1. In accordance with its terms of reference the Committee has conducted a consultation with Turkey under Article XVIII:12(b) and has examined the Turkish request for an extension of the Turkish stamp duty waiver as instructed by the Council at its meeting of 11 November 1977. The Committee noted that the previous consultation with Turkey under the same provisions had been held on 24 April 1975 (see BOP/R/81). In conducting the consultation the Committee had before it a basic document supplied by the Turkish authorities (BOP/179 and Addendum 1), and supplementary background material provided by the International Monetary Fund dated 11 October 1977.

2. The Committee generally followed the plan for such consultation recommended by the Contracting Parties (see BISD 18th Supplement, pages 52 to 53). The consultation was held on 25 January 1978. This report summarizes the main points of the discussion and sets forth the Committee's views concerning the stamp duty, together with a draft decision attached.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund has 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:

"While the economies of the industrial countries were faced with a serious slowdown in economic activity in 1974 and 1975, Turkey's economy continued to expand rapidly. Real GNP grew by an average of about 8 per cent per annum between 1974 and 1975. Turkey's impressive growth rates were stimulated mainly by expansionary economic policies. Growth slowed down somewhat in 1977 when external payments problems began to affect the development efforts."
"Turkey's drive for growth, however, has been accompanied by a serious deterioration of the financial position of the Central Government, and the public and quasi-public entities. Budgetary expenditures increased substantially and the public enterprises, which are responsible for a substantial part of the capital investment in Turkey, and the agricultural price support agencies have experienced large financial deficits in the last three years. As a result, the public sector has borrowed heavily from the Central Bank for the financing of the rapidly growing deficits in 1975 and 1976. Public sector access to Central Bank financing was again very large in 1977. At the same time, credit to the private sector showed strong growth rates as special arrangements stimulated large inflows of convertible lira deposits. Undoubtedly, the rapid rate of domestic credit creation was responsible for the upsurge in inflation from less than 15 per cent in 1972-73 to well over 20 per cent at annual average rates in 1976 and 1977, and contributed significantly to the deterioration of the current account. Monetary policy in recent years clearly has been subordinate to the financing needs of the public sector.

"Due to the exceptionally strong rise in domestic demand which resulted in a rapid increase in imports, and a deterioration of the terms of trade associated with the rise in oil prices and the slackening demand for Turkey's exports during the recent world-wide recession (Turkey's terms of trade declined by 16 per cent between 1973 and 1975, but recovered in 1976) Turkey's current account deficit rose from US$700 million in 1974 to an estimated US$3,100 million in 1977. The decline in workers' remittances between 1975 and 1977 caused by lay-offs in the European industrial countries in the mid-1970s contributed to the widening of the current account deficit. Another factor was speculation concerning the value of the currency. The balance of payments deficits of US$1,500 million in 1975, US$1,800 million in 1976, and an estimated US$2,300 million in 1977 were financed by running down foreign reserves from US$1,620 million at the end of 1974 to US$750 million in October 1977 (a level equivalent to less than two months' 1977 imports) and by accumulating substantial short-term foreign debts. Sizable payments arrears for import payments accumulated in 1976 and 1977.

"In recent years the import regime has been progressively liberalized by adding commodities to the quota list and by shifting products from the quota to the liberalized lists. As a result, the share of liberalized imports increased from 62 per cent in 1975 to 65 per cent in 1976. However, import growth - which amounted to
25 per cent in 1975, 8.2 per cent in 1976, and an estimated 5.3 per cent in 1977 — will be affected in 1978 by efforts to reduce the present large external imbalance through measures curbing domestic demand. The Government raised monopoly prices and prices charged by State Economic Enterprises in September 1977 to yield about LT 40 billion on an annual basis which is equivalent to approximately 5 per cent of GDP. Subsequently, it raised, however, public sector wages, salaries, and pension at an annual cost of about LT 18 billion. The Government has also raised reserve requirements and the guarantee deposit requirement for imports. These measures were accompanied by a depreciation of the Turkish lira by 9.1 per cent in September 1977. In October 1977, an export subsidy of 10-15 per cent was introduced for exports of raw cotton and tobacco.

