In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on the Republic of Hungary. Volume B (Tables and Appendices) is presented in document C/RM/S/11B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by the Republic of Hungary. As required by the Decision, in preparing its report the Secretariat has sought clarification from the Republic of Hungary on its trade policies and practices.


NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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SUMMARY OBSERVATIONS

1. As part of the sweeping liberalization in central and eastern Europe, Hungary's political and economic life has been changing fundamentally since 1989. The former one-party régime has been replaced by a democratic multi-party system. A new Government was formed in May 1990. It intends, as a major objective, to transform Hungary's economy into a "a modern European social market economy integrated into the world economy, and built on the priority of private property".

2. This undertaking benefits from a history of economic reforms in Hungary since 1968, when Hungary abolished its mandatory planning system. However, unlike earlier efforts, the reforms introduced since 1989 affect all economic policy areas and basic institutions such as the system of property ownership.

3. The new approach towards reform has been launched during a period of major economic problems in Hungary, including a persistent decline in real GDP since 1988, high and accelerating inflation and the threat of large-scale unemployment. The Government's scope for action is constrained by a substantial budget deficit and high foreign indebtedness.

(1) Hungary in World Trade

4. Within current efforts to raise economic efficiency as key to resolving Hungary's economic difficulties, trade policy reform is an important element. As a small economy with relatively poor raw material and energy resources, Hungary is heavily dependent on foreign trade. In 1989, its merchandise exports and imports each corresponded to about one-third of GDP.
5. In global terms, Hungary belongs to the smaller trading nations. In 1989, the country ranked 47th among world exporters and 49th among world importers. Its share in world merchandise trade was 0.3 per cent, down from 0.45 per cent in 1980. The decline in world market share is related to the framework in which part of Hungary's trade was conducted until the end of 1990, and in particular to the way in which this framework developed in the 1980s.

Source: GATT Secretariat.
6. As a result of the geopolitical changes after World War II, a centrally planned economy was introduced in Hungary and the country became a member of the Council of Mutual Economic Cooperation (CMEA) in 1949. Within the CMEA, Hungary developed a range of manufacturing industries. Manufactures made in Hungary, in particular machinery, transport equipment and other capital goods were exchanged against energy and raw materials produced by other CMEA members, mainly the Soviet Union. By contrast, Hungary's merchandise exports to market economies were mainly limited to raw materials, semi-finished products and food, whose world market demand was expanding relatively slowly during the 1980s.

7. For almost four decades, CMEA countries accounted for well over one-half of Hungary's merchandise trade. Except for a minor part, this trade was settled in non-convertible currency (transferable rouble accounting). Hungarian companies engaged in bilateral CMEA trade were not exposed to competition, as trade was based on bilateral annual delivery obligations at fixed quantities and prices. Poor product quality resulted, adding to Hungary's difficulties in increasing exports settled in convertible currencies.

8. Following several years of weak trade performance, the volumes of Hungary's merchandise exports and imports declined by more than 5 per cent in 1990. An estimated 27 per cent drop in exports settled in non-convertible currencies more than offset the estimated increase of 13 per cent in the volume of convertible currency exports. The volume of imports from convertible currency sources increased by an estimated 4 per cent in 1990, while import volume from non-convertible currency sources is estimated to have declined by 18 per cent.

9. The forint value of Hungary's trade increased by an estimated 6 per cent in 1990, with convertible currency trade increasing substantially and non-convertible currency trade contracting strongly. As a result, the share of the Soviet Union and other CMEA countries in Hungary's trade, on a declining trend since 1986, was reduced further to
less than one-third in 1990. At the same time, Hungary's trade with
developed market economies increased to about 60 per cent of its total
merchandise trade. Developing countries continued to account for about
7 per cent of merchandise trade.

10. Several factors have contributed to this major change in Hungary's
trade patterns. Successive real devaluations of the forint vis-à-vis
convertible currencies (since 1985), coupled with the weak Hungarian market
and, more recently, plummeting demand for Hungary's exports to the CMEA
area, stimulated exports to the developed market economies. Imports to be
paid in hard currencies were also reduced. This trend is expected to
continue in the years to come.

11. Since the beginning of 1990, exports to market economies have also
been facilitated by trade policy measures introduced by Hungary's western
trading partners. In particular, GSP treatment for Hungarian exports was
introduced, quotas established by the EC under voluntary export restraint
agreements were increased, and specific quantitative restrictions
maintained by the EC on Hungarian exports were eliminated. In 1990,
Hungary achieved a record surplus of almost US$1 billion in its trade
settled in convertible currencies.

12. Hungary's trade and current account balance in non-convertible
currencies was in substantial surplus from 1985 to 1990. However, these
surpluses were tantamount to an interest-free loan by Hungary to other CMEA
members, because, under CMEA arrangements, they could not be liquidated.

(2) Institutional Framework

13. The last few years have seen important changes in Hungary's policies
relating to the planning system, the functioning of enterprises, the system
of prices, the application of exchange controls and the process of trade
policy formulation. The details of developments in trade policies are
dealt with in greater length in Section (3) below.
14. In 1968, the earlier system of mandatory planning was replaced by a system of macro-economic planning, under which targets were set for economic variables such as the growth of gross domestic product and of convertible currency exports and imports. These targets were binding for the Government agencies involved in their implementation, but neither product- nor enterprise-specific. They were to be achieved by way of economic regulators, for example credit policy, taxation, subsidies, and exchange rate policy.

15. The system of macro-economic planning was abolished in early 1990, together with the Planning Office. Since then, the Ministry of Finance has been responsible for working out macro-economic strategies to be adopted by the Government.

(ii) Enterprises

16. Until recently, the vast majority of enterprises were State-owned. Their freedom to conduct foreign trade was restricted through the State monopolies on foreign trade, foreign exchange and credit. Enterprises were expected to be profit-oriented, but many enjoyed special privileges such as tax exemptions, subsidies and freedom from bankruptcy procedures ("soft budget constraints"). State intervention in individual business decisions was widespread.

17. Since 1985, about three-quarters of the total of some 1,000 State-owned enterprises have operated under a system of "enterprise self-management". In this system, enterprise collectives decide all economic and personnel affairs. However, the State can change the status of these enterprises, putting them under "administrative direction".

18. About one-quarter of State-owned enterprises have remained under administrative direction, with the State retaining a great deal of supervisory control. This includes the appointment of the director by the
Government. State-owned enterprises under administrative direction are active in areas such as energy production, public utilities, basic raw materials and defence-related sectors.

19. Many State enterprises are insolvent. This is of particular concern, because, for lack of a well-functioning capital market, long credit chains have developed among enterprises. Bankruptcy procedures have recently been initiated against a number of larger State-owned enterprises.

20. In agriculture, co-operatives dominate. They operate under a system of self-management. They also enjoyed State support in various forms such as concessional credits and tax privileges.

21. A privatization programme began in 1990. The objective of the programme is to privatize, within three years, the production of some 50 per cent of national output, excluding basic social services and public utilities. However, by the end of the year about 90 per cent of national output was still produced by State-owned enterprises and co-operatives.

22. Following first steps towards developing a capital market in the early 1980s, a two-tier banking system was established in 1987. By the end of 1990, 28 commercial banks operated in Hungary. In 1990, the Budapest Stock Exchange was officially reopened. A new law is in preparation on the National Bank with the objective of making it independent from the Government.

23. To promote the restructuring of the Hungarian economy, stimulate the transfer of technology and management techniques, and increase capital inflows in the face of a high debt burden, foreign direct investment regulations have been liberalized. As a result, the number of Hungarian joint ventures with foreign participation has increased from about 200 in 1988 to about 5,000 at the beginning of 1991. However, the value of foreign investment has remained relatively low.
24. In 1988, all economic organizations in Hungary were accorded the right to conduct foreign trade settled in convertible currencies. The State monopoly of foreign trade was formally abolished in 1990. The number of companies listed in the foreign trading company register increased from 350 in 1987 to about 10,000 by the end of 1990. However, State-owned enterprises continued to dominate Hungary's international trade. Trade in some products such as fuels, precious metals, waste paper, some pharmaceuticals and military items, remained subject to specific authorisation. By 1991, three foreign trade enterprises, dealing with products which are subject to specific authorisation such as military goods and energy carriers, remained under administrative direction. Five other foreign trade export-import enterprises under administrative direction trade in products which are not subject to specific authorisation.

(iii) Price system

25. In Hungary, the share of free prices for consumer goods has progressively increased in recent years, to reach 77 per cent in 1990 (measured in terms of 1987 turnover of consumer goods). In parallel, consumer subsidies (excluding the housing sector) were reduced from 61 billion forints in 1987 to an estimated 48 billion forints for each of the years 1988-90, and producer subsidies from 120 billion forints to an estimated 88 billion forints in 1990. In 1988, the complex system of turnover taxes was replaced by a value added tax, with rates of 0, 15 and 25 per cent. This tax is refunded on exports.

26. As from January 1991, producer and consumer prices are, in principle, freely determined. Administered prices, allowed only in exceptional cases, cover some 10 per cent of all goods sold, including maximum prices for milk, white bread, school text books, household energy, water, transport and postal services and profit limitations on medicines. The Ministry of Agriculture can establish minimum prices for wheat, maize, cattle and pigs for slaughter. Advance notice on price increases is required for printing paper, red pepper grist, sunflower oil and margarine.
In administrative price setting, no distinction is made between domestic and imported goods.

(iv) **Foreign trade-related exchange controls**

27. Hungary introduced unified exchange rates for convertible currencies and the transferable rouble in 1968. In order to avoid major price increases for imported goods, the forint was fixed at an overvalued level vis-à-vis convertible currencies. In this situation, the ability to earn the foreign exchange required to finance imports from convertible currency sources depended on subsidies for many export products, in particular food items and other agricultural commodities. Administrative import controls additionally served to secure the balance of payments in the face of attractive imports (at the overvalued exchange rate). Since 1986, Hungary has followed an active policy of real devaluation of the forint vis-à-vis convertible currencies which has diminished the pressure for both export subsidies and administrative import controls.

28. There are no foreign exchange plans. For imports of goods, import licenses also serve as foreign exchange licenses. Since 1991, all merchandise subject to licensing is enumerated ("positive list").

29. Since 1989, importers of all products have been obliged to provide forward forint cover for each import transaction in a blocked bank account.

(v) **Trade policy formulation and implementation**

30. Hungary's basic trade law dates back to 1974. While the most-outdated regulations have been abrogated, its provisions include wide discretionary competence for the Government in trade-related matters, and
a strict separation between foreign and domestic trade. Its provisions still reflect the outstanding importance which was attached to trade relations with CMEA members.

31. Until the recent political changes, the powers of the ruling party and the State were not clearly distinguished. Major political and economic decisions, including decisions on trade-related policies, were taken by the Party. State institutions, especially Parliament, played a secondary rôle. The bureaucracies of the Party, the State and the big State-owned enterprises were closely intertwined. Bargaining between the State administration and the large State enterprises over support and other interventions was a regular feature of the system.

32. Since 1989, the Government has assumed sole responsibility for formulating trade policy within the framework set by law. Political parties do not intervene directly in business matters. Within the Government, the Ministry of International Economic Relations (MIER) is the central body responsible for international economic affairs. It formulates, and submits to the Government for approval, the principles of trade policy and regulations in individual policy areas. Trade policy is implemented by a number of Government agencies, including the Ministry of Finance, the Ministry of Industry and Trade, and the Ministry of Agriculture.

33. In trade policy matters, the Government consults with the business sector through organisations such as Chambers of Commerce and industrial and agricultural federations. In response to recent decentralization and privatization, their number and activity has been rapidly increasing. Along with Government officials and academics, the business sector is also represented in an Advisory Group to the Minister of International Economic Relations.

34. While recent changes have made the process and results of trade policy formulation more transparent, Hungarian legislation continues to give wide discretion to State authorities. A recent Government decree
provides the authority to introduce trade restrictions under a variety of circumstances, including under international agreements or decisions accepted by the Hungarian Government, and the possibility of retaliation if discriminatory practices on the part of a trading partner cannot be resolved through GATT dispute settlement procedures. For many trade-related areas, criteria or guidelines for decisions by the authorities are either missing or have remained somewhat opaque. As a rule, administrative decisions cannot be challenged before courts.

35. In Hungary, there is no independent statutory body which carries out regular public reviews of trade policies.

3) Trade Policy Features and Trends

(i) Recent evolution

36. During the first two decades following World War II, Hungary's trade policy was determined by a rigid system of central planning, the country's close relationship with the Soviet Union and its participation in the CMEA. Economic reform efforts between 1968 and 1988 opened up the Hungarian market to some extent, but were not accompanied by political reforms. The economy remained largely divided into three economic spheres, relating to the domestic market; CMEA-related activities; and relations with market economies. Each of these areas was governed by different rules and institutions. Virtually all imports were administratively controlled.

37. In 1972, Hungary introduced a scheme of tariff preferences in favour of developing countries, excluding such products as meat, meat preparations, fish, dairy products, aluminium and aluminium products. Since 1978, Hungary has accorded duty free-treatment to imports originating in least developed countries.

38. In 1973, Hungary acceded to the GATT on the basis of tariff concessions. However, its Protocol of Accession contains a number of specific provisions which reflect the fact that the country was not a
market economy. Hungary has frequently emphasized its interest in a well functioning multilateral trading system. It has signed all Tokyo Round Codes, except for the Agreements on Subsidies, Government Procurement and Civil Aircraft. It has been a signatory to the MFA since 1974. Hungary has been an active participant in the Uruguay Round, both individually and as a member of the Cairns Group, reflecting its major concern to improve conditions of competition in world agricultural trade.

39. With one exception, Hungary's trade with market economies has been conducted on an m.f.n. basis. In 1974, Hungary concluded a free trade area agreement with Finland, affecting a relatively small volume of trade. Recently, Hungary has started negotiations on an association agreement with the EC, seen by the authorities as an important step towards the more distant objective of joining the Communities. The Government also intends to conclude free trade agreements with the EFTA countries. Hungary's exports benefit from GSP treatment in most developed countries.

40. Until January 1991, trade among CMEA countries was based on co-ordinated plans and bilateral intergovernmental trade agreements which included fixed prices, mandatory export-import quotas and certain other conditions which restricted the economic freedom of enterprises. Hungary did not apply its customs tariff to imports settled in non-convertible currencies, nor was the m.f.n. principle applicable in CMEA trade. Price-related measures, such as special taxes, subsidies and levies, a wide range of formal and informal administrative measures, and ad hoc interventions were used to bridge the gap between pricing within the CMEA trading system and the Hungarian economy.

41. Despite ongoing economic reform attempts, the economic situation of the country deteriorated in the course of the 1980s. Hungary's industrial products were not competitive in the world market, overall economic performance fell markedly behind that of the developed market economies, and, in the face of weak export performance and energy-price related terms-of-trade losses (until 1987), gross foreign debt increased to almost US$21 billion (end of 1989). By 1989, it was recognized that fundamental
changes were needed in both the political and the economic sphere. Following the reform of the political system, the reform of the economy is the priority objective of the new Government.

42. Between 1989 and 1991, a series of unilateral import liberalization programmes were launched by the Hungarian Government. Along with these steps towards reducing border measures, reforms in other trade-related policy areas were started or accentuated.

43. From 1 January 1991, the two-tier nature of Hungary's trade policy régime has been largely replaced by a unified system. In principle, Hungary's trade with CMEA countries, China, the Democratic Republic of Korea and Viet Nam (countries covered in "Annex A" of Hungary's Protocol of Accession to the GATT) is now also conducted in convertible currencies on the basis of world market prices, and general rules, including the m.f.n. clause, also apply to trade with these countries. In the short term, this change may cause a deterioration in Hungary's terms of trade, as prices for fuel and raw materials from CMEA sources have increased to world market levels.

44. In view of the difficulties associated with the change to convertible currency trade, it is likely that trade with the Soviet Union and other "Annex A" countries will preserve some elements of barter trade for a transitional period. New bilateral trade agreements have been concluded with several of these countries and negotiations are under way with others. The Soviet-Hungarian trade agreement, signed in 1990, contains an indicative export-import list.

