalized or the quota list.

Imports are made on the basis of permits issued by the Central Bank to persons or bodies qualifying for them. These are, in principle:

- Registered importers
- Industrialists
- Public sector

Payment for imports may be against a letter of credit, documents or goods. Settlement for imports of production the liberalization lists or effected through AID funds must be made exclusively against a letter of credit.

In every case, the equivalent in Turkish liras of the foreign exchange applied for must be deposited in advance in a commercial bank for eventual transfer to the Central Bank.

For all imports, except imports with waiver (without foreign exchange allocation), there is the additional requirement of a guarantee deposit.

Import applications in respect of products in liberalization lists I and II are made to the authorized commercial banks without any limitation. For items on liberalization list No. II prior permit from certain authorities is required for quality control purposes.

An import deposit in cash of 50 per cent for list I and 20 per cent for list II is required at the time of application. There is no discrimination as regards products included in the list which is consolidated for EEC countries. In other words, the deposit requirements for imports from EEC countries are applied also to imports from other countries.
Import applications for commodities subject to allocation must be made to the authorized commercial banks in February and in July. Separate applications are made for each quota and a guarantee of 20 per cent for importers' quotas and 5 per cent for industrialists' quotas must be deposited at that time.

The deposit for chemical fertilizers, breeding animals, ammonium, and private sector investments is 1 per cent. This guarantee is deposited through authorized banks with the Central Bank and blocked until the importation has been realized.

As a general policy, imports from EM and convertible currency countries are effected under yearly liberalization lists and the global quota list. Imports from bilateral agreement countries are effected in accordance with the particular agreement concerned.

3. Treatment of imports from different sources, including information on the use of bilateral agreements

With regard to convertible currency countries, products included in the liberalization lists or under global quota are imported without discrimination as to origin.

With regard to bilateral agreement countries, importation takes place in accordance with the terms of the relevant agreement and on the basis of the bilateral quotas appended thereto.

Imports can be classified in two main categories, namely normal imports and imports of surplus commodities pursuant to United States Public Law 480.

Normal imports include (a) imports from the free-exchange area; (b) imports from bilateral agreement countries. Imports according to source and categories are shown in the table, page 7, of the basic document.

As may be seen from this table, 93.5 per cent of imports in 1972 were from the free-exchange area, 6.5 per cent from bilateral agreement countries. The latter percentage was 14 in 1968 and 10 in 1971.

There is no discrimination in the contents of quota lists related to these countries. As a basic principle of the foreign trade régime, the quota lists of bilateral agreement countries do not include commodities which are not covered by other import lists. All restrictive measures and conditions included in other import lists are also applicable to imports from the bilateral agreement countries.

As may be seen again in the same table, liberalized imports in 1972 exceeded the 1966 level by 141.6 per cent, whereas during the same period programmed imports increased by 101.9 per cent and total imports by 117.5 per cent.
The percentage of liberalized imports within total yearly imports and programme imports from free-exchange areas are shown separately in the table on page 8, of the basic document.

Regardless of the source of imports, GATT members are treated equally, except in cases falling within the framework of the Association between Turkey and the EEC, which are authorized by Article XXIV of the General Agreement.

(a) Imports from the free-exchange area can be subdivided as follows:

(i) Liberalized list imports

These imports are effected without quantitative restrictions. The commodities are those which are indispensable in keeping the economy running. They are thus mostly raw materials required as inputs for domestic industry, spare parts and various components which are not manufactured locally. The main aim is to facilitate the existing domestic industry, agriculture, transport and other economic activities to operate as closely as possible to full capacity.

It should be noted that the importation of certain commodities both in the liberalization lists, annexes II and IV, and the global quota list are subject to the approval by our authorities - usually the competent Ministry. However, this approval is in the nature of quality control rather than a restriction. For instance, animals imported for breeding purposes, seeds, raw materials for insecticides and fertilizers are subject to the approval of the Ministry of Agriculture, and basic materials for the pharmaceutical industry require the approval of the Ministry of Health. Such approval by the Ministry is not meant to restrict the volume, but only to ascertain the quality of the commodity imported and to ensure its utilization for the purpose for which it was imported.