"In view of the present difficult balance of payments situation further steps to liberalize the import regime can only be expected after the present imbalance has been reduced. The stamp duty has been regarded as a source of tax revenue: in 1976 it accounted for 4.3 per cent of tax revenue which is a significant amount in view of the Government's efforts to reduce the public sector deficit. The Fund believes that this measure should be replaced by alternative fiscal measures in the context of a program to restore external balance and internal stability. Hence the increase in the stamp duty from 10 per cent to 25 per cent is a measure which, in the opinion of the Fund, is justified on a very temporary basis at this time, but it needs to be replaced by more appropriate measures at an early date."

Opening statement by the representative of Turkey

4. The full text of this statement is appended.

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

5. Members of the Committee noted and welcomed the fact that some trade liberalization had taken place since the last consultations. They expressed sympathy and understanding for the present difficulties the Turkish authorities were faced with. They noted and agreed with the views of the International Monetary Fund that in view of the present difficult balance-of-payments situation further steps to liberalize the import regime could only be expected after the present imbalance had been reduced.
6. Members of the Committee referred to the very considerable budgetary deficit which in their view was one of the major problems in Turkey, it was asked whether the new government would consider a more restrictive budgetary policy in the context of an economic stabilization plan. It was also noted that the rate of inflation was high, some 20 per cent per annum, possibly 28 per cent in 1977. Monetary expansion had also been very rapid. It was asked what plan the new government had to reduce inflationary pressures, to limit the budgetary deficit and the monetary expansion. The representative of Turkey replied that the new government would pursue the previous government's budgetary policy which would go before parliament for discussion without any notable changes. This policy envisaged 1978 as a year of stabilization for the Turkish economy. It was even thought in some sectors that there might not be a budgetary deficit in 1978. He recalled that 1977 deficit and rate of inflation should be considered as maximum. It was asked also what effects the rate of inflation had had on the competitiveness of Turkey's exports. The representative of Turkey said that it was well known theoretically that inflation had a negative effect on the competitiveness of exports. However, he added it was difficult to give a precise assessment of the effects of domestic inflation on the competitiveness of Turkish exports.

7. It was noted that while Turkey had a liberal legislation on foreign investments, long-term capital inflows contributed very little to the balance of payments, and it was asked whether Turkish authorities would consider changes in their policy in this field. The representative of Turkey agreed that long-term capital inflows were at a low level at $50 million. Legislation to promote long-term capital inflows existed since 1955, but it was applied in the context of the development plan, which determined which areas of the economy were open to foreign investors. These did not always coincide with foreign investors' plans. Nevertheless foreign investments were accepted in other areas than those approved by the development plan, but in this case they enjoyed no tax benefits. The new government could re-examine the situation in this field.

8. Members of the Committee asked what effect had had the measures taken in September 1977 to restore equilibrium and control inflation; in particular whether the 10 per cent devaluation of the Turkish lira had had effects on trade. The representative of Turkey confirmed that the new exchange rate had contributed to reduce the balance-of-payments deficit by promoting exports and reducing imports. He quoted the following monthly figures; for exports before September 1977, $146 million, after devaluation $187 million; for imports before September 1977, $463 million after devaluation $350 million. Noting this beneficial effect of the exchange rate action members of the Committee suggested that such action might be resorted to in the future.
9. Questions were asked concerning the prospects for balance-of-payments equilibrium for the future; and in particular whether receipts from agricultural exports, tourism and workers' remittances were expected to increase. In this context it was pointed out that tourism seemed to offer considerable potential for development in Turkey and it was asked whether there were plans to encourage such developments. It was also noted that workers' remittances from abroad had declined since 1974 and it was enquired what prospects there would be for these remittances to improve in 1978. The representative of Turkey said that in the past there had been some short-term measures to encourage exports of tobacco and cotton. There were no tax incentives for the development of tourism, and as for workers' remittances these were encouraged through a differential exchange rate. He added that he did not know what the new government's policies would be in these fields.

10. Members of the Committee noted that the rate of growth in Turkey was very high, some 8 per cent per annum despite conditions of world recession. While these growth targets were commendable they seemed to be leading to a difficult financial position. It was asked whether in view of world economic conditions the Turkish authorities were re-examining the development programme in the light of projected economic growth in its main export markets. The representative of Turkey said he was not in a position to say which modifications would be brought to the development plan.