(ii) Type and incidence of trade policy instruments

45. Until recently, price-related border measures had a modest impact on Hungarian trade flows. While customs tariffs were applied to imports settled in convertible currencies, their main impact was to generate government revenue. Trade with market economies was largely regulated by comprehensive non-automatic import licensing, trade-related State
monopolies, and other instruments, including a sophisticated system of formal and informal State and Party interventions in enterprise decisions affecting foreign trade. Domestic prices for many goods were fixed, with consumer subsidies bridging the gap between domestic prices and domestic production costs for a variety of products. Competition between domestic and imported products was very limited.

46. Up to 1989, all imports were subject to non-automatic licensing. Licensing criteria or guidelines were neither published nor notified to the GATT. Large exporters appear to have enjoyed more stability in obtaining import licences than small importers. For balance of payments reasons, imports from non-convertible sources appear to have been favoured. Licensing for imports from these sources served mainly to monitor the fulfilment of bilateral trade agreements.

47. In 1989, Hungary began to implement an import liberalization programme, followed by further reductions in licensing requirements in 1990 and January 1991. Substantial liberalization appears to have been achieved to date. The precise degree of liberalization is difficult to assess because information on the number of tariff items freed from licensing requirements, and their share in all tariff items, has not been available for this report. It is known, however, that a wide range of products continues to be subject to licensing, such as certain industrial raw materials, coal, precious metals, transport equipment, telecommunications equipment, pharmaceuticals, chemicals, and many consumer goods, including furniture, travel goods, footwear, textiles, clothing and food items.

48. Imports of liberalized items have increased at a time when domestic demand has been weak.

49. Since its accession to the GATT, Hungary has maintained, for reasons related to balance-of-payments considerations, a specific quota on consumer goods imported from market economies. This so-called global quota on consumer goods has protected Hungarian producers of a wide range of products, including several food items, wine, cosmetics, household
chemicals, photographic films, clothing, leather, footwear, some electrical consumer goods and furniture. Between 1985 and 1990, the value of the quota was increased from US$100 million to US$200 million, while the product coverage of the quota was reduced. For the first six months of 1991, a further increase of the quota to US$302 million has been announced. This amount, however, includes imports which were previously settled in non-convertible currencies and thus not part of the quota.

50. With effect from 1 January 1991, the administration of the quota has been reformed. The global quota on imports of consumer goods is divided into fifteen product groups, with group-specific and, in some cases, country-specific ceiling values. It is administered through licences, which, according to the Hungarian Government, are allocated on a first come-first served basis.

51. With the reduction in the scope of import licensing, tariffs are gaining in importance in shaping the level and pattern of imports. Hungary operates a system of ad valorem tariffs, classified under the Harmonized System since 1 January 1991. The simple average tariff is 16 per cent, exceeding levels in most developed countries. A tariff reduction package to be implemented in 1991 is expected to reduce the average tariff to 13 per cent. In the Uruguay Round, Hungary has conditionally offered to cut tariffs by about one-third on average.

52. Currently, tariffs are particularly high for items such as electric machinery, investment goods, transport equipment, textiles, clothing and agricultural commodities. For a broad range of products, tariffs escalate with increasing stages of processing. However, tariff escalation is less pronounced than in many developed countries because Hungary's tariffs on industrial raw materials are generally higher. The share of bound items in total tariff lines is 93 per cent for industrial products, but only 23 per cent for agricultural products. Hungary's conditional offer in the Uruguay Round includes an increase in tariff bindings.
53. A particular feature of Hungary's customs tariff is that high tariffs are in place for several products not made in Hungary. The items involved include some mechanical machinery, electrical machines, passenger cars and a wide range of other transport equipment. This tariff structure partly reflects fiscal considerations in determining duty levels. However, it also served to protect merchandise imported duty-free from CMEA sources against potentially competing imports from market economies.

54. The specific nature of trade with CMEA countries provided protection for several Hungarian sectors by way of guaranteed outlets, in particular for commercial vehicles, telecommunication equipment, engineering, textiles, clothing, footwear and a range of agricultural products. With import liberalization and the shift to convertible currency accounting in CMEA trade, these sectors are now being exposed to international competition. The Hungarian authorities have indicated that, in the light of developments, there may be a need to review sectoral protection policies. A new import régime for agricultural products is in preparation.

55. Largely for developmental or industrial policy purposes, Hungary provides tariff relief for a number of items such as components for the production of refrigerators (tariff quotas), certain inputs for semi-conductor production (concessional tariffs) or computer-assisted design and manufacturing systems (tariff suspensions). These relief measures, which also cover certain other items, are taken on an m.f.n. basis.

56. Levies and charges on imports other than tariffs are substantial. All imports settled in convertible currencies are subject to a 2 per cent customs clearance fee. In addition, a 3 per cent statistical fee is charged and, for items subject to import licensing, a 1 per cent fee applies.

57. In CMEA trade, a special support and levy scheme was in place, as a buffer between the accounting prices applied in this trade and the domestic price system. This scheme lapsed on 1 January 1991.
58. Consumer taxes are levied on a range of products at item-specific rates. Domestic and imported products are treated equally. An earlier discriminatory treatment of cigarettes imported from market economies, or produced under foreign licence, was eliminated in January 1991.

59. Hungary applies sanitary and phytosanitary controls to imports of many plants, plant products, live animals and animal products. The authorities have made efforts to bring Hungarian measures into line with international norms.

60. A large number of industrial standards also exist, with CMEA standards still playing a substantial rôle, in particular in the engineering sector. Reflecting Hungary's objective to open its economy and join Western European integration, participation in CMEA standardization activities has been terminated and efforts to base national standards on international norms have been increased. Standardization bodies are soon to become independent from the Government.

61. Hungary has no specific legal regulations for Government procurement. While some guidelines on tendering procedures exist, there is little transparency about the policies, criteria and instruments used in this area.

62. Present Hungarian legislation also fails to give a clear picture of the extent to which State-owned enterprises are independent from State authorities in their economic decisions. According to the Government, State-trading in the sense of Article XVII does not exist in Hungary. However, even after a reform of the law on State-owned enterprises in 1985, about one-quarter of these enterprises have remained under administrative management, with the State retaining a great deal of supervisory control. These enterprises include some export-import enterprises. Recently, the number of enterprises enjoying exclusive export and import rights has been reduced.
63. There are no export prohibitions in Hungary, but up to the end of 1990 all export transactions were subject to licensing. Exports against non-convertible currencies were allowed only within bilateral quotas. Licenses for exports to convertible currency destinations mainly served the purpose of verifying that exports were only undertaken by authorized enterprises. Licensing has also been used for the implementation of export restraint agreements concluded by Hungary with the EC (steel, textiles, sheep and sheepmeat, goat and goatmeat), the United States (steel, textiles), Canada (textiles), Norway (textiles) and Sweden (textiles and footwear).

64. In January 1991, Hungary reduced the scope of export licensing substantially. Despite these reductions, a wide range of products remains under licensing, including certain fuels, steel products, non-ferrous metal products, machinery and transport equipment, chemicals, textiles, clothing, food items, forestry products and weapons. Licensing is maintained to control exports of products covered by specific non-commercial regulations, to regulate exports of military items and to implement export restraint agreements.

65. Export levies can be imposed on certain agricultural products such as rabbits for slaughter and live pigs. Minimum export prices apply to dairy products in the framework of the International Dairy Arrangement, and to steel and certain pigmeat, cheese and wine exported to the EC.

66. Hungary operates a duty drawback scheme for imported products used in export production.

67. Exports of a wide range of agricultural items are promoted by way of subsidies. In 1990, export subsidies amounted to an estimated forint 23.5 billion (equivalent to around US$370 million), down from forint 29.5 billion in 1989. According to the Hungarian Government, there are no other export subsidies.

68. Export assistance is also provided within the framework of special funds such as the Export Development Programme and the Trade Promotion
Fund. Assistance includes profit tax preferences, refund of the value added tax paid on export-oriented investment, research and development support, promotion of market research and participation in fairs and exhibitions abroad. Data on the total assistance involved and the distribution of support across economic sectors have not been available for this report.

69. Guidelines for medium- and long-term export credits appear to follow OECD practice closely. The National Bank refinances short-term export credits. Efforts to establish a new export credit guarantee and insurance system are under way.

(iii) Temporary measures

70. In 1982, Hungary introduced specific import restrictions for balance of payments reasons under Article XII of GATT. These measures were terminated in 1984.

71. Hungary has never taken recourse to temporary protection under Article XIX of GATT. A new Hungarian safeguard regulation has come into force on 1 January 1991. The regulation contains a sunset clause, terminating measures after a maximum period of one year.

72. To date, Hungary has never resorted to anti-dumping or countervailing duty actions. Recently, a Government decree was approved on the application of anti-dumping measures. Duties may be imposed for a maximum period of five years.

(iv) New Initiatives

73. In September 1990, Hungary's new Government, in office since May 1990, outlined a comprehensive political and economic reform programme to be implemented in the period 1991-93 (Programme for National Renewal). The basic economic objective of the programme is to establish the foundations of a market economy by the end of 1993. Major features of the programme
include privatization; price and wage liberalisation; making the currency convertible; opening up the economy; intensifying links with Western Europe; and promoting foreign investment.

74. Concerning trade-related policies and institutions, specific items of the programme include the negotiation of an association agreement with the EC and free trade agreement with the EFTA countries; the preservation of Hungary's interests in Eastern European and Soviet markets; promotion of trade relations with the United States, Japan and with some newly industrialized countries; freeing of almost all imports from import licensing by 1992-93; reduction in the average level of tariffs to 8 per cent; the pursuit of an exchange rate policy primarily based on the country's export interests; a continuation of support for agricultural exports; and the achievement of an increase of 30 per cent in exports settled in convertible currencies in order to maintain the country's solvency. Efforts to streamline the administration of foreign trade are also underway.

75. In support of the economic reform programme, the Hungarian authorities intend to keep monetary policy tight in order to curb inflation, which reached a rate of 30 per cent by the end of 1990. Tax reform and a further cut-back in subsidies are envisaged to rationalize the fiscal system and to reduce the budget deficit. These measures are to help bring about internal and external balance in the economy.

76. The Government is aware that successful implementation of the reform programme depends on social consensus. It encourages the development of institutions representing the interests of all economic groups, including consumers, which could facilitate the dialogue between the Hungarian population and its Government.

(4) Trade Policies and Foreign Trading Partners

77. With the change in the political system and the progress of market-oriented reforms, Hungary is becoming a more attractive place for its trading partners to do business. The move towards price-related trade
measures and other steps in the direction of liberalizing the economy are rendering Hungary's trading environment more transparent. However, many changes still need to be made before Hungary becomes a fully open economy with predictable and stable conditions for the conduct of trade.

78. Temporary uncertainty about import, export and investment regulations is inherent in a reform process as fundamental as the one currently underway in Hungary. By regularly providing information on the state, pace and pattern of trade-related reforms, the Government would help to keep such uncertainty at a minimum. Transparency is needed with respect to all aspects of Hungary's new trade policy orientation, including Hungary's future trade relations with its CMEA partners.

79. Rapid implementation of a rule-oriented, open trade régime would require further clarification of the discretionary powers of the administration and of new rules in a number of areas such as government procurement or State-trading. Swift implementation of privatization and a clear definition of the future rôle of State-owned enterprises would boost foreign trading partners' confidence in Hungary's reform programme. Relatively high tariffs, the general import cover requirement, and the continuing presence of non-automatic import licensing and the consumer goods quota protecting substantial sectors of Hungary's economy are factors which weaken, if not prevent, competition in many areas of the Hungarian economy. The issue of currency convertibility is also of major concern to foreign traders in conducting business with Hungary.

80. For the progress and success of Hungary's reforms, a supportive external environment is crucial. Despite the recent improvements in access to western markets, in particular the EC, a number of major Hungarian export products like steel, textiles, clothing and several other consumer goods continue to be subject to major barriers to entry abroad. Hungary's agricultural exports face serious problems of market access in Europe and elsewhere. Massive export subsidies by certain trading partners are also
hurting Hungary's agricultural exports through their depressive effects on world market prices.

81. Hungary needs increasing foreign exchange not only to satisfy the aspiration of its population of having more access to foreign consumer goods, but, perhaps even more importantly, to finance imports of technological, management and marketing know-how, of capital goods and of other inputs which are necessary in promoting the restructuring of its economy. Foreign exchange earnings through export expansion will have to be the main vehicle as Hungary's foreign debt is already high, with debt service having exceeded 50 per cent of the value of its convertible currency exports in 1989. Hungary's ability to pursue structural adjustment while honouring its debt-servicing obligations depends on an expanding world economy, improvements in market access for Hungary's exports, and the business certainty ensured by stable, predictable rules governing world trade.

82. The changes introduced in the last few years, in particular since 1989, indicate that Hungary is in the midst of a comprehensive and far-reaching economic reform affecting, along with other economic policy areas, a wide range of trade-related policies and aiming at a substantial transformation of the economic structure. These reforms, which are only at the early stage of their implementation, will evidently take time to work their way through the economy. Their full implementation would make Hungary's economic system, including its trade régime, largely compatible with that of developed market economies. At the same time, the new economic system would provide a promising foundation for realizing Hungary's objective of integrating itself more closely into the GATT system and the expanding world economy, including participation in Western European integration and a renewal of Eastern European cooperation on the basis of market principles.
I. THE ECONOMIC ENVIRONMENT

(1) Major Features of Hungary's Economy

1. Hungary is situated in Central Europe. Its 10½ million people inhabit a territory comparable in geographic size to Austria, the Republic of Korea or Portugal. About one-fifth of the population lives in Hungary's capital Budapest, and another two-fifths in other urban areas.

2. The economy is in the process of being transformed into a market economy. State enterprises and co-operatives still dominate. While Hungary's private sector has grown in size in the course of the 1980s, by the end of the decade it contributed only around 10 per cent to GDP. However, a privatization programme has been launched.

3. Hungary is at a medium level of economic development. According to official Hungarian data, based on the official exchange rate of the forint, GDP per capita was US$2,729 in 1989, which would correspond to living standards in Argentina or Brazil (Table I.1).

4. Hungary's key natural resources are its fertile land and some mineral ores like bauxite and manganese. The Hungarian economy has diversified production and trade into a wide range of agricultural and industrial products, including many food products, petrochemicals, fertilizers, pesticides, pharmaceuticals, metallurgical products, machinery and equipment, road vehicles, telecommunications equipment, textiles and clothing. Overall, services are the main economic activity in Hungary (44 per cent of total employment in 1989), followed by industry (37½ per cent) and agriculture (18½ per cent).

5. Reflecting Hungary's resource endowment, most raw materials and energy must be imported and paid for by exports of processed, semi-processed and agricultural goods. The values of merchandise exports and imports each correspond to about one-third of GDP.

6. Since 1973, Hungary's trade with market economies has been subject to the rules of the General Agreement in accordance with the Protocol of Hungary's accession to the GATT. Hungary's trade with (other) member countries of the Council for Mutual Economic Co-operation (CMEA) and some other centrally planned economies were based, until the end of 1990, on annual protocols of deliveries at fixed prices and quantities within the framework of five-year bilateral trade and payments agreements. This way of trading was abolished as from 1 January 1991.

7. Over the past two decades, Hungary's trade performance has been less dynamic than world merchandise trade. In consequence, Hungary's share in
world merchandise trade gradually declined, to reach an estimated 0.3 per cent, each, for both exports and imports in 1989.  

(2) Recent Economic Performance

8. Between 1980 and 1990, the Hungarian economy expanded at an estimated average annual rate of less than 1 per cent, well below average growth of real GDP in the OECD area. Since 1988, Hungary's real GDP actually fell, both absolutely and on a per capita basis (Chart I.1).

Chart I.1
Real GDP for Hungary and the OECD area, 1981-90
(Percentage change on previous year)


1In 1938, Hungary's share in world merchandise exports was 0.65 per cent.
9. The weak economic performance reflected a decline in both the rate of investment and the efficiency of investment. Between 1980 and 1989, the share of gross fixed investment in GDP dropped from an estimated 29 to 20 per cent. This was accompanied by a trendwise decline in the incremental capital output ratio.