Another objective is to develop export-oriented industries as rapidly as possible. Therefore, investment goods for such industries are also included in the liberalization lists.

(ii) Global quota imports

These imports are limited to the values indicated in the quotas. Moreover, no single importer can be allocated more than 50 per cent of the total quota. However, as indicated above, the Ministry of Commerce is authorized to increase the allocation in order to prevent unfair exploitation of consumers and to eliminate any monopolization of trade in certain commodities depending on the market situation, or may satisfy integrally all applications made for a specific quota included in the list of import goods subject to allocation.
(iii) Private direct investment imports

These are imports relating to approved investment projects by foreign investors. They constitute the investment-in-kind portion of foreign capital investment. Practically all such investments are carried out pursuant to the Law for the promotion of Foreign Capital Investment, and the amended Petroleum Law which provide very liberal conditions for foreign entrepreneurs.

(iv) NATO infrastructure imports

These imports relate to common infrastructure projects which are carried out by NATO.

(v) Project credit imports

These are imports of commodities relating to projects which are being financed through project credits obtained from the Turkish Consortium, international financial institutions or other sources.

(vi) Imports without exchange allocation

These are imports by Turkish residents returning from abroad. They include imports by Turkish workers of machinery and equipment related to their occupation up to a value of LT 20,000, imports by immigrants, and imports of personal effects by residents and Turkish nationals having spent at least one year abroad.

(b) Imports from bilateral agreement countries

At the present time, Turkey has bilateral trade and payments agreements with seven countries. These are Albania, Bulgaria, Czechoslovakia, German Democratic Republic (concluded between the Chambers of Commerce of the two countries), Poland, USSR and the Arab Republic of Egypt. Trade with Yugoslavia, Hungary and Romania is under the free-exchange payment system.

As already indicated, the goods to be imported from these countries are indicated in the bilateral quotas appended to the agreement. Bilateral quota items appear in either the liberalized or the global list. In each case, the agreement includes a specified swing limit.

(c) Imports of surplus commodities

Imports of surplus commodities pursuant to United States Public Law 480, which played a significant rôle in the late fifties and in the seventies when Turkey had a deficit in soft wheat, have declined over the last year.
(d) Distribution of imports

If we now consider the geographical origin of Turkish imports, the following percentages apply.

Slightly over 75 per cent of Turkish imports are from OECD countries. The changes over the past few years have been rather minor, increasing from 75.5 per cent in 1967 to 77 per cent in 1970.

Within the OECD group there have been certain modifications: the share of the EEC countries has increased significantly, from 36.8 per cent to 41.7 per cent of total imports in 1968 and 1972 respectively. Imports from EFTA countries have remained almost unchanged. Conversely, the share of the dollar area has declined from 16.9 per cent to 13.2 per cent. The share of bilateral agreement countries has also decreased significantly and is now around 6.5 per cent.

4. Commodities, or groups of commodities, affected by the various forms of import restrictions

In view of the importance of proper allocation of the resources available, the Turkish authorities are, obviously, obliged to establish a list of priorities in accordance with the Five-Year Plan and the annual programmes. In this order of priorities, as already indicated, raw materials and spare parts come in first place, closely followed by investment goods. Since the introduction of the Five-Year Plan, the share of consumer goods has almost remained unchanged. As may be seen in the table on page 9 of the basic document, it has fallen below 5 per cent of total imports.

The commodities affected by restrictions are, thus, first of all consumer goods.