11. Several questions were asked concerning external financing, in particular whether the 1977 balance-of-payments deficit would be financed by short-term suppliers' credit as the level of reserve was very low (two-months' imports); it was also asked what policies would be adopted to handle the growing external debt and whether any negotiations were envisaged to improve the maturity structure of the external debts. The representative of Turkey said that the foreign debt at present amounted to $6,500 million of which the government share, including the State-economic enterprises, was $5,800 million, and the private sector's share was $700 million. The 1978 programme provided for a repayment, capital and interest, of $704 million for the current year.

12. In reply to a question concerning the priority of sectors in the industrial field in the development programme, the representative of Turkey said that priority would go to labour-intensive and export-oriented industries. Asked what steps were envisaged to diversify Turkish exports, the representative of Turkey said that his authorities had made efforts in this field, as trade statistics showed. Turkey's traditional export; tobacco, cotton and hazel-nuts had a diminishing share in total exports, whereas industrial exports had risen from 30.4 per cent of total exports in 1976 to 33.4 per cent in 1977. He added that it was not only a matter of diversification of exports by Turkey, but also a matter of satisfactory access to main markets.
13. Members of the Committee noted that since April 1977 Turkey had stopped foreign currency payments to suppliers abroad; it was asked when these payments would start again and which payments would get priority. The representative of Turkey said that the arrears amounted to $1,700 million. The Turkish authorities were fully aware of the importance of the problem and every effort would be made to solve it satisfactorily. Payments would be effected according to dates of imports.

Parts III and IV - System and methods of restrictions and effects of the restrictions

14. Members of the Committee noted that in addition to global quotas and licensing one of the features of the import régime of Turkey was the numerous other charges on imports. Thus in addition to the normal customs duty there was a customs surcharge of 15 per cent of the duty, a 5 per cent quay duty or port tax as well as a production tax which ranged from 50 to 70 per cent according to the product concerned. It was asked what rôle these different charges played and what were their effects. It was also remarked that some of these charges might not be in accordance with provisions of Article VIII of GATT insofar that they were not commensurate with services rendered. Generally, it was noted that the import procedure of Turkey was complex. The representative of Turkey acknowledged that complex import procedures were detrimental to trade, however, he assured the Committee that the different aspects of Turkey's import régime were not aimed at restricting imports. He suggested that a higher rate of development and employment in Turkey would tend to lead to rationalization of all procedures including those applying to imports. Referring to the 15 per cent customs surcharge he said that this tax had been applied since 1933, and that its proceeds were destined to municipalities only. It was compatible with the provisions of GATT as it preceded Turkey's accession. The 5 per cent quay duty or port tax had been applied since 1936 and was destined to cover all services rendered by port authorities and was in conformity with Article II:2 of the GATT. He pointed out that some 90 per cent of Turkish imports entered the country by ship. Production taxes had been applied since 1933 and had been modified in 1957. They affected only certain goods and they were equivalent to internal taxes on domestic production.

15. Members of the Committee asked questions concerning the nature of the guarantee deposits in local currency which registered importers and industrialists were required to pay when submitting an application for an import licence. This guarantee deposit varied between 2.5 and 40 per cent of the value of merchandise; it was asked in this context whether this measure did not constitute in fact a prior import deposit and whether it
applied only to payments by letters of credit or to all forms of payment. The representative of Turkey said that this measure was applied to all imports in a non-discriminatory manner as to source. The rates applied for industrialists were somewhat lower than those for registered importers, so as to reduce the cost of imports to producers.

16. Referring to document BOP/179, page 4 it was asked why for imports on liberalization list II prior permission from the competent authorities was required for quality control. The representative of Turkey explained that list II comprised raw materials, spare parts and industrial goods and that his authorities felt there was need to proceed to a quality control. This measure was not designed to restrain imports. Asked whether the Turkish authorities would not envisage the publication of a single negative list in replacement of the various lists of liberalized imports the representative of Turkey said that a negative list would imply import prohibitions which was not the case in Turkey.