10. The efficiency of investment has been impaired by measures such as price and wage controls, rigidities in the exchange rate mechanism and trade restrictions in Hungary which resulted in substantial price distortions and a misallocation of investment. Moreover, the practice of keeping economically unviable enterprises alive by way of subsidies ("soft budget constraints") was another major factor blocking structural adjustment and productivity advance.

11. In the 1970s, priorities of Hungary’s political leadership included full employment, stable prices and improving living standards. Against this background, rather than allowing the fuel and raw material price shocks of the mid-1970s to be fully reflected in domestic prices, Hungary had responded with expansionary economic policies. Strains on the current account and an increase in foreign indebtedness soon resulted. From 1978, economic policy became less growth-oriented. External liquidity became the principal economic policy objective. Efforts were made to increase exports in convertible currencies.2

12. The new terms-of-trade losses in the wake of the 1979 oil price shock, coupled with Western credit restrictions and a withdrawal of most foreign deposits from the National Bank of Hungary, related to the introduction of martial law in Poland in December 1981, contributed to a liquidity crisis in Hungary. In 1982, Hungary introduced import restrictions for balance-of-payments reasons. The adjustment to the loss in the terms of trade was largely made by cutting back investment (future consumption), rather than current consumption.

13. As the Hungarian economy had been recovering, a growth acceleration policy was approved in the seventh Five-year Plan (1986-90). However, it soon turned out that structural adjustment in the Hungarian economy was not sufficiently advanced to allow for growth acceleration. Inflation began to pick up. Foreign debt doubled in the course of the first two years of the plan period. The plan had to be abandoned.

2 The term "trade in convertible currencies" includes Hungary's trade with the Eastern Trading Area countries settled in convertible currencies. In 1990, its value represented about 6 per cent of Hungary's total merchandise trade.

3 The measures were taken on the basis of Article XII of the GATT. After a gradual easing in 1983 and 1984, these restrictions were abolished at the end of 1984.
14. In September 1987, a newly formed Government submitted a stabilization programme to Parliament with the main objective of stopping the increase in the convertible currency debt and safeguarding the country's solvency. In 1988, the volume of investment declined by 7½ per cent and GDP stagnated.

15. Following a softening of wage and price controls, consumer price inflation accelerated to an estimated 15½ per cent in 1988 and 17 per cent in 1989. Improved opportunities for travelling abroad in the presence of an overvalued forint, coupled with customs (taxation) conditions more favourable for goods imported by tourists than for commercial imports, turned the convertible currency travel account (which encompasses consumer goods imported by tourists) into deficit in 1989. This was an important reason for an increase of Hungary's current account deficit in convertible currencies from US$1.08 billion in 1988 to US$1.40 billion in 1989, even though Hungary's terms of trade improved in 1988 and 1989. As Hungarian consumers turned to foreign consumer goods, stocks of domestically manufactured semi-finished and finished products accumulated. This trend was exacerbated by the difficulties encountered in attempts to shift Hungary's exports from the ailing CMEA markets to the convertible currency area.

16. The economic difficulties added to more general pressures for deep political and economic changes in Hungary. In 1988-89, a series of reform steps were taken, including a new company law, reductions in the scope of import licensing and new foreign investment regulations. In line with the trend towards political liberalization in Central and Eastern Europe, the parliamentary elections in April 1990 changed the political system by putting an end to the long-standing rule of the Communist party.

17. The new Hungarian Government launched a programme of comprehensive political and economic transformation (the Programme for National Renewal or "three-year-programme"). Its key objectives are stabilization of the economy and structural adjustment in order to transform Hungary into a market economy. While the programme builds on several economic reform measures taken earlier, it aims at fundamental changes in economic institutions, policies and structures.

18. In 1990, the Government started a privatization programme. Several other steps have been taken to improve conditions for entrepreneurial activity. A new competition law was adopted, a stock exchange was set up and major changes were introduced in the company law and the law on foreign investment. Price and wage controls were further relaxed. The reduction of subsidies and the programme of deregulation were accelerated. The scope of import licensing was further reduced. At the same time, the Government

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4 This improvement in Hungary's terms-of-trade continued until mid-1990. It reflected changes in international commodity prices rather than an improvement in Hungary's export structure.
has started to establish a social network to promote restructuring and to help people who lose their jobs.

19. Along with these steps, stabilization measures were taken. Following an expansionary fiscal policy stance in 1989, fiscal austerity was introduced in 1990 to lower the budget deficit and the global credit requirement of the public sector. Steps were taken to contain the growth of Hungary's foreign debt which had reached almost US$21 billion by the end of 1990. Tight monetary policy was implemented with the aim of checking inflation.

20. In the second half of 1990, a drought and changes in the external environment added to Hungary's economic difficulties. The terms of trade turned against Hungary as the Gulf crisis boosted petroleum prices. Trade was adversely affected by the economic turmoil in the non-convertible currency area. In 1990, private consumption and investment activity remained weak. Hungary's industrial output contracted by 10 per cent and real GDP fell by an estimated 6 per cent. Inflation accelerated to an annual rate of 30 per cent by the end of 1990 (Table 1.2).

21. Nevertheless, the process of structural adjustment has begun. Recent positive economic developments include a notable increase in convertible currency exports which show that a number of Hungarian exporters have been capable of shifting markets. In 1990, Hungary's current account in convertible currency, according to preliminary data, has turned from deficit to a surplus of about US$150 million.

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5 Hungary's economic performance was impaired by the weakness in the whole CMEA area. Internal difficulties in a number of CMEA countries, coupled with deteriorating economic situation and a substantial fall in output brought about a significant reduction of their exports to Hungary, thereby limiting the possibilities of the Hungarian exports under CMEA arrangements to these markets. Also, the short-term impact of German unification on the Hungarian economy has been adverse. A number of foreign trade contracts have been cancelled by former GDR enterprises. The Hungarian Government has made known its expectation that all possible means should be deployed to maintain and expand previously existing trade flows, as well as to compensate for losses.

6 Wage pressure was one factor in this development. In the first half of 1990, wages increased by 25 per cent over the same period in 1989. In 1989, the average gross monthly wage in industry had been Forint 10,662, corresponding to about US$170. Other factors contributing to the acceleration in inflation include price liberalization and exchange rate changes.

7 According to preliminary data the trade surplus in convertible currencies reached about US$920 million in 1990.
3) **Trade Performance**

(i) **Regional pattern of trade**

22. Major shifts have taken place in Hungary's regional trade patterns. Between the late 1940s and the mid-1980s, trade with CMEA member countries accounted for well over one-half of Hungary's merchandise exports and imports. By 1990, this share had fallen to less than one-third (Charts I.2-3 and Appendix Charts AI.1 and 2).

23. In the course of this re-orientation, Hungary's trade relations with the EC and EFTA countries have been particularly strengthened. By 1990, the EC accounted for almost one-third of merchandise imports and 35 per cent of Hungary's merchandise exports. The corresponding shares of EFTA were 23 and 19 per cent (Table I.3).

24. The forint value of Hungary's trade increased by 6 per cent in 1990. The trend towards trade in convertible currencies as a whole continued in 1990. In 1990, Hungary's merchandise exports in convertible currencies increased in US dollar terms by 19 per cent and merchandise imports by 15 per cent, following a decline in 1989, merchandise exports in non-convertible currencies fell by about 23 per cent in rouble terms and imports by about 17 per cent in 1990. In volume terms, exports and imports declined by more than 5 per cent in 1990. Volume of exports settled in non-convertible currencies dropped by 27 per cent, imports by 18 per cent. The volume of exports and imports settled in convertible currencies rose by about 13 and 4 per cent respectively. The sharp decline in exports settled in non-convertible currencies partly reflected administrative measures designed to reduce Hungary's surplus in trade with CMEA-member countries.

25. Despite these changes, Hungary's trading links to CMEA countries have remained substantial. In 1988, Hungary's five most important individual trading partners were, in descending order of trade volume, the Soviet Union, the Federal Republic of Germany, Austria, the German Democratic Republic and the Czech and Slovak Federal Republic. Together, these countries accounted for more than half of Hungary's total merchandise trade. By the end of 1990, (united) Germany had become Hungary's biggest trading partner followed by the Soviet Union, Austria, Italy and Switzerland (Table I.3 and Appendix Table AI.1).

26. Trade with the convertible currency area includes Hungary's trade with developing market economies. Hungary's merchandise exports to developing countries accounted for about 7 per cent of its total

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8 In 1975, for example the share of the non-convertible currency area in Hungary's merchandise imports was 54 per cent and in its merchandise exports 62 per cent.

9 Austria's share in the EFTA figures was around 60 per cent.
Chart I.2
Distribution of Hungarian merchandise exports, 1985-90

1985
Total: 410 billion forints

1990
Total: 622 billion forints

Chart I.3
Distribution of Hungarian merchandise imports, 1985-90

1985
Total: 395 billion forints

1990
Total: 565 billion forints

merchandise exports in 1990. The largest export markets were Iran, India, Saudi Arabia, Egypt and Brazil. Recently, trade with Far East Asian developing countries has picked up.

27. Hungarian exports to developing countries consist mainly of manufactures such as machinery, engineering equipment, vehicles, technical instruments, light consumer goods and food. Export developments were influenced by changes in petroleum prices. In the mid-1970s and early 1980s, with high oil prices, Hungarian exports to oil-producing countries substantially increased. However, in periods of lower oil prices, Hungarian exports to these destinations declined.

28. Hungary's merchandise imports from developing countries expanded less rapidly than its imports from other sources. In 1990, Hungary sourced less than 7 per cent of its merchandise imports in developing countries, down from 9 per cent a decade ago. In part, this development reflects the weakness of commodity prices for most of the 1980s.

29. Hungary's main import items from developing countries include fuels and (mostly tropical) agricultural products such as coffee, cocoa, citrus fruits, bananas, spices and animal feeds. Recently, the share of manufactures, in particular consumer goods, in Hungary's imports from developing countries has increased.

(ii) Commodity pattern of merchandise trade

30. The commodity pattern of Hungary's foreign trade is shaped by the country's dependence on foreign supplies of most raw materials and fuels. As a country at a medium stage of economic development, Hungary also depends on imports of advanced technology for its development. Imports consist mainly of advanced machinery, fuels, chemicals, semi-manufactured goods and food not produced in Hungary. Major Hungarian export items are food, engineering products, vehicles, chemicals, consumer goods, textiles, clothing and steel (Tables 1.4 and 5).

31. A particular feature of Hungary's foreign trade is that the commodity pattern of trade with market economies differs substantially from that with CMEA countries. This difference is masked by the data combining Hungary's trade with convertible and non-convertible currency sources (Tables I.4, 5 and Appendix Table AI.2).

32. The commodity structure of Hungary's trade settled in convertible currencies is similar to that of a developing country. About half of its exports consist of raw materials and energy products. Another one-quarter of Hungary's merchandise exports are food items. Industrial

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10 Hungary exports a number of oil-based products derived from processing oil of CMEA origin.
Chart I.4
Hungary's export trade by commodity groups
1980-90

Rouble trade

Non-rouble trade

Note: Materials include raw materials, semi-finished products, and spare parts; machinery includes transport equipment and other capital goods; food includes raw materials for the food industry, livestock and processed food products.

Source: KOPINT-DATORG, Budapest; MIER.
consumer goods account for about 15 per cent and machinery items for the remaining one-tenth (Chart I.4).

33. Merchandise imports settled in convertible currencies are dominated by raw materials, semi-finished products and spare parts (more than half of the total); followed by machinery, transport equipment and other capital goods (about 12-17 per cent). Between 1986 and 1990, imports of machinery expanded somewhat more than imports of other items so that their share in total merchandise imports settled in convertible currencies increased. The share of raw materials, semi-finished products and spare parts in total merchandise imports settled in convertible currencies decreased from 62 to 51 per cent between 1980 and 1990 (Chart I.5).

34. In contrast, the commodity structure of Hungary's rouble trade is similar to that of a developed country. In merchandise exports, machinery, transport equipment and other capital goods loom large (46-47 per cent of the total), followed by raw materials, semi-finished products and spare parts (22-24 per cent), industrial consumer goods (16-17 per cent) and food (13-14 per cent). In merchandise imports, raw materials are in the lead (more than one-third of the total), followed by fuels and electric energy (around 26-28 per cent), machinery, transport equipment and other capital goods (20 per cent) and industrial consumer goods (Charts I.4 and 5).

35. Imports of machinery, transport equipment and other capital goods from rouble sources declined by about 10 per cent between 1980 and 1990. This trend shows the increasing reluctance of Hungarian importers to use low quality CMEA machinery. Imports of fuels and electric energy have also declined, mainly due to difficulties in Soviet oil deliveries. This commodity group represented 26 per cent of Hungary's merchandise imports from CMEA countries in 1990, down from 32 per cent in 1984 (Chart I.5).

(4) Outlook

36. Over the next three years, Hungary's Government intends to continue implementing its political and economic reform programme. Economic activity is expected to remain weak over this period. The emphasis will be put on deep economic restructuring rather than growth.

37. For 1991, a further decline in industrial production has been forecast, together with a decline of 3 per cent of real GDP. The number of unemployed is expected to increase from 70 thousand (1990) to 200 thousand (1991).

38. As a matter of priority, the Government intends to follow an anti-inflationary policy. Nevertheless, inflation is expected to be around
Chart 1.5
Hungary's import trade by commodity groups 1980-90

Rouble trade

Non-rouble trade

Note: Materials include raw materials, semi-finished products, and spare parts; machinery includes transport equipment and other capital goods; food includes raw materials for the food industry, livestock and processed food products.

Source: KOPINT-DATORG, Budapest; MIER.
35 per cent in 1991. Along with monetary restraint, the Government aims at reducing public debt, currently estimated at Ft 1,300 billion. One element are efforts to cut public expenditure, including support to unviable enterprises; in 1990, about 60 per cent of GDP was redistributed through the budget. The 1990 budget showed only a small deficit. However, the budget for 1991 has envisaged a deficit of Ft 78 billion. Another element is the privatization programme. Its main objective is to strengthen the efficiency and economic growth potential of Hungary in the longer-term. To the same end, the process of import liberalization is to continue.

39. In the short-term, restrictive monetary and fiscal policies are to help reduce internal demand and to stimulate convertible currency exports. By 1993, according to the programme of National Renewal, the dollar value of exports will have to be increased by 30 per cent in order to maintain the solvency of Hungary. The Government intends to pursue, as for some time already, an active exchange rate policy to help boost exports.

40. As a consequence of economic difficulties in CMEA countries and in view of the effects of the switch to convertible currency settlement, trade with these countries is likely to decline further. Overall, losses resulting from the drought in 1990, higher oil prices induced by the Gulf crisis and the shift to convertible currency trading with CMEA countries have been estimated by the Hungarian Government to be in the order of magnitude of US$2 billion for 1991, corresponding to about 10 per cent of domestic consumption. As a consequence, both the trade and the current account balances are expected to close with a deficit in 1991.
II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) Introduction

41. In 1989, under a major amendment of its Constitution, Hungary became a multiparty parliamentary democracy in the form of a Republic. The first elections on the basis of the new Constitution took place in March and April 1990. As a result, a coalition Government of the Hungarian Republic was formed in May 1990. Hungary's Head of State is the President of the Republic, who is elected by the Parliament for five years.

42. Hungary's territory is divided into the capital (Budapest), nineteen counties, towns and local communities (villages). Local elections were concluded in October 1990. As a result, the former Council system has been replaced by democratically elected local self-governmental communities whose powers originate in the Constitution. Local self-governmental communities decide on local matters. Their powers include exercising ownership rights over assets belonging to the community and the establishment of local taxes, within the limits stipulated in Law C of 1990 on local taxes. Local authorities have no role in trade policy formulation or administration.

43. Hungary's new Constitution reflects the wide-scale political and economic changes taking place in the country. It has laid down a legal basis of a Constitutional State of law where the economic role of the State is expected to be predictable and strictly regulated by rules of law. The Constitution declares that "Hungary's economy is a market economy where public and private ownership enjoy equal rights and receive equal protection". This rule is in sharp contrast with the previous Constitution, which declared the supremacy of social ownership over other forms of ownership and strongly limited the size and scope of private ownership. The Constitution also recognizes and supports "the right of entrepreneurship and the freedom of economic competition".