5. State trading, or Government monopoly, used as a measure to restrict imports for balance-of-payments reasons

Most of our foreign trade is effected through the private sector, and even in cases where the purchaser of the commodity is the Government or a State economic enterprise, the actual import is, in most cases, effected by the private sector - usually by the representative or agent of the foreign exporting firm. Even in cases where the country of origin is a bilateral-agreement country, the exporting organizations in these countries are represented in Turkey by private Turkish importing firms. In certain exceptional cases Government agencies or State economic enterprises importing commodities for their own use may deal directly with the exporting firms abroad for practical considerations. Consequently, it can be stated that State trading is not used in Turkey to restrict imports for balance-of-payments reasons.
The importation of a relatively minor number of commodities is under monopoly for health or social reasons. These include items such as manufactured and unmanufactured tobacco, beverages with a high alcohol content, tea and salt.

6. Measures taken since the last consultation in relaxing or otherwise modifying import restrictions

In order to provide a firm basis for further development, on 10 August 1970 the Government of Turkey decided to change the parity of the Turkish lira. The overall impact of the devaluation on the balance of payments has been fairly strong over the past two years. Much of the increased receipts have been used to increase imports as the administration of the foreign trade régime has become increasingly liberal, although this has worsened the trade balance. As already stated, the ultimate goal of the Turkish Government is complete liberalization of imports. Together with the devaluation, a real liberalization list has been set up and efforts have been made to shift commodities from the global quota list to the liberalization lists since then. To illustrate the results, may I draw your attention to the table on page 8 of BOP/129.

Liberalized imports have increased in value from US$293 million in 1966 to US$708 million in 1972. The percentage-wise increase is 141.6 per cent, whereas programme imports show an increase of about 101.9 per cent and total imports 117.5 per cent for the same period.

I should like to state once again that the Turkish authorities are aware of the importance of liberalization especially for purposes of regulating the market and precluding excessive monopolistic or oligopolistic profit margins of domestic producers, and thereby domestic producers must be forced to adjust their prices to the more competitive world prices. Of course, further liberalization is bound to be in accordance with annual programmes and the availability of external payment possibilities.

As you may recall, the rate of stamp duty was lowered to 10 per cent at the time of devaluation. With effect from 1 January 1973, the rates of stamp duty applied to imports from the territories of all contracting parties are 9 and 9.5 per cent. Customs duties on several commodities, mainly investment goods and raw materials, have been reduced under Law 474. The Government can apply a zero rate for commodities imported for projects approved by the Ministry of Industry and Technology. In the case of zero rates all equivalent duties and taxes are suspended. Due to various exemptions granted as tax incentives for investment promotion, one third of total imports is almost duty-free. In other words, our customs duties have been lowered by 33 per cent on a non-reciprocal basis for all contracting parties to GATT.
Consular formalities have been abolished since February 1973.

In addition, advance guarantee deposits have also been reduced. At the time of devaluation, importers had to pay advance guarantee deposits at the rate of 90 per cent for items on a liberalization list and 120 per cent for items on the global quota list. Now, these deposits are 50 per cent for liberalization list No. I, 20 per cent for liberalization list No. II, and 20 per cent for the global quota list for importers and 5 per cent for industrialists.

Moreover, the most important of all the above-mentioned relaxation measures is designed to eliminate delays in the allocation of foreign exchange and the restoration of a prompt payment system. Consequently, all import applications have been met and confidence in the economy has been established. Therefore, as may be seen in the table on page 11 of BOP/129, effective imports have exceeded the annual programme targets.

Now, I would like to give some more detailed information on the balance-of-payments items.

As already indicated, import restrictions are maintained in Turkey for balance-of-payments reasons and to break the vicious circle of under-development in a feasible optimal and consistent manner. Therefore, imports are regulated in such a way as to allow the attainment of economic plan targets set forth on a macro-economic basis. As a result of the determined effort to accelerate growth, demand for imports is very strong and is constantly growing.

The table on page 7 of document BOP/129 clearly shows the rising trend of imports.

Conversely, the development of exports has failed to keep pace with the increase in import. The result has been a constantly growing trade deficit.

Invisible receipts have improved considerably, particularly as a result of the substantial increase in remittances by Turkish workers abroad. However, total invisible receipts have not reached a level sufficient to offset the trade gap. Even in 1972 the total figure of exports and invisibles together was US$1,525 million while the total value of imports was US$1,563 million.