17. The representative of Turkey was asked whether in the context of the main objectives of Turkey's import régime, it was possible to indicate those import restrictive measures designed to implement the development plan and those which were applied for balance-of-payments reasons. The representative of Turkey said that generally restrictions on consumer goods were applied for balance-of-payments reasons, and restrictions on investment goods, raw materials and spare parts for development purposes and referred to table 3, Composition of Imports, on page 9 of BOP/179, which gave the percentage breakdown of different types of imports.

18. Clarification was asked concerning a statement in the basic document (BOP/179, page 16) to the effect that Turkey had been granting non-reciprocal tax reductions and exemptions to contracting parties, the impact of which was high above the yield of the stamp duty. In reply, the representative of Turkey referred to table 8 in the same document (page 18) which showed the incidence of selective tariff reductions to encourage imports of investment goods in specific development projects. Before the introduction of this investment promotion law some ten years ago, the customs duty incidence had been 24.9 per cent; in 1977 it amounted to 9.7 per cent; thus Turkey's customs duty incidence had been reduced by some 60 per cent.

19. Noting that Turkey still maintained two bilateral trade and payments agreements it was asked whether there was a time-table envisaged for their elimination. The representative of Turkey said that these two agreements were with the USSR and with Albania; none of the parties concerned had so far expressed the wish to change the nature of the relationship and no time-table had been set to abolish these agreements.
Stamp duty

20. Members of the Committee noted that the Turkish authorities were requesting an extension and modification of the stamp duty waiver to cover the five-year period of the development plan, at a new rate of 25 per cent. The Committee further noted the statement by the International Monetary Fund that the stamp duty was an important source of tax revenue but that the Fund believed this measure should be replaced by alternative fiscal measures in the context of a programme to restore external balance and internal stability. Hence the increase in the stamp duty from 10 per cent to 25 per cent was a measure which in the opinion of the Fund was justified on a very temporary basis at this time, but needed to be replaced by more appropriate measures at an early date. The Committee also noted that Turkish authorities continued to aim at the replacement of the stamp duty as a fiscal measure by a system of value added taxation. The Committee was told that the legislation for the VAT was ready and that it was likely to be submitted to Parliament for discussion in 1978. However, in view of the difficulties which were well known of changing to a value added tax system it could not be expected that Turkey would adopt the VAT in the near future. The representative of Turkey added that until such time the Turkish authorities would need the revenue raised from the stamp duty. It was pointed out by members of the Committee that the use of a stamp duty to raise revenue resulted in the taxation of imports without a similar tax on domestic transactions. In reply to a question as to the factors that had accounted for the increased rate of the stamp duty, from 10 to 25 per cent, the representative of Turkey said that the present rate was based on the present rate of exchange. Finally, the Committee noted that there was a delicate question of timing needed for the new government to introduce a package of stabilization measures which would enable it to reduce its reliance on the stamp duty as a source of revenue.

Conclusions

1. The Committee expressed sympathy for the multiplicity of problems facing the Turkish authorities. It recognized that further steps to liberalize the import régime could only be undertaken after the present imbalance had been reduced. The Committee drew attention to the importance for Turkey of adopting a programme to restore external balance and internal stability, as indicated by the Fund.

2. The Committee hoped that the views and concerns expressed during the consultation would when relayed to the Turkish authorities contribute to defining the new government's economic policy.
3. Stamp duty

The Committee noted that the rate of the stamp duty had increased since 1 January 1978, and was currently applied at 22.5 to 25 per cent. The stamp duty was a fiscal measure, levied for internal revenue purposes. Until it could be replaced by a comprehensive fiscal reform, it would continue to be levied on imports only, albeit on a non-discriminatory basis. In view of the multiplicity of problems facing the Turkish authorities, and in full agreement with the view of the Fund that the increased stamp duty was a measure justified on a very temporary basis, to be replaced at an early date by more appropriate measures, the Committee agreed to recommend to the CONTRACTING PARTIES to grant an extension and a modification of the waiver for the application of the stamp duty, according to terms contained in the draft decision attached in Annex II.
ANNEX I

Opening Statement by the Representative of Turkey

Allow me first to thank the IMF representative who in a very concise statement has given the Committee precise information on recent trends in the Turkish economy. That statement will serve to supplement the information communicated to the Committee by the Turkish authorities.