(2) Structure of Trade Policy Formulation

(i) Legislative and executive branches of Government

44. In the Hungarian Republic, the Parliament is the supreme organ of State power. It exercises all the rights deriving from the sovereignty of the people.

45. The President of the Republic and the Prime Minister are elected by Parliament. The President represents the State and concludes the most important international treaties on behalf of the State. Other

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11 Section 9(1) of the Constitution.

12 Section 9(2) of the Constitution.
responsibilities of the President include appointing the Chairman and
Vice-Chairmen of the Hungarian National Bank and other high officials.

46. The Parliament elects the Constitutional Court. The Court supervises
the constitutionality of rules of law. Appeals can be made by both public
and private initiative.

47. Administrative authority rests with the Government, headed by the
Prime Minister. Ministers are appointed by the President at the proposal
of the Prime Minister. Ministers are assisted by a political and
administrative Secretary of State.

48. Economic and trade policy is formulated by the Government. In this
area, the Prime Minister is assisted by an Economic Cabinet, chaired by the
Minister of Finance. The function of the Cabinet is to discuss basic
economic policy issues with a view to prepare government decisions and
actions. The Economic Cabinet includes the Ministers of

- International Economic Relations
- Industry and Trade
- Agriculture
- Transport and Telecommunication
- Labour
- Environmental Protection.

The President of the National Bank of Hungary and the political State
Secretary of the Ministry of Finance also participate regularly in meetings
of the Economic Cabinet.

49. The Ministry of International Economic Relations (MIER) is the main
governmental body responsible for formulating and implementing trade
policies. In doing so it cooperates closely with other ministries and
government agencies. To assist the work of the Minister, recently an
Advisory Group was set up composed of representatives of the academic and
business sphere. The Group also includes representatives of other
government agencies with trade policy related functions. In June 1990, an
Investment and Trade Promotion Agency was set up within the MIER.

50. Other ministries with substantial trade-related responsibilities
include the Ministry of Finance, the Ministry of Industry and Trade and the
Ministry of Agriculture. The Planning Office ceased to exist in early
1990. The National Office for Prices was also abolished at the end
of 1990. Its functions have been taken over partly by the Ministry of
Finance and partly by the Office of Economic Competition, established with
effect of 1 January 1991.

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13 Predecessors of the MIER were the Ministry of Foreign Trade
(until 1988) and the Ministry of Trade.
51. The Customs Tariff Committee is responsible for providing input to the formulation of the tariff policy and for its implementation. This Committee is an interministerial body, composed of representatives of the Ministries of International Economic Relations, Finance, Industry and Trade, Agriculture, the Customs and Excise Authority, the National Committee for Technical Development and the Chamber of Commerce. The chairmanship is exercised by the MIER which also provides the Secretariat for the Customs Tariff Committee. Representatives of business organizations and associations (e.g. those of entrepreneurs or the National Council of Consumers) as well as representatives of other governmental bodies are invited to the meetings of the Committee dealing with issues of interest to them.

(ii) Review bodies

52. In Hungary, there is no formal independent structure established for the purpose of regularly reviewing trade policies.\textsuperscript{14}

(iii) Private sector

53. Economic operators usually make their proposals, observations or express their views on trade policy issues through various business associations. These bodies are organized in different ways and forms on a sectoral, regional or national basis. They include organizations such as the Chambers of Commerce and Industry, the Association of Entrepreneurs, the Association of Wine Traders, or the Association of Steel Exporters. The number of business associations, chambers of commerce and other trade-related organizations has substantially increased and become more differentiated in response to the changes that have recently taken place in Hungary's political and economic structure. These changes are still going on, and thus the forms and working methods of private sector interest representations cannot be considered as established.

54. Business associations are generally consulted on economic and trade policy issues of concern to them. The contribution of companies to trade policy formulation is considered important as firms can provide background information for decision-making, draw the attention to specific problems they encounter in foreign markets and give feedback on the effects of economic and trade policies.

55. Recently, a Council of Conciliation was established.\textsuperscript{15} The Council is a tripartite consultative forum composed of the representatives of the

\textsuperscript{14}A number of academic and other institutions analyse economic and trade policies. They include the Research Institute of the World Economy, Research Institute of Finances and the Institute of Economic Sciences.

\textsuperscript{15}Since late 1990, the activity of the Council has been intensified in

(Footnote Continued)
Government, employees (trade unions) and employers. The Council deals with basic economic, social and labour issues in order to explore and conciliate divergent interests of its participants.

56. The Council consults on issues proposed by its members; discusses and gives opinions on draft laws and decrees; makes recommendations to the Parliament, Government, Ministries and economic operators; elaborates agreements in issues falling within its sphere of competence. The Council works in plenary sessions and in committees. Communiqués on plenary sessions are published in the Official Gazette.

(3) Trade Policy Objectives

(i) A historical perspective

57. Hungary’s long-term trade policy objectives are determined by its dependence on foreign trade, related to the small size of the economy. Hungary’s trade policy priorities, however, have frequently changed over the past five decades.

(a) World War II to 1968

58. Before the Second World War, Hungary was an agricultural market economy, with living standards close to the average among European countries. About half of the economically active population was engaged in agriculture. In 1938, the contribution of agriculture to Hungary’s GDP was 37 per cent while that of industry was one percentage point less. Merchandise exports and imports, each were equal to 21\% per cent of national income. Close to three-quarters of merchandise exports consisted of agricultural products. Hungary had intensive trade relations with Germany and most neighbouring countries, except for the Soviet Union.

59. Immediately after the war, Hungary still remained a market economy based on private property. However, as a relic of the war economy, the public sector was large and the private economy was under strict control. Export and import business was conducted by about 2,300 private companies. Imports were subject to licensing.

(Footnote Continued)
the light of the social tensions which followed the Government’s decision to increase the prices of gasoline products in October 1990. This Government decision had not been preceded by comprehensive consultations between the Government and the most interested business associations.

16In 1937, Hungary’s per capita income of US$120 compared to an estimated US$340 for Germany, 320 for Switzerland, 160 for Czechoslovakia, 135 for Italy, 100 for Poland, 95 for Spain and 92 for Greece. For the same year, the per capita national income of the United States has been estimated at US$670.
60. In August 1946, with the prime objective of putting an end to the post-war hyperinflation, a new currency, the forint, was introduced. In parallel, a new price system was implemented, based on fixed prices and thus cutting the link between domestic and world market prices. In 1946, a land-reform was implemented (Hungarian agriculture was previously characterized by large estates). In 1947, a large-scale nationalization programme was started. Banks and, by 1948, all factories employing more than 100 workers were nationalized. The State currency and credit monopoly made remaining private companies highly dependent on the State administration. Economic decision-making was centralized. In 1947, a Three-Year Plan was adopted. In 1948, a one-party system was introduced. The rôle of democratically elected bodies was restricted and the power of central administrative bodies was enlarged.

61. Markets were replaced by mandatory plan targets for virtually all economic activities. By the end of 1949, the whole industrial sector became nationalized and the collectivization of agriculture began; the new political and economic system established in Hungary as a result of the geopolitical changes after World War II was completed.

62. Economic reconstruction had to be based on internal resources, since Hungary was not a beneficiary of the Marshall Plan. The principal objective of Hungary's economic policy in the late 1940s and the early fifties was rapid industrialization. Foreign trade was subordinated to the fulfilment of plans. The focus of development was on heavy industry, which had no basis in Hungary's resource endowments. This required a quasi-total insulation of the domestic economy from the world market.

63. As an integral part of the planned economy, a State monopoly of foreign trade was introduced in 1948. Foreign trade was initially limited to seven sectorally specialized State-owned foreign trade enterprises. Detailed foreign trade plan targets prescribed to foreign trade enterprises what to import and what to export. Sources of imports and destinations of exports were strictly determined.

64. As a result of the post-war situation, the share of the Soviet Union in Hungary's foreign trade reached 25 per cent for merchandise imports and 21½ per cent for exports by 1949, as against 0.1 per cent in 1938. In January 1949, the Council for Mutual Economic Assistance (CMEA), whose members also introduced a Soviet-type planning system, was established. By the end of 1949, about half of Hungary's trade was with CMEA members. In the 1950s and 1960s, the share of rouble trade continued to increase. Economic and trade relations among CMEA members were further strengthened.

In June 1948, the Hungarian Communist Party and the Social Democratic Party merged. The new party soon introduced a one-party system.

By 1954, the number of foreign trade enterprises had been raised to 24.
through product specialization, trade cooperation and common investment projects.

65. As a consequence of Hungary's plan system, the neglect of the country's comparative advantage, its isolation from the world market (including isolation due to Western trade embargoes and restrictions) and low quality requirements in CMEA trade, the Hungarian economy experienced a number of serious economic problems in the 1950s and 1960s. The quality of Hungarian products declined. Marketing problems in Western markets became widespread. The country suffered from balance-of-payments crises, and foreign indebtedness increased.

66. In November 1956, an external intervention brought to an end Hungary's attempt to change radically the political and economic system. The country had to maintain the basic elements of the system and its close ties to the Soviet Union and Eastern Europe. However, the rigidities of Hungary's centrally planned system were loosened to some extent.

(b) The economic reforms of 1968-1972

67. In 1968, Hungary, first among the members of the CMEA, introduced broad economic reforms. The basic intention of the economic reforms was to combine the centralized economy with a market mechanism. It was recognized that the potential for extensive economic growth had been exhausted and the centralized economic management had proved its inefficiencies. The new economic management system abolished obligatory plan directives given to enterprises. Targets of national plans were mainly to be achieved by economic incentives (''regulators''). This included a reform of the foreign trade régime with the objective of linking the domestic economy to foreign markets.

68. In 1968, approximately 30 per cent of all prices were fixed by the State. In other areas, internal and external prices were linked, subject to foreign trade multipliers, tariffs and the tax and subsidy system. Enterprises became autonomous legal persons, independent of each other and of the State. Business considerations were to guide their economic decisions, including export and import transactions.

69. However, despite these changes, the development of the Hungarian economy remained largely determined by annual and medium-term State plans. The State and party retained major powers in economic decision-making, including in the microeconomic sphere. Wage regulation remained centralized. Investment decisions of enterprises were influenced through economic and administrative measures. The State maintained its credit and foreign exchange monopoly, and the banking system remained centralized. Capital movements between enterprises were limited and foreign investments

In 1970, 46 per cent of Hungary's foreign trade was accounted in convertible currencies.
prohibited. Rules on State enterprises were not changed; the hierarchical
dependence of enterprise management on State authorities and the party
remained unchanged. 20 The domestic economy was dominated by centralized
State-owned enterprises, enjoying monopolies in both production and trade.
Privatization was ruled out for ideological reasons.

70. Foreign trade remained a State monopoly, restricted to enterprises
authorized by the Ministry of Foreign Trade. However, compared with the
pre-reform period, the power of foreign trade enterprises was weakened by
imposing a legal obligation to conclude commission contracts if domestic
economic organizations without foreign trade rights wanted to buy from
foreign sources or to export their products or services. The right to
determine sources of imports or other contractual conditions, including
prices, was also given to domestic organizations without foreign trade
rights. All export and import transactions were subject to licensing.
Imports of consumer goods were limited by a global quota. A State refund
system was introduced which allowed loss-making enterprises to continue
exporting. CMEA countries remained Hungary's main trading partners.

(c) The period 1972-78

Central interventions in the economy were intensified again. Economic
policy was based on the assumption that the sharp deterioration of
Hungary's terms of trade resulting from the price development of fuels and
other primary products was temporary and that adverse impacts on the
Hungarian economy could be avoided by central measures. Rapid economic
growth was maintained, promoted by investments in the energy, iron and
steel, chemicals, heavy and textiles industries, financed mainly by foreign
loans. Foreign indebtedness increased sharply. Hungary's CMEA orientation
was strengthened.

72. Between 1974 and 1979, increases in energy and raw material prices
were not passed on to consumers, while producer prices were frequently
modified to reflect import price changes. Consumer prices were subsidized,
mainly financed by foreign loans. The share of free prices declined from
70 to about 40 per cent. By 1979, it was realized that price changes could
not be considered "provisional". Price subsidies were reduced and consumer
prices were increased by about 9 per cent.

(d) Continued reform efforts: 1978-89

73. From the beginning of the 1980s, the reform of economic institutions
continued. In 1980, the so-called "competitive price system" was

20 Party organizations had a factual veto power in appointing or
dismissing enterprise managers.
introduced. With effect from 1 January 1981, industrial branch ministries were merged and the Ministry of Industry was established in order to reduce State interference in State-owned enterprises' business activities. From 1981, "parallel foreign trade rights" were introduced which, in some product areas, allowed competition among Hungarian enterprises having foreign trade rights. The number of enterprises with foreign trade rights was gradually increased, to reach 270 by the end of 1985. Between 1982-84, some large State-owned industrial enterprises were decentralized. From 1981, new forms of small-scale business were permitted and the number of private undertakings began to grow. In 1982, Hungary joined the IMF and the World Bank.

74. In 1984, the law on State enterprises was amended, providing greater independence from the State for most State-owned enterprises (concept of enterprise self-management). Some elements of a capital market were introduced (limited use of bonds and bills of exchange). In 1984, the Parliament enacted Act IV on the Prohibition of Unfair Economic Practices, which codified the basic rules of economic competition. In 1986, a bankruptcy law was adopted. Rules on joint ventures with foreign participation were liberalized. From 1 January 1987, the banking system has been decentralized. In 1988, a comprehensive tax and price reform was introduced, including a value added tax and the personal income tax.

75. With effect from 1 January 1988, all companies were given the right to directly engage in trade with the convertible currency area with respect to all products not included in the list of exceptions. Private persons could also be given the right to conduct foreign trade. A new company law was adopted with a view to increase competition and promote efficient resource allocation.

21 The essence of the system was that internal prices of manufactured goods were related to the prices of exports to the convertible currency area. However, the system did not work satisfactorily and was abolished in 1988.

22 The most widespread new form was the enterprise economic working group, which used the assets of state enterprises after normal working hours. Economic working groups were also formed outside State enterprises; in practice, these were private enterprises.

23 The amendment, with effect from 1 January 1985, introduced a differentiation between State enterprises. The State remained owner. However, enterprises in competitive sectors were given the authority to exercise ownership rights. The right to take decisions of major importance, including to elect the director of the enterprise, was given to the self-governing body of the enterprise. Enterprises operating in the "non-profit" sectors, as well as some enterprises of outstanding economic importance to the national economy such as eight export-import foreign trade enterprises, were placed under "administrative direction". Directors of these enterprises continued to be appointed by the State administration.
allocation. The limit on the number of employees in private companies was extended to 500 persons. Rules on joint ventures were relaxed. A law on foreign investments was also adopted in 1988 which provides for legal guarantees and incentives for foreign investors.

(e) Towards a market economy

76. During 1988 and 1989, it was widely recognized that partial reforms had not led to the resolution of basic economic problems. Socialist enterprises were not forced to compete. Many of them continued to enjoy monopolistic positions and hence incentives to improve efficiency and to innovate were lacking. The Government continued to interfere directly in enterprise business matters. The CMEA concept of integration served to promote import substitution and continued to isolate Hungary from world economic developments.

77. In this situation, Government experts proposed the introduction of a market economy, based on mixed ownership. The proposal included a number of limitations to the free development of market forces such as restrictions on the power of private property (ownership); keeping a tight hold on differences in income and wealth, while preserving orientation towards performance.

78. However, as a recent publication of the UN Economic Commission for Europe noted, "The economic profession and the public at large became dissatisfied with reforms as such .... At the beginning of the 1990s, there is a widespread belief that everything has already been tried to make market socialism work, but nothing has helped. This is one of the primary reasons which led the ruling political party - the legal successor of the HSWP which had governed the country since 1956 - to opt for the transition to a market economy system and to enshrine this view in the country's constitution.

79. In Autumn 1989, tripartite talks began between the ruling party, opposition parties and different interest groups, mainly trade unions. The aim of these "round-table" negotiations was to achieve broad national consensus on basic issues concerning the depth and sequence of political and economic changes, and to secure a peaceful transition leading to free democratic elections. The agreement reached in this process laid down the basis for a change of the political and economic system.