The servicing of Turkey's external debt, which is a relatively high one, also exercises great pressure on the balance of payments. It should be noted that something between one fourth and one fifth of total export receipts must be devoted to foreign debt payments.
If we consider the balance-of-payments table attached to document BOP/129, the following remarks can be made.

**Current account**

(a) **Foreign trade**

(i) **Total imports (c.i.f.)**

Imports have shown a constantly rising trend, moving from US$718 million in 1966 to US$1,563 million in 1972.

The annual average rate of increase in imports since 1966 has been 19.7 per cent. This rate of increase is one of the highest in the world. Between 1964 and 1970, for a six-year period, the world-wide annual average rate of increase in import was 8.1 per cent. The corresponding rate for developing countries was 4.3 per cent. In 1972 the increase in Turkey's imports was almost double that for 1969 and 33 per cent above the 1971 level. For these years the actual imports were higher than the annual programme targets.

(ii) **Total exports (f.o.b.)**

While imports have thus exceeded estimates, exports have not performed in a parable manner. However, the annual average rate of increase in exports since 1966 has been 8.1 per cent. This rate is the same as that of developed countries (8 per cent) and higher than that of developing countries (4.7 per cent). Indeed, while we note a slow but steady increase in 1966 and 1967, there was a decline of 5 per cent in 1968. Lower exports of tobacco were the principal reason for this decline. But exports rallied after the devaluation and showed a significant increase in 1970, 1971 and 1972.

Commodity exports as well as imports recorded unprecedented growth in the two years following the devaluation; exports in 1972 were 50 per cent above their 1970 level.

In the past, primary commodities accounted for more than 80 per cent of Turkey's exports, the balance being divided between processed agricultural products and manufactures. There is some evidence that these relative shares have begun to change over the last two years. The three principal export commodities, namely cotton, tobacco and hazelnuts, continue to be the principal foreign exchange earners among commodity exports, jointly realizing approximately US$440 million in 1972; however, their share in total exports dropped from about 58 per cent in 1970 to 50 per cent in 1972. The share of manufactures has risen from about 10 per cent of total exports in 1970 to 22.2 per cent in 1971 and 27.9 per cent in 1972; in particular textile exports recorded a notable increase - from US$26 million in 1970 to US$37.5 million in 1971 and about US$50 million in 1972.
The Turkish authorities have made great efforts over the past years to modify the structure and commodity composition of exports, since traditional Turkish export commodities are basically semi-luxury goods with an inelastic demand, and the terms of trade have continued, on the average.

The Turkish authorities have addressed themselves vigorously to this fundamental problem of export promotion. A number of commodities with high export potential have been selected, and a variety of incentives have been introduced. The main specific measure is the scheme of tax rebates to exporters. This measure has been designed to increase the competitiveness of Turkish manufactures and to encourage the development of new export commodities. Each variety of commodity benefits from a different rate of rebate, depending upon the taxes, charges and fees embodied in the production cost of such commodities and the possibility of granting provisional refunds to completely new export commodities until the final classification is made gives added flexibility to the system.

Another export incentive measure concerns credit facilities for exporters. This measure consists of exempting exporters from payment of transaction taxes, stamp taxes and other levies and fees. Moreover, credit granted in connexion with exports to the convertible currency area has a lower rate of interest. In addition, certain other measures have been introduced to meet the financing requirements of exporters, particularly those in the field of marketing, market research and packaging.

In spite of these incentives, the increase in exports is not expected to keep pace with the increase in imports over the present Development Plan Period. The implementation of the development plan targets will necessitate an increasing volume of imports and the trade deficit will continue to increase during the Third Five-Year Plan period ending 1977.

(b) Invisible

(i) Interest

Interest payments are expected to increase gradually - as can be seen from the balance-of-payments table which is attached to document BOP/129 - in line with the increase in consortium credits granted.