In my introductory statement, after having briefly outlined the essential elements of the foreign trade régime at present applied by Turkey, I should like to deal with the effects that world economic trends have had on the Turkish economy, and more particularly on my country's balance of payments. Lastly, I should like to outline the economic and fiscal considerations that have led us to present a new request for authorization to apply the stamp duty for a further five-year period.

The principal features of the existing foreign trade régime in Turkey date back to 1958, when the Government made a series of decisions designed to improve the balance-of-payments situation. Since that date the same régime has continued in force with certain minor changes. As regards imports, annual programmes are established in order better to adjust Turkey's possibilities to its import needs. Programmed imports are effected either without restriction or under global or bilateral quotas.

In addition, there are possibilities for self-financing imports. I shall not describe all these in detail because the basic document which is before you contains all the relevant information in this regard. It is nevertheless clearly of importance to recall here that the major part of Turkey's imports are effected normally, that is to say either liberalized imports or imports under global quotas. Indeed as may be seen from Tables I and II on pages 7 and 8 of document BOP/179, in 1976 64.7 per cent of Turkey's aggregate imports comprised products included in the liberalization lists, while 22 per cent comprised imports under global quotas. It should be noted that self-financing imports and those under bilateral quotas account for only 14 per cent of total imports. For the first six months of 1977 these figures were respectively 70, 22 and 8 per cent. It can be seen clearly from the first line of Table II that the share of liberalized imports has increased from approximately 45 per cent in the early 1970's to 66 per cent in recent years.
As regards the volume of liberalized imports, the figures mentioned in Table I are still more striking. Indeed, these imports increased from US$532 million in 1971 to US$3,319 million in 1976 - an increase by 600 per cent.

As regards the composition of imports, Table III on page 9 shows us that Turkish imports consist almost entirely of investment goods, spare parts and raw materials. On the other hand, the share of imports of consumer goods in total imports represents between 3 and 5 per cent according to the year concerned.

As regards the trade balance figures, one can readily see that the situation is not satisfactory. The trade deficit, which amounted to $494 million in 1971, has increased sharply to more than $3,000 million for the last two years, and the situation is the same for 1977. Remittances from Turkish workers abroad were the main item to cover this deficit. In recent years, however, a decline in these remittances, due mainly to the world economic recession, has made it necessary to draw on other items such as reserve movements, special drawing rights and short-term capital movements. One may see from Table VII that short-term capital movements have increased very appreciably in the past two years.

The trade deficit which is the main cause of the balance-of-payments deficit has been a feature of the Turkish economy for more than two decades now. Indeed, except in very few years, Turkey's major problem has been to find the means to finance the imports needed for its development. Exports could cover only part of the imports included in the annual programmes under the five-year plans. As you know, more than fifteen years ago Turkey opted for planned development. In this context, imports are regulated in such a way as to allow attainment of certain macro-economic targets. Given that the foreign exchange resources earmarked for imports are not sufficient, it is absolutely necessary to regulate imports so as to allow the Turkish economy to carry out planned investments.

The petroleum crisis and its direct and indirect effects on the economy such as the earmarking of a large part of foreign exchange resources for energy needs and the relative decline in remittances from emigrant workers as well as stagnation of Turkish exports have been the main reasons why the Turkish Government has continued to apply a selective import régime, so that imports may be concentrated on products needed for the country's economic development.
All the elements and reasons I have just mentioned and which are also outlined in the basic document show clearly that the Turkish import regime is designed neither to restrict the volume of imports nor to discriminate against trade partners. In our view this is also an inevitable and an appropriate policy choice so that the Turkish economy may continue to develop at the rate envisaged by the development plans and that the country's economic development is not hampered by a shortage of external resources. It is certain that to the extent that the Turkish economy can maintain a rapid rate of development, the products it needs essentially for investments and for the maintenance of economic activities will be increasing. This phenomenon operates to increase the percentage of liberalized products - an aspect of the Turkish economy which is in contrast, and in a positive sense, with the protectionist trends leading to restrictive measures that in recent times have been taken in the trade field in most parts of the world.