24 For details see: Theses worked out by the Consultative Commission for Economic Management, established by the Government. The Hungarian Economy (1988), Vol. 16, No. 4.

25 Idem.

80. Most changes since 1989, and particularly since the elections in March and April 1990, have been adopted with a view to changing the system rather than reforming it. The Prime Minister of the newly elected Government declared before Parliament that the "primary objective of the Government is the establishment of a social market economy".

81. In September 1990, the Government adopted a three-year programme, called "The Programme for National Renewal". In this programme it is stated that "it is the determined intention of the Government to lead out the Hungarian economy from the crises which was caused by the bankrupt regime, and to establish, by the end of a three year period, the most important elements of a modern market economy. This should be based on the freedom of entrepreneurship, individual initiative and mutual social responsibility." The key elements of the economic programme of the Government include ownership reform and privatization; continuing the policy of liberalization of prices and wages; and opening up to the world market.

82. In 1989 and 1990, the liberalization of the price system was accelerated. By January 1990, 77 per cent of consumer and 75 per cent of producer prices had been freed from State control (calculation based on trade turnover). Producer and consumer subsidies were reduced (Table IV.10). In 1989 and 1990 the coverage of import licensing was reduced. In early 1990, the law on State planning was abrogated. A more liberal wage mechanism was introduced. The privatization of State-owned enterprises was prepared. In June 1990, the Budapest Stock Exchange was opened.

83. Bankruptcy proceedings were initiated against some 700 companies, including 35 bigger enterprises as well as against 11 large State farms and co-operatives. Foreign exchange operations were further decentralized by authorizing commercial banks to offer such services. The programme of deregulation was continued. Basic changes took place in the foreign trade regulation as from 1 January 1991.

(ii) Hungary's accession to the GATT

84. Hungary was an observer in GATT from 1966. It acceded to the GATT in 1973, after four years of negotiations. The legal terms of Hungary's accession are embodied in its Protocol of Accession.27

85. In the light of the Hungarian reforms of 1968, and particularly the introduction of Hungary's customs tariffs, contracting parties accepted Hungary's accession on the basis of tariff commitments.28 This differed


28 The GATT Working Party appointed to examine questions relating to Hungary's accession "...considered that the Hungarian trading system had to
from other planned economies which had to agree to import commitments in exchange for the rights resulting from their accession, including m.f.n. treatment.

86. At the time of its accession to the GATT, Hungary was not a market economy and its trade with other CMEA countries was not based on GATT rules. A number of contracting parties maintained restrictions vis-à-vis Hungary, not consistent with Article XIII of the General Agreement. Therefore, there was a need to include in Hungary's Protocol of accession appropriate provisions to address these issues. The main specific provisions are the following:

(a) Paragraph 3(a) of the Protocol allowed Hungary to maintain "...its existing trading regulations with respect to products originating in or destined for countries enumerated in Annex A thereto". In return, Hungary undertook in paragraph 3(b) "that its trading regulations or any change in them, or any extension of the list of countries ... shall not impair its commitments, discriminate against or otherwise operate to the detriment of contracting parties".

(b) Paragraph 4(a) of the Protocol says "Contracting parties still maintaining prohibitions or quantitative restrictions not consistent with Article XIII of the General Agreement on imports from Hungary shall not increase the discriminatory element in these restrictions and undertake to remove them progressively". As paragraph 4(b) provided, "If, for exceptional reasons, any such prohibitions or restrictions are still in force as of 1 January 1975, the Working

(Footnote Continued)

be examined in the light of the existing system of economic management in Hungary, of which the adoption on 1 January 1968 of a customs tariff was an integral part". GATT document L/3889, 20 July 1973, page 4. For Hungary's description of its economy at the period of accession to GATT see GATT documents L/3238, 1 August 1969 and L/3301, 26 January 1970.

29 Countries enumerated in Annex A were: Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, the Democratic Peoples' Republic of Korea, Mongolia, the People's Republic of China, Poland, Romania, the Union of Soviet Socialist Republics and the Democratic Republic of Viet Nam. The Republic of Cuba was added to the list in 1977. (GATT document L/4498, 13 May 1977).

30 The background for these provisions was that, as was recognized in the report of the Working Party, "... special account ought to be taken of the existence of such trading regulations between Hungary and these countries...". It was also noted "...that Hungary does not at present apply its customs tariff to import from these sources, but applies a special import turnover tax". Hungary's trade with these countries "...was based, inter alia, on fixed prices and quotas". GATT document L/3889, paragraph 7, 20 July 1973.
Party provided in paragraph 6 will examine them with a view to their elimination.

(c) Paragraph 5 of the Protocol - without excluding the possibility to have recourse to Article XIX - includes a specific safeguard clause which allows the imposition of selective safeguard measures "if any product is being imported ... in such increased quantities or under such conditions as to cause or threaten serious injury to domestic producers of like or directly competitive products...". This clause may be applied on a reciprocal basis.

(d) Paragraph 6(a) of the Protocol provides for biannual consultations between Hungary and the contracting parties "in a working party to be established for this purpose, in order to carry out a review of the operation of this Protocol and the evolution of reciprocal trade between Hungary and the contracting parties". The plan for the consultations has been included in Annex B to the Protocol.

(e) Paragraph 7 of the Protocol provides, in a reciprocally drafted form, for the possibility of suspending "concessions or other obligations under the General Agreement", subject to the procedures outlined in paragraph 6. The other party, if consultations prescribed by paragraph 6 do not lead to an agreement, "shall be free, while such action is taken, to suspend to an equivalent extent the application ... of such concessions or other obligations under this Protocol as it may consider necessary".

87. Some specific features of the Hungarian price system were reflected in paragraph 14 of the Working Party's report. Based on these

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31 One of the main reasons for the adoption of the specific safeguard clause was that "Representatives of countries maintaining quantitative restrictions against Hungary's exports indicated ... that the inclusion of such a safeguard clause would facilitate the removal of the restrictions... The representative of Hungary could agree to the inclusion of a safeguard clause, provided it operated on a reciprocal basis. He also stated that his acceptance of such a safeguard clause was in anticipation of early elimination of quantitative restrictions maintained against imports from Hungary, inconsistently with Article XIII". GATT document L/3889, paragraph 9, 20 July 1973. The specific safeguard clause was invoked twice in the mid-1970s by the EEC. The first case resulted in a restraint undertaken by the Hungarian exporter concerning electric lamps. In the second case (small electric motors) no satisfactory solution was arrived.

32 The Working Party recognized that deliveries of goods in the trade between contracting parties and Hungary should be effected at actual world prices. Where there were no actual world prices for such goods, the prices to be taken into consideration would be those in force in the respective (Footnote Continued)
considerations, paragraph 18 of the Report includes a provision on the implementation of Article VI of the GATT which established a "normal value" concept as a point of reference for the application of specific anti-dumping rules regarding products imported from Hungary.  

88. At the time of Hungary's accession to the General Agreement, the United States invoked Article XXXV of the GATT against Hungary. In consequence, the United States did not participate in the discussion of Hungary's tariff schedule. The United States has not yet disinvoked Article XXXV vis-à-vis Hungary. The GATT relationship between Hungary and the United States is based on a bilateral trade agreement, signed in 1978. In 1989, the United States accorded to Hungary m.f.n. treatment on a permanent basis. (Previously, it was subject to periodic review and extension.)

89. In accordance with paragraph 6 of the Protocol of Accession, the Working Party on Trade with Hungary has held seven consultations. At each session, the Working Party analysed the latest developments in Hungary's trade flows. During the first six consultations, the most disputed issue was the maintenance of quantitative restrictions on imports not consistent with Article XIII of the GATT from Hungary by some contracting parties, mainly the EEC. Hungary was dissatisfied with the low rate of elimination of such restrictions and did not accept the reference of the parties maintaining the measures to the sensitivity and employment problems of their sectors concerned as "exceptional reasons" in the sense of paragraph 4(b) of the Protocol of Accession for the maintenance of discriminatory restrictions. Other controversial issues included the discussion of the operation of the Hungarian price, subsidy and import licensing systems,

(Footnote Continued)

markets. The Working Party recognized that the foregoing did not affect the provisions of Article VII of the General Agreement".

33. For the purpose of implementing Article VI of the General Agreement, a contracting party may use as the normal value for a product imported from Hungary the prices which prevail generally in its market for the same or like product, or a value for that product constructed on the basis of the price for a like product originating in another country, so long as the method used for determining normal value in any particular case is appropriate and not unreasonable". The specific nature of Hungary's price system was also reflected in paragraph 8 of the Working Party's report which stated, in the context of the examination of quotas maintained inconsistently with Article XIII by the Hungarian Working Party, that "...the mere existence of the price system in Hungary - as distinct from its effects - not to be considered as the only relevant element".

34. At the Seventh Review under Hungary's Protocol of Accession the representative of the United States stated that "...his authorities were not in a position to disinvoke Article XXXV at present". GATT document, L/6535, paragraph 46, 7 July 1989.
countertrade, and the Hungarian consumer goods quota. The EEC systematically asked Hungary to publish the product lists annexed to Hungary’s trade agreements concluded with Annex A countries.

90. The last (seventh) meeting of the Working Party was less controversial, reflecting that Hungary and the EEC (the sole trading partner which still maintained quantitative restrictions inconsistent with Article XIII) had signed a trade and economic cooperation agreement in 1988 which provided for the elimination of all quantitative restrictions inconsistent with Article XIII of the GATT with a specific deadline. At the session, Hungary informed the Working Party about its further economic reform steps and about the publication of product lists annexed to trade agreements with Annex A countries. 35

91. In the light of the progress registered in the process of transition to a market economy, the Hungarian Government has indicated its intention to seek the elimination of all specific provisions of its Protocol of Accession.

(iii) Objectives in the Uruguay Round

92. Since its accession to the GATT, Hungary has consistently emphasized its interest in a stable, rule-based, transparent and well-functioning GATT. Hungary supported the launching of the Uruguay Round from the outset and plays an active rôle in the negotiations.

93. For Hungary, agriculture is the number one issue of the Uruguay Round. As an active member of the Cairns Group, Hungary supports the liberalization of trade in agricultural products, including the progressive opening of markets, the reduction of both internal support and export subsidies. With respect to the market access negotiations in all areas, Hungary is also in favour of substantially reducing non-tariff measures and customs duties as well as increasing levels of tariff bindings. 36 Hungary emphasized that negotiations should be transparent and the results should be implemented in accordance with the principles of m.f.n. and non-discrimination.

94. Hungary supported the adoption of the trade policy review mechanism, emphasizing the need to take into account the external trading and economic environment facing the contracting party under review.

95. Hungary is in favour of a balanced and substantial outcome of the negotiations on services, on trade related investment measures and on


36 The Programme for National Renewal, adopted by the Government in September 1990, sets the objective of reducing Hungary’s tariff average to 8 per cent, in exchange of counterconcessions, during the Uruguay Round.
trade-related aspects of intellectual property rights. Hungary expects that the agreements arising from the negotiations will take due account of the current state and level of economic development level of the participating countries.

96. Hungary supports efforts to make the GATT dispute settlement mechanism more efficient. In its view, this would considerably contribute to the strengthening and integrity of the whole GATT system.

97. Hungary made it known that the success of Hungary's domestic reform policy "aimed at integrating Hungary into the world economy depends significantly on a supportive international economic and trading environment". In this context, the new Hungarian Government has underlined the importance of a successful completion of the Uruguay Round.

(4) Trade and Trade-related Laws and Regulations

(i) The GATT in Hungary's legal system

98. Hungary's accession to the GATT was approved by the Government. The text of both the Working Party Report and the Hungarian Protocol of Accession was promulgated by a Government decree. The text of the General Agreement was not promulgated, but, based on a specific authorization given by the above degree, was issued as an official publication. Therefore the General Agreement has not been incorporated into Hungary's domestic law.

99. Hungary has signed the Tokyo Round Agreements, except for the Codes on Government Procurement, Subsidies and Civil Aircraft. Hungary is a signatory to the Multifibre Arrangement.

100. The texts of the Tokyo Round Agreements signed by Hungary have been incorporated into the domestic law of the country. Individual citizens or traders may directly invoke rules and remedies included in these agreements. According to the provisions of Law No. XXXII of 1989 on the Constitutional Court, the Parliament, its standing Committees, any member of the Parliament, the President of the Republic, the Council of Ministers, or one of its members, the Chairman of the State Audit Office, the President of the Supreme Court or the Chief Public Prosecutor have the right to initiate a proceeding with the Constitutional Court if they find that any domestic legal rule or measure is in conflict with an international agreement. Hungarian citizens as well as foreigners have the right to initiate such a procedure if the State appears to have failed to implement its obligations under an international agreement.

37 GATT document MTN.TNC/MIN(88)/ST/40, 6 December 1988.

38 Decree No. 23/1973(IX.9)MT of the Council of Ministers.
(ii) Foreign trade rules

101. The basic legislation on foreign trade relations is still Act III of 1974 on Foreign Trade but the elaboration of new legislation is foreseen. Some of its outdated provisions such as Section 3 (declaring the principle of the State monopoly of foreign trade) were abrogated in early 1990. Foreign trade activity as defined in the Act includes trade in goods and services, international cooperation and specialization in production and trade, economic ventures abroad and commercial activity of foreigners in Hungary. It also covers all activities related to foreign trade contracts.

102. Section 20 of the Act gives broad power to the State authorities to make exports and imports, the granting of trade-related credits and other trade activities subject to licensing. Based on this authorization "instructions of general validity" may be issued to "companies engaged in foreign trade". Exceptionally, such instructions may also refer to a "definite activity". The need for issuing instructions for enterprises to carry out a definite activity was relevant to CMEA trade, where the fulfilment of intergovernmental trade agreements necessarily involved the conclusion of export-import contracts. However, this provision had rarely been applied.

103. Following the implementing regulation of the Act on Foreign Trade, the conclusion of international agreements which included delivery obligations had to be preceded by a preliminary survey of the requirements and possibilities of the enterprises concerned. The main rule was that the fulfilment of obligations had to be ensured primarily "through the material interests of the economic organization". If an enterprise was instructed by the Minister of International Economic Relations to conclude a contract, various possibilities existed for compensation of any material losses suffered by the enterprise.

104. According to Section 24 of the Act, "functions associated with the management of foreign trade abroad are discharged by the commercial section of the diplomatic representation of the Hungarian Republic". Companies engaged in foreign trade can establish foreign representations on the basis of the Act. In accordance with Section 25, foreigners may conduct commercial activity in Hungary "with entities carrying out foreign trade activity".


40 The Act does not cover activities like retail trade, banking and insurance, postal and telecommunication services, transport and tourism.

41 For the rules relating import-export licensing see Chapter IV.
105. Since March 1989, rules on establishing commercial representations and information service offices of foreign companies have been liberalized. Establishment of commercial representation is subject to a registration procedure, while the establishment of an information or service office needs the consent of the Ministry of International Economic Relations. The number of commercial representations has increased from 175 in 1988 to 921 in 1990 and the number of information and service offices reached 319 in 1990.

106. Between 1948 and 1988, foreign trade activity was limited to enterprises which had a specific authorization from the Ministry of Foreign Trade. Before 1981, Hungarian foreign trade enterprises did not compete with each other because of the "one product, one foreign trade enterprise" principle. This principle involved an almost exclusive specialization of foreign trade enterprises. Since 1981, rules on obtaining foreign trade rights have been continuously relaxed. As a result, the number of enterprises engaged in foreign trade has been increasing.

107. In 1987, major changes in Hungary's foreign trade system were introduced by Decree No. 1/1987(XII.29) of the Ministry of Trade. The Decree was based on the concept that foreign trade was the statutory right of all economic organizations, including privately-owned enterprises. Therefore foreign trade with the convertible currency area could be carried out without specific State authorization on the basis of a simple registration with the Ministry of International Economic Relations. However, in case of trade with non-convertible currency markets or trade in goods on the "lists of exception", registration was subject to approval by the Ministry. As a result of this regulation the number of companies engaged in foreign trade increased from 350 in 1987 to about 10,000 (including private entrepreneurs) in 1990.