(ii) Tourism and travel

Tourism is a sector which is expected to become an important foreign exchange earner over the Third Five-Year Plan period. Income from tourism has increased from a net negative US$14 million in 1966 and in 1967 to a positive US$42 million in 1972 and this must be considered a significant jump.
With large investments by the public sector in infrastructural facilities and substantial investments by the private sector in accommodation, foreign exchange receipts are expected to increase significantly over the next few years. The present credit policy with regard to the tourism sector is designed to encourage this trend.

(iii) Workers' remittances

Remittances by Turkish workers abroad constitute a positive and the second biggest item in the Turkish balance of payments, reaching a level of US$740 million in 1972, US$269 million over 1971.

Due to an increase in workers' remittances and tourism receipts, the net total invisible items showed a surplus of US$640 million in 1972. But the surplus was not enough to cover the foreign trade deficit and, therefore, current account continued to show a deficit balance.

Capital transactions

Total capital inflow in 1972 from various sources amounted to US$392 million of which US$222 million from project credits, US$72 million from programme credits, US$43 million from private foreign capital, US$39 million, from imports without foreign exchange allocation and US$16 million from grants.

Principal repayments, excluding $135 million early repayments to the IMF, amounted to US$127 million. As a result, capital transactions showed a surplus of US$265 million in 1972.

Foreign exchange reserves

The considerable increase in workers' remittances, export earnings and tourism receipts have resulted in improvements in foreign exchange reserves. These stood at a level of US$1,313 million as of 30 December 1972.

The rise in reserves was also supported by an inflow of funds from abroad into the convertible lira accounts with commercial banks. At the end of 1972 the amount of these funds was about US$465 million. After deducting this short-term and reduced interest fund, our foreign exchange reserves stand at US$848 million.
CONCLUSION

In recent years the Turkish economy has achieved a very satisfactory growth rate. During the second Five-Year Development Plan (1968-1972) gross national product rose from LT 110 billion to LT 215 billion and grew in real terms at an average rate of 7.2 per cent per annum. The third Five-Year Development Plan started to be implemented in 1973 and the highest priority has been given to industrialization. The Plan envisages to achieve equilibrium in the balance of current account by the end of the Plan period in 1977. Growth in stability remains an important objective.

Complete liberalization is our ultimate goal and we will continue our efforts to gradually relax our restrictions and liberalize by stages.

It should, however, be remembered that Turkey is on the path of development, striving to achieve self-sustaining growth against difficult odds, and that the economic policies should be judged in this context.

I hope that the next item on our agenda will be taken up in this spirit.
Since 1963 Turkey has been continuing its development efforts within the framework of Five-Year Plans. These Plans are designed to achieve the country's rapid economic and social development in a climate of stability, drawing on all resources and possibilities, including foreign trade, in the most useful and productive way.

As we have stated on earlier occasions in this Committee and in the Working Party, during the discussions of waivers concerning the application of a stamp duty by Turkey, ever since the stamp duty was introduced it has formed part of a spectrum of economic and financial measures taken within the framework of efforts to attain the objectives of the development Plans.

The purpose of these measures was and still is:

- to relieve pressure on the balance of payments;
- to meet the financial requirements of the Plans;
- lastly, to maintain stability of internal prices.

I should like first to comment briefly on the place and the role of the stamp duty in the general context of these measures.

As regards the balance-of-payments situation, my delegation has presented the relevant information here today, in its introductory statement and in replying to questions and remarks. In addition, my delegation has clearly explained Turkey's foreign trade policy. In passing I should like to underline once more that, as in the past, Turkey will continue to do its best to ensure import liberalization, taking full account of the improvement in the balance of payments. It should be noted in this connexion that Turkey, as a developing country with a market economy which has opted for planned development, cannot completely revise its foreign trade régime as and when conjunctural changes occur in the balance-of-payments situation. Furthermore, having regard to the spirit and the letter of the General Agreement (Articles XII and XVIII and Part IV), one cannot regard and examine in the same light the balance of payments of a developed country and that of a developing country, and consequently one cannot draw similar conclusions.
As regards the financing of the development Plans, revenue from the stamp duty is expected to reach the level of LT 12,000 million during the implementation of the Third Five-Year Plan.