Indeed, the figures I have already mentioned concerning liberalized imports, which have reached a very high percentage in the past three years as compared with earlier years, are characteristic and show that in contrast to the protectionist trend, the liberalization rate of Turkey's imports is increasing. We believe, therefore, that even though the Turkish import regime may seem somewhat restrictive at first sight, it is as a whole favourable for world trade and in no way constitutes an obstacle for the trade advantages of Turkey's partners.

Mr. Chairman, I would now wish to continue my presentations by furnishing some information about the stamp duty application in Turkey.

As we all very well know, on 15 July 1975 the CONTRACTING PARTIES decided to waive the provisions of paragraph 1 of Article II of the General Agreement to allow the Government of Turkey to apply a stamp duty of 10 per cent ad valorem on all imports until 31 December 1977.

In the course of the preparation of the Fourth Five-Year Development Plan which is to cover the period 1978-82 and the annual budget for the fiscal year 1978, it has once again appeared to the Turkish authorities that it was inevitable to maintain the stamp duty scheme in order to achieve the fiscal and economic targets to be embodied in the said documents. Therefore, my delegation has felt it would be both necessary and appropriate to inform
the contracting parties that Turkey was likely to extend the validity of the stamp duty legislation for another five-year period. The intention of my Government in this respect was brought to the attention of the Council during its last meeting in November in conformity with the decision taken by the CONTRACTING PARTIES on 1 November 1956. Indeed, Law No. 2109 which was approved by the Turkish Parliament on 29 December 1977 extended the validity period of Law No. 1648 until the end of 1982 authorizing the Council of Ministers to levy a stamp duty not to exceed 25 per cent on all imports. And, as is seen in the paper distributed at the beginning of this meeting, a decree thereon fixing the rate of duty at the rate of 22.5 to 25 per cent for imports made from countries members of GATT and 25 per cent for the others, entered into force on 24 January 1978.

As you know, Mr. Chairman, Turkey is a developing country endeavouring to achieve a reasonable and sustained rate of growth in its national income within the framework of a development plan. In the process of economic development it has had and still has to tackle three fundamental problems.

First, to generate a volume of savings sufficient to meet the investment requirements of the development plans.

Second, to pay particular attention to the maintenance of internal price stability, so that the process of steady growth is not endangered by inflationary pressures.

Third, to maintain close surveillance over its balance of payments in view of the limited volume of available foreign exchange earnings.

All economic and fiscal measures during the last fifteen years in Turkey have been taken within the framework of efforts to attain these three main objectives. Similarly, the stamp duty which has been one of the topics of Turkey's balance-of-payments consultations in this Committee was essentially introduced and maintained as an integral part of these policy considerations.
Within the framework of the explanation above and taking into account the nature of the measure as at present, the Turkish stamp duty may appear as a scheme of import restrictions. Nevertheless, we would like to assert that the Turkish stamp duty should not necessarily be considered as an obstacle to increasing access, by any contracting parties, to Turkey's domestic markets, but rather as a fiscal measure to generate budgetary revenues. Since its introduction into our foreign trade régime, no restricting effects of this measure on the overall level of imports have so far been observed. Even during the last few years when a world-wide proliferation of protectionist tendencies has been observed the level of Turkish imports has continued to increase both steadily and substantially. Indeed, from 1974 to 1976 total value of imports increased by 35 per cent while, in the same period, world trade expanded only by less than 20 per cent. Furthermore, from 1974 to 1976 Turkey experienced a depletion of about $520 million in its foreign exchange reserves and the amount of short-term borrowing for import financing jumped from $60 million to $1,520 annually.

All these developments were, on the one hand, due to the efforts of my government to scrupulously observe the provisions of the General Agreement, the sole purpose of which is to secure freer and ever expanding world trade and, on the other, to meet the pressing needs of economic development. Given these explanations, we are inclined to sincerely believe that none of the measures presented under the Turkish foreign trade régime including the stamp duty should be regarded as a barrier to trade.