108. In 1987, as an exception to the general rule referred to above, "lists of exceptions" were introduced containing those products, which could be exported and imported only by enterprises specifically authorized by the MIER. In 1990, they still covered 35 per cent of exports and 20 per cent of imports (Table II.1/A). These lists included products which were considered to be of key importance to the national economy (basic foodstuffs, fuels) and products whose trade was governed by international

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42 Decree No. 3/1989(II.26)KeM. of the Minister of Trade.

43 Paragraph 3 of the Decree defined a substantive requirement for the registration. Accordingly, an economic organization asking for registration had to meet some organizational and personal requirements stipulated by special rules. If it did not meet such requirements, it had to undertake to meet them within a definite period of time. In essence, the requirement was that an economic unit which intended to engage in foreign trade had to entrust its foreign trade business to qualified foreign trade and legal specialists.
agreements or arrangements (like steel), or market regulations of the importing country (e.g. slaughtered poultry in the EEC, Austria and Switzerland).

109. As from 1 January 1991, Government Decree 112/1990 (XII.23) has changed the regulation of foreign trade activities. From this date, any economic operator registered in Hungary (including private persons and foreigners) can engage in foreign trade activities without any specific authorization. Companies wishing to start foreign trade activities have to be registered at the MIER. The registration is made on the basis of a written declaration of the company. The declaration has to include the name, address and the tax code number of the company. However, trade in products included in a list annexed to the Decree, can be carried out only by economic operators which have received a specific authorization from the MIER. The list covers such items as fuels, radioactive materials, precious stones and metals, hazardous products, explosives, waste materials suitable for recycling, products of the war industry and psychotropic drugs. Exports of pig meat to EEC countries also remain on this list up to 1 July 1991 (Table II.1/B).

110. For several products and services on the lists, some enterprises enjoy a monopoly. (Table II.1/B indicates the number of companies authorized to trade in goods which are included in the list mentioned in the preceding paragraph). Companies authorized to trade in goods included in the list cannot refuse to conclude export or import contracts with foreigners on behalf of other domestic companies, if they are requested to conclude such contracts.

111. Since 1989, an import liberalization programme has been implemented. By the beginning of 1991, about 90 per cent of imports have been freed from import licensing. (For more details about the Hungarian licensing system see Chapter IV.)

112. Rules on Hungary's Trade Customs Tariff are contained in Decree No. 21/1976(VI.29) of the Council of Ministers Concerning the Trade Customs Tariff. Detailed regulations of customs law and customs procedure are to be found in the joint decree of the Minister of Finance and Minister of Foreign Trade No. 39/1976(XI.10)PM-KKM.

113. Law-decree No. 1 of 1974 and its enacting decree No. 1/1974(1.17)PM include rules on foreign exchange (for details see Chapter III).

114. Foreign trade administration is based on Law IV of 1957, containing the general rules of public administration procedures, and on Decree No. 1/1982(I.16)KKM. of the Minister of Foreign Trade. Requests in foreign trade matters should be addressed to the Ministry of International Economic Relations. In general, decisions should be taken within 30 days, “except cases when rules of law do not establish a deadline at all or contain other deadline”. The right of appeal to the Minister is provided only against decisions which were not taken by the Minister. At present, no appeal can
be lodged with courts against decisions in matters of foreign trade. The new Government intends to broaden the competences of courts and to give the right of appeal to courts against virtually all administrative decisions.

(iii) Company law

115. Act VI of 1988 on Economic Associations has modernized Hungary's company law. The main objective of the law is to facilitate capital investment and the creation of new companies as well as to increase privately held shares in companies, including foreign capital. The Act recognizes the following company forms: unlimited partnership; deposit (or limited) partnership; union; joint enterprise; limited liability company and company limited by shares. The Act has also simplified procedures for establishing joint ventures and raised the limit for private company employment from 60 to 500. There was no such limit for joint ventures with foreign participation; meanwhile, the limit has been abolished (Act V of 1990 on Entrepreneurs). Detailed rules on joint ventures are contained in Act XXIV of 1988 on Investments of Foreigners in Hungary (see Chapter III).

116. Rules on the establishment and functioning of State enterprises are contained in Act VI of 1977 on State Enterprises and its implementing rules. As mentioned earlier, the Act was fundamentally changed in 1984. A recent modification in the implementing decree provides that from August 1990 enterprise councils, in addition to elected delegates and members appointed by the director, should include a person designated by the founding State organ. New enterprise councils had to be established by 15 September 1990; they had to decide whether or not they confirmed the director of the company in his job. The Government intends to abolish the enterprise self-management system.

117. Act No. V of 1990 on Entrepreneurs sets the basic rules for the activities of private entrepreneurs, including the establishment, operation and termination of ventures. The Act is based on the new constitutional amendments providing for the equality of treatment of public and private ownership, the guarantees of private ownership and the safeguards concerning investment by private entrepreneurs. The Act is aimed at promoting an increasing share of private ownership in the economy by providing for entrepreneurial freedom and equal conditions for competition.

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44 However, Section 14(1) of the Decree No. 57/1980(27.XII) of the Council of Ministers guarantees the right of appeal to courts against decisions establishing customs value.

45 Programme for National Renewal, page 188.

46 Decree No. 33/1984(X.31)MT. of the Council of Ministers.

47 Decree No. 20/1990(VIII.3)Korm.r. of the Council of Ministers.
The previous limitations on the size of private enterprises have also been abolished.

(iv) Bankruptcy rules

118. Rules on bankruptcy are contained in Law-decree No. 11 of 1986 on the Law of Liquidation. In view of the large number of insolvent State enterprises, the Government started to initiate bankruptcy procedures against some of the most highly-indebted enterprises. The Government has included the adoption of a new bankruptcy law in its short-term legislative programme.

(v) Competition law

119. Act IV of 1984 on the Prohibition of Unfair Economic Activity included rules on the prohibition of unfair competition, the prohibition to deceive consumers, prohibition of restricting competition, misusing monopolistic position and using unfair prices. The Act was replaced by Law XXXVI of 1990, adopted in November 1990.

120. The new law is more comprehensive than the earlier one. It includes rules on mergers and collusive action with a view to preventing the creation of monopolistic positions and on consumer protection. The law provides for the establishment of the Office of Economic Competition, with surveillance functions in the areas of competition and price behaviour. Within the Office, a Competition Council has been established for taking decisions in specific cases. Decisions of the Competition Council can be challenged in court.

(vi) Law on prices

121. Act LXXXVII of 1990 on prices, adopted in November 1990, provides that the most important price-regulating factors are the market and economic competition. Accordingly, the basic rule is that price and other commercial conditions should be agreed upon by the buyer and seller.

122. The annex of the Act lists goods and services which remain subject to administrative price setting. The list includes such products and services as some energy carriers (but not oil and oil products), textbooks, milk and some other dairy products, passenger traffic, postal services, water industry services, commercial profit margin on human pharmaceuticals, rents of State-owned dwellings, district-heating and water supply and TV licence fees. In some cases (wheat, maize, cattle and pigs for slaughter), present rules are not considered to be appropriate because they put too much emphasis on saving insolvent enterprises through re-organization and State aid. In 1989, bankruptcy procedures were initiated against about 300 economic organizations, mainly smaller units. In 1990, about 550 bankruptcy procedures were initiated.
administrative price setting means that the price authority has the right to establish the lowest purchase price from producers. New products and services can only be included in the list through a modification of the law by Parliament. In 1990, 77 per cent of prices were free (Table II.2 and 3). In 1991, the coverage of administrative price setting is expected to be around 10 per cent.

123. The new Act authorizes the Government to request advance notice on price increases from companies which have a dominant market position. The Office of Economic Competition has been given the power to prohibit price increases if they conflict with the provisions of the Law on the Prohibition of Unfair Market Conduct. Decisions on administrative price setting may be appealed in the courts. Decree 106/1990 of the Government lists the products which are subject to advance notice of price raises from the beginning of 1991. The list covers four products, namely printing paper, red pepper grist, sunflower oil for human consumption and margarine.

124. The Hungarian Government intends to liberalize prices further. By 1994, subsidies on milk and dairy products, water industry services, household energy sources and railway passenger traffic are to be abolished.

(vii) Financial legislation

125. Rules on State Finances are included in Act II of 1979 - which will soon be revised - and its implementing decree No. 23/1979(VI.28) of the Council of Ministers. New laws on the Central Bank and the banking system are in preparation.

126. New tax legislation was adopted in 1987. The basic laws and regulations are the following:

- Law V of 1987 on the General Turnover Tax (VAT). The Government intends to increase the weight of the VAT within overall budget revenue. The Government intends to take into account the EC tax regulations when changing the present rules. A refund of VAT on investment goods was raised from 40 per cent in 1989 to 60 per cent in 1990.

- Law VI of 1987 on the Income Tax of Private Persons. Law XLV of 1989 on the Income Tax of Private Persons, reducing the maximum tax rate from 56 to 50 per cent and the number of rates from 9 to 5. Act CII of 1990 increased the number of rates to 7. The Government's objective is to lower the average tax burden within the next few years.

- Act IX of 1988 on Entrepreneurial Profits Tax, as amended by Act XLIV of 1989 and Act XCIX of 1990, constitutes the legal basis for tax preferences to promote technological development and the restructuring of the economy. The Act defines the scope and level of incentives granted to joint ventures involving foreign capital.
Decree No. 47/1984(XI.21) of the Council of Ministers on Corporation Tax and Corporation Surtax and Decree No. 66/1988(XII.26) of the Minister of Finance on the detailed rules of corporation tax.

- Law LI of 1989 on consumer tax and consumer subsidy.

- Decree No. 25/1987(VII.30)MT of the Council of Ministers and Decree No. 44/1989(XII.20) of the Minister of Finance on the Taxation Administration Procedure.

(viii) Privatization

127. One of the major elements of Hungary's transition to a market economy is privatization of State-owned enterprises. The objective of Act XIII on the Transformation of Economic Organizations and Economic Associations, together with the company law reform, was to establish the legal possibility to transform State-owned enterprises into types of companies defined in the Act, thus providing the possibility for privatization.

128. The Government aims at reducing the share of State property in the economy below 50 per cent by the end of its three year Programme for National Renewal. Self-governing State-enterprise management, established since 1985, is to be abolished. A new legislation on privatization principles and procedures is under preparation.

129. Three basic privatization approaches are followed: (i) privatization initiated on behalf of the Government by the State Property Agency, established by Act VII of 1990; (ii) privatization initiated by concerned State-owned enterprises or cooperatives themselves; and (iii) privatization initiated by domestic or foreign entrepreneurs. As a general rule, former owners would be partially compensated. They would have no right to reclaim their former property. Owners could be natural persons or associations, foreigners, local self-governing bodies, the Treasury, pension funds, foundations, etc.

130. In September 1990, Parliament enacted a Law on privatization of state-owned retail, restaurant, catering and consumer services enterprises. In September and December 1990, the State Property Agency announced its First and Second Privatization Packages, each containing some 20 State-owned enterprises to be privatized. Most enterprises included in these packages are open to foreign ownership. Limits to foreign ownership may be determined by the State Property Agency on a case-by-case basis.

49 For land privatization see Chapter V.

50 This principle has been confirmed by a Constitutional Court decision of October 1990.
131. The State Property Agency intends to start new privatization programmes every three to four months, each time including the privatization of 20-30 enterprises. In addition, privatization through enterprise or private initiatives (so-called spontaneous privatization) is expected to continue.

132. Privatization is monitored and controlled by the State Property Agency. A law on concessions is under preparation. It will specify those activities which can only be performed on the basis of Government authorization by concession companies.

133. To accelerate the privatization programme, a separate fund has been established with a capital of about Ft 8 billion. The recently established National Office for Small Ventures Development administers the Fund. The Fund offers concessional credit facilities to entrepreneurs wishing to buy State property. There are several other credit and tax concessions available for private investors.

(5) Trade Agreements

134. Currently Hungary has bilateral trade agreements with 105 countries and bilateral science and technology agreements with 52 (Table II.4). Both types of agreements often contain provisions on economic co-operation. In 1974, Finland and Hungary signed a free trade area agreement (Agreement on the Reciprocal Removal of Obstacles to Trade).

135. Since 1949, Hungary has been a member of the CMEA. Until the mid-1980s, the share of the CMEA countries in Hungary's trade exceeded 50 per cent. Trade with the Soviet Union was particularly intense, representing around one-third of Hungary's total merchandise trade. Trade between CMEA members was based on long-term trade agreements, with annual protocols of deliveries.

136. Until the end of 1990, Hungary's trade with CMEA members, Albania and the Democratic People's Republic of Korea was conducted under bilateral agreements negotiated annually within the framework of five-year bilateral trade and payments agreements. Trade within this framework took place at fixed prices, on the basis of quotas representing delivery obligations, and


52 Members of the CMEA are Bulgaria, Cuba, the Czech and Slovak Federal Republic, German Democratic Republic (until 3 October 1990), Hungary, Mongolia, Poland, Romania, the USSR and Viet Nam.
with determined conditions of delivery.\textsuperscript{53} Imports from CMEA members and other countries listed in Annex A of the Hungarian Protocol of Accession to the GATT settled in non-convertible currencies were exempted from customs duties. Imports settled in convertible currencies were subject to customs duties. Traditional CMEA cooperation, based on plan co-ordination, frustrated efforts to transform Hungary into a market economy.\textsuperscript{54}

137. As from 1 January 1991, Hungary's trade with all Annex A countries is conducted in convertible currencies. Customs duties are applied. Cuba, North Korea, Mongolia and Vietnam have been included in the list of GSP beneficiaries. New trade agreements have already been signed with the USSR, Poland, the Czech and Slovak Federal Republic, China and Albania. These agreements stipulate that bilateral trade is to be conducted in convertible currencies on the basis of world market prices. As far as the USSR is concerned, the agreement contains an indicative export-import list. This list does not represent delivery obligations. The balance of the bilateral accounts accumulated in transferable roubles until the end of 1990, will be placed on a "liquidation account". Up to a period which is specified in the bilateral agreements the party in deficit may settle its debt by supplying goods under the 1990 CMEA terms. If by the end of this period there is still a deficit, this is to be settled in convertible currencies.

138. Hungary concluded a large number of intergovernmental cooperation agreements with European CMEA member countries. In the new circumstances, most of these agreements are not viable any more. In the future, trade and industrial cooperation or specialization arrangements will be made at enterprise level. Intergovernmental trade agreements signed by Hungary and the German Democratic Republic will be reviewed by Hungary and Germany in the near future.

139. In January 1991, according to press reports, CMEA member States agreed that the organization should be dismantled and be replaced by a new

\textsuperscript{53} Prices were revised annually on the basis of world prices of the preceding five-year period. A number of measures for the regulation of the CMEA countries' reciprocal foreign trade were worked out by CMEA bodies and member countries. These measures included the legal regulation of foreign trade on the basis of long-term trade agreements and annual protocols on commodity turnover, the general principles of price formation, the general conditions for the delivery of commodities, technical maintenance and installation of equipment, deliveries of spare parts, and the procedure for balancing commodity turnover and settlements.

\textsuperscript{54} The system isolated the national economies from the world market. Transferable rouble/national currency exchange rates were arbitrarily set preventing economic links at company level. A given surplus or deficit with one CMEA partner could not be used automatically to offset deficits or surpluses with other CMEA partners.
organization, to be named Organization for International Economic Cooperation (OIEC). The OIEC is expected to be a consultative and co-ordinating body operating on the basis of market principles.

140. Hungary has concluded bilateral trade agreements with most developed market economies. These agreements include reciprocal most-favoured-nation treatment. The United States Hungarian Trade Agreement of 1978 is of particular importance because, due to the invocation of Article XXXV of the GATT by the United States at Hungary's GATT accession, this Agreement constitutes the legal basis for the GATT relationship between the two countries. The Agreement includes a specific safeguard clause similar to that contained in the Hungarian Protocol of Accession to GATT.