The problem is the following: either to abolish the stamp duty while finding other ways and sources for obtaining this revenue; or to continue to apply the stamp duty. There are two possible ways of obtaining additional revenue: either by ceasing to apply Law No. 474, or by stepping up internal taxes.

I should like to comment briefly on these two possibilities.

First of all, as indicated in document BOP/129, Turkey's imports are effected on the basis of priorities, having regard to the requirements of the development Plans and the annual programmes set up under the Plans. First priority is given to raw materials and spare parts needed to keep existing industries operating; next come equipment goods for new investments. Having regard to this order of priorities, the share of consumer goods in overall imports is relatively smaller than that of other product groups. Law No. 474 plays an important part in the context of this selective policy designed to orient imports in accordance with priorities. Under the provisions of that Law, duties and import charges may be reduced or removed on goods imported for investment purposes in priority sectors.

No doubt the operation of this Law has reduced by approximately one third the revenue from customs duties and import charges. As you will see from Table 1 annexed hereto, as a result of the measures taken during the second Five-Year Plan covering the period 1967/72, the incidence of customs duties and stamp duty has decreased from 23.7 and 10.7 per cent to 11.2 and 6.4 per cent respectively.

It should be noted, however, that in the context of its efforts to promote industrialization Turkey cannot forego applying this Law in order to offset any loss of revenue resulting from abolition of the stamp duty. Furthermore, it is quite clear that the Law is much more conducive to increasing imports than abolition of the stamp duty could be. In addition, as may be seen from the table on page 10 of document BOP/129, our imports increased from $685 million to $1,563 million during the period covered by the second Five-Year Plan, representing a rate of increase of 127 per cent; it is therefore difficult to affirm that, among other measures, the stamp duty has had a restrictive effect.

Secondly, one must consider whether internal taxes can be increased in order to obtain the LT 12,000 million yielded by the stamp duty.
In recent years, and in particular from 1969 to 1972, Turkey has made great efforts to mobilize public resources. As may be seen from Table 2 annexed hereto, the statistics for the past nine years (1964-1972) indicate that the overall tax burden in relation to GNP has increased from 12.3 per cent to 18.4 per cent, representing an annual rate of increase of 11 per cent. Over the same period, in contrast with this substantial increase and as a result of the application of Law No. 474, the incidence of duties and charges on imports has risen only from 3.5 to 3.7 per cent - an annual rate of increase of 0.05 per cent. Furthermore, since the elasticity rate at present considered normal in respect of tax revenue in relation to GNP is 1.2 per cent, in the case of Turkey this rate is considerably higher, being of the order of 1.3 per cent. Yet the elasticity rate for revenue from import duties in relation to GNP is 1.03 per cent. The elasticity of the latter is therefore less than that of overall tax revenue.

It should be noted that in the developing countries, where the agricultural sector is not yet fully monetarized and organized, the tax burden is felt mainly by the industrial sector. Indeed, in Turkey's industrial sector the incidence of taxes in relation to GNP is 33 per cent. This proportion, which is similar to that of industrial countries, constitutes a very heavy burden for a developing country like mine.

This fact has been recognized by foreign experts. Professor Shoup, a UNDP consultant who was invited to Turkey in an advisory capacity in connexion with the reform of the tax system, noted that over the short term there were no more resources in Turkey that could be taxed. Another fact which he noted is that so many taxes have been imposed in Turkey that if they could all be collected in full, there might be a deflationary effect. After having made these findings, Professor Shoup advised us to re-organize and reform the tax administration and even to abolish certain taxes at present applied.

As members of the Committee will recognize, administrative re-organization is one of the major problems of developing countries and it cannot be achieved from one day to the next. We are making continuing efforts to achieve this objective.