Regarding the fiscal aspects of the stamp duty, it is expected to contribute to the budget of the Central Government about LT 20,000 million in 1978 and also estimated to yield approximately LT 100,000 million during the fourth Five-Year Plan period. Therefore, it would take a lot of hardship, on my government's part, to abandon such an important source of revenue, unless some other schemes are readily available to compensate it. Although the competent Turkish authorities have already completed the preparatory work toward a system of value-added tax which is contemplated to substitute the existing stamp duty legislation, due to frequent government changes, it has not as yet been possible to submit the final draft to Parliament. It is quite a well-known fact that to change the tax structure and abolish established taxes takes a considerable amount of time in any
country. Therefore, we are certain that the enactment of the draft bill on value-added tax will inevitably take a number of years. For the time being and for the foreseeable future, the Turkish authorities have no other choice than to continue to have the stamp duty in effect. Moreover, since Turkey is expected to continue to utilize its capacity to import to the maximum extent possible, the elimination of the stamp duty would have no additional incentive on imports.

Another point which should be taken into account in this respect is that, while the recognized rate of duty during the last five years (1972-1976) has been 10 per cent, the actual average yield of the measure in the same period has been only 6.5 per cent for reasons of selective import policy which I am going to elaborate later. It should further be noted that Turkey has been granting non-reciprocal tax exemptions and reductions to the contracting parties, the impact of which is high above the yields of the stamp duty.

Mr. Chairman, up to this point I have tried to give detailed information about the first two significant aspects of the Turkish stamp duty. I would like, now, to state a few more facts which seem to us to be rather important particularly from the standpoint of general policy considerations.

First of all, as indicated in document BOP/179 Turkey's imports are effected on the basis of certain priorities, having regard to the requirements of the general policy objectives.

Law No. 474 plays an important role in the context of this selective policy designed to orient imports in accordance with these priorities. Under the provisions of that Law, import duties and other charges on capital goods imported for investment purposes in high-priority areas can be reduced or can even be completely removed. The existing stamp duty scheme helps facilitate the implementation and increase the effectiveness of this selective import mechanism.

Secondly, it should be noted that Turkey as a developing country with market economy, cannot easily and quickly revise and restructure its foreign trade régime as and when conjunctural changes occur in its balance-of-payments situation. The Turkish stamp duty also provides the government with some flexibility in the implementation of its policies in case of such contingencies.
Thirdly, in developing countries like my own, where balance-of-payments positions are always vulnerable and where economics are fundamentally inflation-prone, the actual rates of foreign exchange tend to be above the official rates. This tendency inevitably creates a fiscal surplus which is usually enjoyed by private importers. Our stamp duty scheme should at the same time, be regarded as a mechanism to transfer this fiscal surplus to the public sector. And consequently, it should not be considered as a measure to increase the price of imported goods but rather as a fiscal mechanism to reduce the potentially high rate of profit margin of importers.

I want to conclude my remarks, Mr. Chairman, by saying that Turkey has not resorted to stamp duty as an instrument to restrict imports, but as a mechanism within the Turkish foreign trade régime to channel imports according to the priorities set forth by development policies and to generate budgetary revenue for the purpose of economic development in stability.

Consequently, I have been instructed by my government to request pursuant to paragraph 5 of Article XXV of the General Agreement a waiver to enable our authorities to levy on imports a stamp duty at the rate of 25 per cent for a period of five years beginning from 14 January 1978, covering the fourth Five-Year Development Plan of Turkey.
ANNEX II

Draft Decision

TURKEY - STAMP DUTY

Considering that the CONTRACTING PARTIES, by decision dated 20 July 1963, 11 November 1967, 24 August 1969, 30 January 1973, 3 July 1973, and 15 July 1975 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 December 1977;

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 Fourth Five-Year Development Plan on 31 December 1982;

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 International Monetary Fund that the Stamp Duty constitutes an important source of revenue, but that it should be replaced by alternative fiscal measures in the context of a programme to restore external balance and internal stability;

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 internal procedures were under way to introduce a fiscal reform which would enable it to eliminate the Stamp Duty;

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 25 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 be accompanied by commensurate efforts by the Government of Turkey to remove progressively quantitative restrictions on imports.

3. The Government of Turkey shall report one year from the date of this waiver on the progress made toward and intentions to substitute other economic measures for the Stamp Duty.

4. The Decision shall be valid until the removal of the Stamp Duty or until 31 December 1979, 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.