141. In 1988, Hungary and the EEC signed an Agreement on trade and economic cooperation. The agreement provided for the elimination, in three stages, of the quantitative restrictions referred to in Article 4(a) of the Protocol for accession of Hungary to the GATT. The deadline for the complete elimination of such quantitative restrictions was 31 December 1995. In the Agreement, the two parties agreed to maintain and improve favourable business regulations and facilities which in the case of Hungary are specified in an annex to include the non-discriminatory application of its import licensing system; non-discriminatory administration of its overall quotas for consumer goods; and the application of non-discriminatory treatment for Community companies in matters such as the award of public contracts. The Agreement also includes a specific safeguard clause similar to that in Hungary's Protocol of Accession to GATT.

142. In order to support political and economic changes in Hungary, the EC eliminated all quantitative restrictions which were not consistent with Article XIII of the GATT with effect from 1 January 1990. Other quantitative restrictions, with the exception of those maintained by Portugal and Spain, have been suspended. For the same reason, the EC agreed to increase Hungarian quotas established in export restraint agreements, by 50 per cent for textiles and clothing, 15 per cent for steel and 20 per cent for sheepmeat. At the same time, GSP treatment has been accorded to Hungary. These measures have improved market access for about 10 per cent of Hungary's exports to the EC (prior to the implementation of the new measures).

143. The Finnish-Hungarian free trade agreement covers tariff reductions over a ten-year period, which ended on 1 January 1985. In addition to industrial products, the agreement covers some 80 per cent of the agricultural products. The trade turnover rose from US$61 million in 1975 to US$170 million in 1989.

144. Hungary has bilateral agreements with 86 developing countries to promote trade and economic relations with these countries. Most of these agreements establish Joint Commissions which monitor the implementation of the agreements and serve as fora for discussing eventual trade complaints. (Table II.4 lists Hungary's bilateral trade agreements.)

145. Hungary's regional trade policies are undergoing substantial changes. Hungary's orientation towards the Soviet Union and Eastern Europe which
resulted mainly from the political situation after the Second World War, will change significantly. The newly elected Government noted that "After the artificial division of our globe, the most important domain for Hungary's foreign policy, based on economic interests and common traditions, will be Europe in the broad (political and cultural) sense".

146. Hungary aims to become a full member of the EC. Official negotiations on an association agreement started in December 1990. Hungary wishes to sign an association agreement with the EC, based on Article 238 of the Treaty of Rome, which would take into account the different levels of development of the countries concerned and would gradually establish conditions for Hungary's full EC accession. The implementation of the trade provisions of the association would be asymmetric in time. The EC would move faster in eliminating tariffs and non-tariff barriers than Hungary.

147. The agreement is expected to enter into force in January 1992. The agreement would cover the movement of goods, services, labour and capital. Hungary wishes to have agricultural trade covered in the agreement in a way reflecting the traditional pattern of bilateral trade in this sector. The cooperation between the EC and Hungary would cover such other areas as scientific and technological cooperation, protection of environment and financial issues. In preparing new laws and regulations, Hungary takes into account existing EC regulations with the aim of making its legal system more compatible with EC requirements.

148. The EFTA-Hungarian Declaration of 13 June 1990 envisages that "The EFTA countries and Hungary will jointly examine the conditions for gradually establishing a free trade area and possible actions to be taken to this end, taking into account the provisions of the GATT, in particular those in Article XXIV". The first session of the EFTA-Hungary Joint Committee took place in September 1990. A sub-committee has been set up with the task of preparing the implementation of all elements of the Declaration, with particular emphasis on those relating to the elaboration of a draft agreement for the establishment of a free trade area.

149. In line with the declared intention of the Government to strengthen and develop economic relations with all regions of the world, Hungary puts particular emphasis on deepening its trade relations and economic co-operation with the United States, Canada, Japan and other overseas countries. An important aspect of this co-operation is the promotion of investment from these sources.

150. As stated in the Government's programme, Hungary's objective concerning the Soviet Union is to create "balanced, correct, good neighbourly relations based on equal rights. For this reason both our political and economic relations should be put on a new basis". Regarding other Eastern European and Central European countries, Hungary intends to keep its traditional markets and will follow the policy of "intensive regional cooperation".
(6) General System of Preferences

151. Hungary introduced its Generalized System of Preferences in 1972. At present, the Hungarian GSP covers some 1,500 tariff lines, representing 47 per cent of all tariff items. About one-quarter of the GSP items enter duty-free into Hungary. The Hungarian GSP scheme does not contain any safeguard mechanism or restrictions, quotas or ceilings. All products of the least developed countries enjoy duty-free treatment. Major products which are not included in the Hungarian GSP include meat and edible offals; dairy products; preparations of meat and fish; miscellaneous edible preparations; aluminium and products; ships and boats (for further details see Chapter IV).
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

(1) Exchange Rate Movements and Trade

152. The Hungarian currency is the forint. The forint is non-convertible.

153. In 1968, Hungary introduced a foreign trade price multiplier designed to establish some relationship between domestic and foreign prices. The foreign trade multiplier was calculated for both the dollar and rouble trade on the basis of the ratio of the value of Hungary's exports, measured in average domestic production prices in forint, and the foreign exchange received for the exports. As a result of the method used for the determination of the multipliers, together with the political objective to prevent a major increase in the price level, the home currency was overvalued. Multipliers were adjusted from time to time.

154. The overvaluation of the domestic currency made imports artificially cheap. Excess demand for imports from convertible currency sources resulted. Import licensing served to restrict the volume of imports.

155. Enterprises producing at higher than average costs needed export subsidies in order to offset the losses from exports and to be able to earn the foreign exchange required to finance imports. In the 1970s, according to estimates, about two-thirds of Hungarian convertible currency exports were subsidized. As a result, enterprises frequently tried to increase their profits through bargaining with authorities over the amount of subsidies instead of focusing on reducing their costs. In addition to export subsidies, state interventions included ad hoc enterprise support or levies and administrative import and export controls.

156. In the first half of the 1980s, the policy of overvaluing the forint against convertible currencies was continued. Since 1985, Hungary has

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55 In 1976, "commercial" and "non-commercial" exchange rates were introduced instead of multipliers both in rouble and dollar payments. In 1981, the distinction between non-commercial and commercial exchange rates was abolished. A unified, single exchange rate was introduced at the level of former commercial exchange rates. GATT document L/5219, 19 October 1981.

56 Domestic production prices were calculated as longer-term manufacturing costs plus imputed income. The foreign exchange received from exports were calculated by using (i) the prices prevailing in the foreign trade transactions, taking into consideration the direct and indirect costs of foreign trade (dollar payments) or (ii) contractual prices (rouble payments). See GATT document L/3301, 26 January 1970.

followed a policy of effective devaluation (for more details about Hungary's exchange rate policy see section (ii) of this Chapter).

(i) **Rules on exchange rates and payments**

157. At present, the exchange rate of the forint against convertible currencies is derived on the basis of a weighted basket of eleven currencies. The weights are adjusted annually and reflect the currency composition of Hungary's foreign trade turnover in convertible currencies. The value of the forint in terms of the basket is adjusted at irregular intervals, taking the difference between the rates of inflation at home and abroad into account. Exchange rates of all convertible currencies are quoted daily by the National Bank of Hungary in line with movements in international markets.

158. The value of currencies included in the basket to which the forint is pegged is based on the day's exchange rates in major international markets. For example, on 29 December 1990, the buying and selling rate for spot transactions in US dollars were Ft 61.39 and Ft 61.51, respectively, per US$1.

159. For many years the black market has valued the Hungarian currency lower than the official exchange rate. In the second half of 1990, the difference between the black market and the official rate has been narrowing, to between 10 and 20 per cent.

160. Payments to and from countries with which Hungary has multilateral and bilateral payments agreements are made in the currencies and in accordance with the procedures set forth in those agreements. If there are no specific agreements, or if trade takes place outside the scope of the agreements, settlement is made in a convertible currency. Transferable rouble receipts from exports in excess of the bilateral quotas were not

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58 These currencies are the Austrian schilling, Belgian franc, deutsche Mark, Finnish markkaa, French franc, Italian lira, Netherlands guilder, pound sterling, Swedish kronor, Swiss franc and US dollar.

59 At the end of December 1989, Hungary had bilateral payments agreements with Albania, Brazil, the People's Republic of China, Colombia, Ecuador, Democratic Kampuchea, the Democratic People's Republic of Korea and the Lao People's Democratic Republic. Hungary also had trade agreements with bilateral payments features for certain commodities with Afghanistan, Bangladesh and Pakistan. Except for Albania, the People's Republic of China, Democratic Kampuchea, the Democratic People's Republic of Korea and the Lao People's Democratic Republic, settlements under bilateral agreements were in clearing US dollars. Settlements with the People's Republic of China were in clearing Swiss francs; and with Albania, Democratic Kampuchea, the Democratic People's Republic of Korea, and the Lao People's Democratic Republic in clearing roubles.
converted into forint by the National Bank. They could be sold freely to importers wishing to import above the allocated quota through actions organized by the Hungarian Foreign Trade Bank.

161. Until the end of 1990, the bulk of Hungary’s trade and financial settlements with the member countries of the Council for Mutual Economic Assistance (CMEA) was settled in transferable roubles through the International Bank for Economic Cooperation (IBEC). In trade with Albania, the Democratic People’s Republic of Korea, the Lao People’s Democratic Republic and Democratic Kampuchea, clearing roubles were used as unit of account.

162. At the end of December 1990, the buying and selling rates for the forint against 1 transferable rouble were Ft 27.47 and Ft 27.53, respectively. The same rates applied to the clearing rouble. The National Bank also quoted exchange rates for the forint against the currencies of individual member countries of the CMEA, Albania and the Democratic People’s Republic of Korea. These rates were used for non-commercial settlements. In 1989, about 13 per cent of Hungary’s trade with Eastern trading area countries was settled in convertible currencies.

163. From 1 January 1991, Hungary’s trade with Annex A countries has been settled in convertible currencies. In the framework of the liquidation of the non-convertible currency accounts maintained with these countries, deliveries under the conditions of the previous agreements can still continue during a transitional period referred to in Chapter II.

(ii) Exchange rate movements

164. Since 1985, Hungary has followed a devaluation policy against convertible currencies in both nominal and real effective terms (Table III.1). As a result, Hungary’s price competitiveness in foreign trade has improved.

165. Recently, increased emphasis has been put on demand management, including flexible exchange rate adjustments. The National Bank has been given the power to decide on its own on exchange rate modifications within a band of —5 per cent. It is the objective of the Government to develop a foreign exchange market as a step towards a fully market-based exchange rate policy.


61 This section refers to exchange rate issues regarding Hungary’s trade in convertible currencies. A number of aspects of the forint-transferable rouble exchange rate are addressed in the next Chapter, due to the specific nature of Hungary’s trade in non-convertible currencies.
166. Between January 1989 and June 1990, the forint was depreciated in steps, by 24\% per cent in nominal effective terms. Coupled with restrictive monetary and fiscal policies, the depreciation helped to stimulate Hungary's convertible currency exports. In January 1991, the forint was further devalued by 15 per cent.

167. In 1991, the Government intends to continue the active exchange rate policy.

(iii) Current account

168. In the 1970s, Hungary's merchandise trade in convertible currencies area was for the most part in deficit. In 1978, the trade deficit peaked at US$ 1.1 billion. Efforts to reduce the deficit included administrative import restrictions and cutbacks in investment. Between 1982 and 1984, Hungary applied import restrictions on balance-of-payments grounds. In the period 1982 to 1985, Hungary's trade in convertible currencies area turned into surplus.

169. Following a substantial deficit in 1986, Hungary's trade in convertible currencies has shown an increasing surplus in recent years. This development was supported by the substantial real devaluation of the forint and, in the period 1988 to mid-1990, by improving terms of trade for Hungary. The convertible currency trade surplus was US$587 million in 1989 and reached about US$930 million in 1990 (Chart III.1). As a result of the surplus in both merchandise and tourist trade, the current account balance deficit in convertible currencies turned to a surplus of about US$150 million in 1990 (Chart III.1).

170. Between 1985 and 1989, Hungary's trade and current account balance in non-convertible currencies was increasingly in surplus. One factor in this development were improving terms of trade in Hungary's CMEA relations (Chart III.2). Other important factors were the difficulties of a number of CMEA countries in supplying the products needed by Hungarian users and the reluctance of Hungarian importers to buy low-quality machinery from CMEA sources, while exports to these destinations were attractive for the Hungarian enterprises concerned. In 1990, according to preliminary data, the trade balance showed a minimal deficit, while the surplus in the current account balance was reduced to about US$100 million.

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At the end of June 1990, the nominal effective exchange rate of the forint was 69\% per cent above its 1985 level. In the same period, the real effective depreciation of the forint amounted to 37 per cent.
Chart III.1
Hungary’s balance of payments in convertible currencies, 1982-90
Million US$

Source: Hungarian Government.

Chart III.2
Hungary’s balance of payments in non-convertible currencies, 1982-90

Source: Hungarian Government.
171. By the end of 1990, Hungary had a surplus of about 1.5 billion roubles in its trade with the Soviet Union. From 1991, this surplus will be converted into US dollars. It can serve to finance Hungary's expected deficit in Hungarian-Soviet trade to be settled in convertible currencies. It may also be used in a transitional period for the financing of imports, early repayment of credits and establishment of joint ventures. In USSR-Hungarian trade, 1 transferable rouble equals US$0.92. The details of conversion with other CMEA countries is under negotiation.

(2) Foreign Exchange Allocation

(1) Rules on foreign exchange

172. Since the introduction of the planned economy, foreign exchange policy has been a state monopoly in Hungary. It is enforced by the State through the foreign exchange authority and foreign exchange organs. The authority for enforcement of foreign exchange regulations is vested in the Minister of Finance. Related functions are exercised through the National Bank. The National Bank may authorize other agencies, such as banking institutions and travel agencies, to carry out specified foreign exchange operations.

173. The Central European International Bank Ltd., Inter-Europe Bank Ltd., Unicbank Budapest Ltd., and the Citibank Budapest Ltd. are exempt from Hungarian foreign exchange regulations and restrictions in respect of authorised activities. Since the beginning of 1990, commercial banks have been licensed to deal with foreign exchange operations connected with commercial activities.

174. In foreign exchange policy, priority is given to debt servicing as the gross foreign debt of Hungary is about US$21 billion and annual debt servicing obligations in the forthcoming period are expected to amount to US$3.4-3.9 billion. It is a major goal of the Government to meet all debt servicing obligations and avoid rescheduling. Legal rules specify when the authorization of the foreign exchange authority is needed. No separate

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63 The legal basis is the Law-Decree No. 1 of 1974 concerning planned foreign exchange policy and its enacting Decree No. 1/1974 (I.17) PM.

64 Authorization of the foreign exchange authority is needed: (a) on entering into a contract concerning property rights abroad of inland subjects; (b) as to the property rights inland, entering into a contract of purchase and sale, a deed of gift presentation or a contract of another type between an inland subject and a foreigner, or by an inland subject in the interest of a foreigner; (c) when making a legal statement resulting in a modification of inland and foreign share property rights either inland or abroad; (d) when promoting a company or acquiring financial interest by an inland subject abroad; (e) when exporting or sending abroad

(Footnote Continued)
foreign exchange authority permit is needed for imports. Foreign exchange is made available automatically if the product is not subject to import licensing. (For the forint cover requirement see Section (iv) in Chapter IV). If the product is subject to import licensing the foreign exchange is made available on the basis of the import licence. General authorization up to specified amounts or proportions of turnover is given to companies engaging in foreign trade to cover expenses related to travel and other aspects such as the costs of foreign trade representation and related personal expenses. As a main rule, all other convertible currency transactions are subject to a separate foreign exchange licence.

175. With respect to foreign exchange policies regarding non-convertible currencies, Hungary tried to avoid major surpluses in transferable rouble or in other non-convertible currencies because of the difficulty converting surpluses into real imports.

176. Hungarian citizens must declare all foreign assets in their possession. All foreign exchange assets must be sold to the National Bank, unless specifically exempted.

177. Hungarian citizens may keep foreign currencies up to the value of forint 5000 in their possession. Amounts exceeding this limit should be kept on convertible currency accounts. Residents and non-residents may equally maintain such accounts without a separate foreign exchange permit. No authorization is needed to open such accounts and draw on them. Such accounts can be opened at a number of banks, which compete with each other in the interest rates and other terms offered.