In addition, in order to increase tax revenue and reform the system, our authorities are carrying out studies and drawing up plans with a view to moving from the turnover tax to the value-added tax. It is a well-known fact, however, that this transition takes a number of years, even in the developed countries.

Lastly, as regards the maintenance of stability of internal prices, the stamp duty plays a specific rôle in the context of measures to counter inflationary pressures. As I have tried to explain, the stamp duty is one of the essential resources for financing the Plans. Since there is still a short fall between public expenditure and tax revenue, without the revenue derived from the stamp duty Turkey would be obliged to resort to inflationary means or to slow down its development. The stamp duty yielded LT 1,075 million for the budget in 1970, LT 1,118 million in 1971, LT 1,292 million in 1972 and the estimate for 1973 is LT 1,580 million.
As I have mentioned, the loss of revenue from the stamp duty will undoubtedly generate inflationary pressures that will inevitably affect overall import demand in such a way that, in order to avoid a shortage of foreign exchange reserves, the Turkish Government will once more find itself obliged to check import liberalization. Now, as my delegation has explained today, the Turkish Government still has sufficient reason to be very cautious as regards the maintenance of a reasonable level of convertible reserves. Turkey is fully aware that inordinate accumulation of foreign exchange reserves can generate inflationary pressures. In that event, my Government would give first priority to liberalization measures designed to reduce non-tariff barriers, in order to be able to increase imports in accordance with priorities under the Development Plan.

Those are the reasons why my Government has been led to extend the application of the stamp duty until the end of the third of the five-year plan on 31 December 1977. Accordingly, I am instructed to request, under Article XXV:5 of the General Agreement, an extension of the waiver granted on 4 August 1969 having regard to the circumstances currently prevailing.

Before concluding my statement, I should like briefly to mention certain aspects of the stamp duty.

First of all, the Turkish Government considers that having regard to the need to finance the Five-Year Plan, to continue the development process in a climate of economic stability and to keep imports at a level commensurate with the objectives of the Plans and in accordance with import priorities, the stamp duty constitutes for a market economy the most appropriate and the least restrictive measure and one that does not seriously affect the volume of foreign trade.

Secondly, as indicated in document L/3819, after having made the necessary amendments to the Law concerning stamp duty on imports, with effect from 1 January 1973 the Turkish Government applies the same rates of stamp duty to imports from the territories of all contracting parties to the General Agreement.

Thirdly, the stamp duty is not designed to protect domestic industry or production, nor does it have such an effect.

Fourthly, as a result of the mechanism applied under the provisions of Law No. 474, the effective incidence of the stamp duty is much lower than the rate authorized by GATT and fixed by the Turkish Government. Indeed, as may be seen from Table 1 annexed hereto, the effective incidence of the duty for the year 1972 was 6.4 per cent.

No doubt this measure constitutes one of the means afforded under our policy for orienting imports in accordance with the needs and forecasts of the Development Plan. Nevertheless, if one takes into account the fact that equipment goods account for approximately half of our overall imports, one should allow that this mechanism increases our imports and furthermore indirectly constitutes a noteworthy concession for the benefit of contracting parties.
Lastly, in our experience the stamp duty does not cause any increase in prices of imported products, but rather has the effect of reducing the high profit margin on imports. Indeed, the statistics show that retail prices of imported goods have not been affected by changes in the rate of stamp duty since it was introduced.

Those briefly are the reasons why my Government is requesting an extension of the waiver concerning the application of the stamp duty and certain aspects of that duty. I hope that when our discussions are completed the members of the Committee will be favourably disposed towards our request.
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<tr>
<th>Year</th>
<th>Total imports</th>
<th>Customs duty</th>
<th>Incidence %</th>
<th>Stamp duty</th>
<th>Incidence %</th>
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Table 2
GROSS DOMESTIC PRODUCT; AGGREGATE REVENUE; REVENUE FROM IMPORT DUTIES AND CHARGES
(in current prices) (in LT million)

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<tr>
<th>Year</th>
<th>Gross national product</th>
<th>Aggregate revenue</th>
<th>Share of aggregate revenue %</th>
<th>Revenue from import duties and charges</th>
<th>Share of revenue from import duties and charges %</th>
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</tbody>
</table>
ANNEX III

DRAFT DECISION

TURKEY - STAMP DUTY

Considering that the CONTRACTING PARTIES, by decisions dated 20 July 1963\(^1\), 11 November 1967\(^2\), 24 August 1969\(^3\), and 30 January 1973\(^4\) waived, subject to specified terms and conditions, the provisions of paragraph 1 of Article II of the General Agreement to the extent necessary to allow the Government of Turkey to maintain as a temporary measure, the Stamp Duty not exceeding a specified ad valorem rate, on imports into Turkey of products included in Schedule XXXVII, until 31 May 1973;

Considering that the Government of Turkey has requested an extension of the waiver to permit the maintenance of the Stamp Duty until the end of the Third Five-Year Development Plan on 31 December 1977;

Considering that the Government of Turkey has applied, as from 1 January 1973, the same rates of Stamp Duty to imports from the territories of all contracting parties, and has undertaken to do so in the future;

Taking note of the view of the IMF that, given the importance under present circumstances of improving the fiscal position of Turkey and thereby contributing to the achievement of greater price stability, a temporary continuation of the Stamp Duty could be warranted;

Taking note of the statement made by the Government of Turkey that its objective was to achieve gradually complete liberalization of trade;

Taking note that the Government of Turkey had assured the contracting parties that its objective was to take the necessary steps which would enable it to eliminate the Stamp Duty at the end of its Third Five-Year Development Plan;

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\(^1\)BISD, Twelfth Supplement, page 55  
\(^2\)BISD, Fifteenth Supplement, Page 90  
\(^3\)BISD, Seventeenth Supplement, page 28  
\(^4\)L/3814
The CONTRACTING PARTIES, acting pursuant to the provisions of paragraph 5, of Article XXV of the General Agreement and in accordance with the procedures adopted by them on 1 November 1956,

Decide to waive, subject to the terms and conditions specified hereunder, the provisions of paragraph 1 of Article II of the General Agreement to the extent necessary to allow the Government of Turkey to maintain, as a temporary measure, on imports into Turkey of products included in Schedule XXXVII a Stamp Duty.

Terms and conditions

1. The rate of the Stamp Duty shall not exceed 10 per cent of the value of the imported goods as assessed for the imposition of the customs duty, and shall be lowered progressively, as circumstances permit.

2. The continued application of the Stamp Duty shall, if present balance-of-payments trends continue, be accompanied by commensurate efforts by the Government of Turkey to remove progressively quantitative restrictions on imports.

3. The Government of Turkey shall report to the Council one year from the date of this waiver on the progress made toward substituting other fiscal measures for the Stamp Duty and in the removal of quantitative restrictions on imports. On the basis of a further report a review will be held in the context of the 1975 balance-of-payments consultation with Turkey.

4. This Decision shall be valid until the removal of the Stamp Duty or until 30 June 1975, whichever date is earlier.

5. If any contracting party considers that the effect of the Stamp Duty maintained under this Decision is unduly restrictive and that damage to its trade is caused or threatened thereby, it may make representations to the Government of Turkey, which shall accord sympathetic consideration to such representations and afford that contracting party adequate opportunity for consultation.

6. If such consultation does not lead to satisfactory results the contracting party concerned may request the CONTRACTING PARTIES to invite Turkey to enter into consultations with them. If, as a result of these consultations with the CONTRACTING PARTIES, no agreement is reached and if they determine that the effect of the Stamp Duty is unduly restrictive and that serious damage to the trade of the contracting party initiating the procedure is threatened or caused thereby, the latter will be released from its obligations to apply to the trade of Turkey concessions initially negotiated with Turkey to the extent that the CONTRACTING PARTIES determine to be appropriate in the circumstances.