178. All foreign borrowing, excluding foreign borrowing on the basis of international agreements, required the approval of the National Bank until 1990. This approval was given only in exceptional circumstances - for example, when credits on favourable terms were guaranteed by the government of the exporter or when bankers' acceptances were provided on favourable terms. Since 1990, foreign borrowing has been subject to notice to the National Bank instead of its approval.

179. The requirements of the economy for foreign credit are met through direct foreign borrowing by the National Bank. Directives for extending short-term commercial credits in connection with foreign trade activities have been established jointly by the Minister of Finance, the Minister of International Economic Relations and the President of the National Bank. No licence is required from the foreign exchange authority for commercial

(Footnote Continued)
credits in compliance with the directives. These credits are refinanced by the National Bank from its own resources.

180. One of the major objectives of the Government is to make the forint convertible within 3 years. In its Programme for National Renewal (p.48), the Government has listed a number of pre-conditions, notably bringing inflation under control; strengthening external and internal balance and confidence; structural reform of the financial system and increasing its effectiveness; and the development of internal and external reserves. Some elements of the convertibility of the forint have already been established. As for foreigners, repatriation of the invested capital and profit transfer are guaranteed without any limitation; from 1989 a substantial import liberalization programme has been implemented.

(ii) The Banking System

181. Before the banking reforms of the mid-1980s, Hungary's banking system was centralized. A dominant role was played by the National Bank of Hungary. It had a monopoly right over most credit operations and was a major commercial bank for the enterprise sector. Besides the National Bank, a few other banks had been operating for special purposes, such as financing the needs of households, foreign trade, or state investments. Enterprises were provided with credits in accordance with investment decisions and priorities specified in plans or by authorities. The terms and the allocation of credits were subject to direct central control.

182. As of 1 January 1987, a two-tier banking system was established. A number of commercial banks were created in the form of limited companies, the state holding about 80 per cent of the shares. Banking supervision was entrusted to the State Banking Supervision, an autonomous body of the Government. Since 1 July 1987, enterprises have been free to choose among the banks. In the first stage, commercial banks have been entitled to keep accounts of companies, collect deposits and extend credits to them.

183. From 1 January 1989, commercial banks have been authorised to handle individual citizens' money transactions, collecting private deposits and providing loans to private persons. Earlier, these functions were the privilege of the National Savings Bank and Savings Cooperatives. However, mainly due to the lack of a network of branch offices, commercial banks offer private persons only limited services.

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65 For further details of the foreign exchange mechanism see IMF (1990), Exchange Arrangements and Exchange Restrictions Annual Report 1990, pp.208-214

66 New commercial banks were given an arbitrary portfolio of assets and liabilities. However, a number of these loans are not collectable.
184. In addition to commercial banks, there are a number of specialized financial institutions whose primary goal is to finance development projects. With the exception of maintaining current accounts, they can offer the same services as commercial banks. The State Development Institute is a specialized institution dealing with the financing of State investments. By the end of 1990, there were 10 banks with foreign participation operating in Hungary. These banks enjoy certain preferences over Hungarian banks in terms of scope of operation or tax allowances. The establishment of banks with foreign participation or privatization of banks is subject to Government permission which can be issued on a case by case basis. According to Government Decree 106/1989, the establishment of a bank or a financial institution is subject to a licence of the State Banking Supervision. Such a licence can only be denied if the applicant does not meet the requirements specified in the Decree. Since the beginning of 1990, all commercial banks have been licensed to deal with foreign exchange operations (Table III.2).

185. The National Bank of Hungary, which now fulfils the functions of a central bank, continues to be the dominant financial institution in Hungary. Its rôle as a banker has been restricted to the State, the banks and other financial institutions. The tools of control operated by the National Bank are the mandatory reserve rate, the terms of refinancing (credit terms and interest) and open market operations, (sale or purchase of state securities).

186. The National Bank has retained its rôle as foreign exchange authority. It handles Hungary's gold and foreign exchange reserves. It is the country borrower of foreign exchange.

187. At present, the National Bank is under the direct supervision of the Government. It functions in the form of a limited company whose shares are exclusively owned by the State. The National Bank strictly controls money supply. This policy has contributed to the so called "queuing" of enterprises, amounting to an unofficial source of credit.

67 At present, in Hungary, there are 28 commercial banks and specialized financial institutions, 260 savings co-operatives and 6 insurance companies.

68 The essence of "queuing" is that when enterprises cannot receive "official" financing from banks they "sell" on credit to their customers who may do the same in relation to their customers. In some cases, the "selling" is imposed on the "buyer" by enterprises who enjoy a monopolistic position. The goods "sold" may turn out not to be marketable, thus disrupting the financial situation of enterprises down the line. The volume of this unofficial enterprise credit has been estimated at 20-25 per cent of all enterprise credit.
188. In line with the objectives of the Government's programme, the reform of both monetary policy and the banking system is to be pursued further. Hungary's accounting system is also to be reformed. In the framework of the bank reform, the Government intends to resolve the problem of the so-called "bad loans". Another objective is to eliminate distortions which hinder competition in the banking system and to prevent, in other sectors, the creation of monopolies through the banking system.

189. A new law on the central bank is under preparation. One of the main objectives is to make the National Bank independent from the Government, and make it directly responsible to Parliament.

(3) Foreign Debt, Foreign Direct Investment and Trade

(i) Foreign debt

190. Reflecting factors such as adverse terms-of-trade developments, a weakening export performance and high levels of domestic consumption, Hungary has accumulated substantial foreign debts since the mid-1970s. Gross foreign debt doubled in the period of 1983-1987. In 1989, Hungary's gross debt corresponded to 73 per cent of GDP and the debt service ratio attained 52 per cent. The level of indebtedness is quite significant even in international comparison, especially in per capita terms. At the end of 1990, gross convertible currency debt of the country was about US$20 billion, and net convertible currency debt US$15 billion. In the coming years, some US$1.5-1.6 billion in interest and 1.9 to 2.3 billion in principal are estimated to be due annually.

191. In 1982, Hungary became a member of the IMF and the World Bank. In 1985, it joined the IFC. Since 1982, Hungary has had four stand-by agreements with the IMF, for a total value of SDR 630.5 million. The latest such agreement was signed on 14 March 1990. Its total amount is SDR 159.2 million and may be drawn in five equal parts. Hungary negotiated 23 loan agreements with the World Bank, totalling US$2.2 billion.

192. The new Government has declared that "Hungary does not initiate rescheduling". The Government considers that the security of the debts is state property and state income. The Government intends to reduce state debt through privatization.

\[ \text{US$1,387 million interest plus US$1,964 million principal divided by the export value of US$6,446 million.} \]

\[ \text{Programme of National Renewal, 1990, Budapest, p. 47.} \]
(ii) **Foreign direct investment**

193. In 1988, new legislation was adopted with a view to promote foreign direct investment. Indigenous entrepreneurial capital is scarce. Foreign direct investment is also seen as a means of technology transfer.

194. In Hungary, foreigners can participate in a company without any authorization. Up to 1990, if their share was above 50 per cent, including full ownership, foreigners needed joint permission from the Ministry of Finance and the Ministry of International Economic Relations. This requirement was abolished by Act XCVIII of 1990.

195. Companies with foreign participation or fully owned by foreigners are entitled to the same or better treatment than domestic companies. Joint ventures enjoy special tax benefits (for details see Chapter IV). Laws provide for protection and safety of foreign investments as well as for the repatriation profits and invested capital. Hungary has concluded agreements on mutual protection of foreign investment with 18 countries and has signed agreements on avoidance of double taxation with 29 countries.

196. The number of companies with foreign participation or fully owned by foreigners has increased from 280 in 1988 to 5000 in December 1990. The amount of foreign capital involved is about US$ 1 billion (in 1988 US$ 200 million). Recently, some major western enterprises like General Electric, Suzuki, Opel and Ford have taken the decision to invest in Hungary. Foreign companies participating in the Hungarian automobile programme, like Suzuki, Ford and General Motors, have been granted a tax holiday of 10 years. According to press reports, this tax preference was subject to the condition that their convertible currency balance will be positive after the fifth year.  

197. Foreign direct investment is concentrated in industry (48 per cent) as well as in trade and other service sectors (40 per cent). Agriculture and the construction industry have attracted 12 per cent of total foreign direct investment.

198. Companies with foreign participation are estimated to account for between 1 and 2 per cent of Hungary's merchandise trade. Such companies enjoy national treatment in foreign trade, including CMEA trade. After the introduction of convertible currency trading with CMEA members, exports to these countries ceased to be limited by obligatory quotas.

199. In its Programme for National Renewal, the Government has declared that it "promotes the investments of foreigners and their participation in

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71 The main legal source on joint ventures is Act XXIV of 1988 on Foreign Investments in Hungary as amended by Act XCVIII of 1990.

72 Magyar Nemzet, 19 October 1990.
the privatization of state property. The Government promises to quickly abolish administrative, licensing and other barriers which hinder foreign investments. It is the intention of the Government to make the competition sector open to foreign ownership."

200. In June 1990, an Investment and Trade Promotion Agency was established within the Ministry of International Economic Relations. In the area of foreign investment, the main tasks of the Agency are to coordinate the use of foreign credits and aid in Hungary and to provide information and assistance to foreign and Hungarian entrepreneurs who are looking for business partners.

201. In January 1991, a Foreign Investment Fund was set up. Its objective is to assist foreign investors in the creation of business infrastructure for their operation. The Fund is financed from a budget (Ft 1.5 billion for 1991).

202. Hungarian companies can also establish companies in foreign countries with the prior permission of the Ministry of International Economic Relations. The main criteria for permission are that the investment is made in a country from where the profit can be repatriated; and the activity is profitable, resulting in foreign exchange earnings. Up till 1990, some 340 permissions had been issued. The value of invested capital is about US$80 million. The majority of these companies are mainly involved in the marketing of Hungarian export products.

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73 Programme for National Renewal, 1990, Budapest, page 35
IV. TRADE POLICIES AND PRACTICES BY MEASURE

203. As noted in Chapter II, despite the market-oriented reforms introduced in 1968, many elements of a centralized, planned economy were retained in Hungary and State ownership continued to dominate. Many large State-owned enterprises still enjoyed a monopoly position which facilitated the intertwining of interests between enterprise management and the political leadership. Foreign trade remained a State monopoly. Hungary continued to maintain close political and economic links with other CMEA countries, above all with the Soviet Union. Trade relations with these countries were based on intergovernmental agreements, including obligatory delivery quotas at fixed prices. The simultaneous presence of central planning, certain market elements and the planned nature of economic relations with CMEA countries resulted in a two-tier system of Hungary's trade régime.

204. Imports from market economies were subject to measures such as tariffs and licensing. Trade with Annex A countries was largely regulated through detailed inter-State agreements, leaving little scope for direct economic links between domestic and foreign enterprises. To offset the disparities between the two systems and to bridge the gap between domestic and CMEA prices, Hungary implemented a price equalization (and levy) system and a special foreign trade turnover tax. There was little competition between home-made and imported products.

205. Economic reforms to transform Hungary into a market economy are bringing about major changes in the country's economic institutions. Efforts towards decentralization of economic decision-making and privatization as well as the institutional changes introduced in the foreign trade régime, including trade relations with Annex A countries, represent major steps in establishing the fundamental elements of a market economy. From 1 January 1991, Hungary applies a homogeneous system of trade measures vis-a-vis all trading partners.

206. In the context of these changes, the Hungarian Government may modify some of the tariff rates in order to respond to the new economic and trade conditions.

(1) Measures Directly Affecting Imports

(i) Tariffs

207. Hungary's price policy has undergone substantial changes over the past two decades which, together with other factors, have modified the rôle of tariffs in the Hungarian economy. As noted in Chapter II, in the 74 As noted elsewhere, the term "Annex A countries" refers to the list of countries enumerated in an Annex to Hungary's Protocol of Accession to the GATT.
mid-1970s producer prices were allowed to reflect, to some extent, increases in world market prices for energy and raw materials, while consumer prices were heavily subsidized. From 1979, steps were taken to strengthen the link between consumer prices and external prices, although the share of State administered prices remained high.

208. Since the early 1980s, price subsidies have been reduced and many prices freed. By 1990, 23 per cent of consumer prices remained State administered. In 1991, the Government intends to continue the process of price liberalization. As the scope of import licensing has also been reduced, the role of the tariff and the exchange rate in regulating imports has increased.

209. Another specific feature of Hungary’s Customs tariff is that, in setting the level of duties, consideration was given to Hungary’s trade with Annex A countries. This explains some of the high tariffs in a number of sectors such as machinery (section XVI), vehicles (section XVII) and instruments (section XVIII), concerning products which were not produced by Hungary. The intention behind this policy was to protect imports from CMEA countries against competition from Hungary’s other trading partners.

210. Hungary did not apply its customs tariff to imports from countries listed in Annex A to the Protocol for the Accession of Hungary, unless they were settled in convertible currency. A special import turnover tax was applied for certain goods originating in these countries. In 1990, the import turnover tax was imposed on a large number of raw materials, energy carries, semi-finished products and some consumer goods.

211. Until 1991, the share of convertible currency trade with CMEA members was around 4-5 per cent of imports from and 8-10 per cent of exports to these countries. From 1 January 1991, Hungary’s trade with Annex A

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75 Figyelő, January 10, 1991.

76 Paragraph 3(a) of the Hungarian Protocol of Accession to the GATT allowed for Hungary to maintain "its existing trading regulations with respect to products originating in or destined for the countries enumerated in Annex A hereto". Trade with Hungary with Annex A countries, as it was expressed in the Report of the Working Party appointed for the examination of Hungary’s application to accede to the GATT, "was based inter alia on fixed prices and quotas". See GATT document L/3889, paragraph 7, 30 July 1973.

77 See annexes 1/a and 1/b to Government Decree No 148/1989 (XII.28).

78 The value of imports settled in convertible currency originating in MEA was US$225,165 out of a total of US$150 million respectively, between (Footnote Continued)
countries is settled in convertible currencies. In consequence, Hungary applies its tariff to all imports originating in these countries.

(a) Form of tariff

212. Until the end of 1990, the Hungarian Trade Customs Tariff was based on the Nomenclature of the Customs Co-operation Council. It contained about 3,200 tariff lines and had two columns. The Trade Customs Tariff was applied to goods imported into Hungary on the basis of contracts concluded with "Hungarian economic units carrying out foreign trade activity". Since 1 January 1990, the tariff rates have also been applied to goods brought in by travellers or sent as presents. The Hungarian tariff comprised only ad valorem duties.

213. Since 1 January 1991, the Hungarian Trade Customs Tariff has been based on the Harmonized System. The new Trade Customs Tariff contains about 8200 tariff lines, at nine digit level and has two columns.

214. Column II of the Trade Customs Tariff (CCCN basis) contained the m.f.n. rates of duty. They were applied in convertible currency trade, except for

(i) goods subject to preferential treatment under Hungary's scheme of tariff preferences in favour of developing countries;

(ii) goods imported from least developed countries; and

(Footnote Continued)

1987-1989. The corresponding figures for exports were US$367,469 and 404 million respectively.

79 The term "Hungarian economic units carrying out foreign trade activity" referred to legal entities, economic associations not possessing legal entity and single entrepreneurs which were registered in a list maintained by the Ministry of External Economic Relations or had been specifically authorized by the Ministry.

80 Tariff information included in this Review refers, unless indicated otherwise, to the Hungarian Customs Tariff based on the Nomenclature of the Customs Co-operation Council as, at the time of the completion of the Review, details of the new Hungarian Trade Customs Tariff were not available to the Secretariat.

81 Hungary requested temporary exemption from its obligation under Article II of the GATT until 31 December 1991. In its request Hungary has emphasized that it will ensure that in the process of conversion no change in the tariff rates of bound items, the Initial Negotiating Rights or the product description will take place, and that Hungary is prepared to enter into consultations with any interested contracting parties. (GATT document L/6756, 26 October 1990). The requested exemption was given by a decision of the CONTRACTING PARTIES. (GATT Document L/6777, 10 December 1990).
(iii) goods covered by the Agreement between Hungary and Finland on the Reciprocal Removal of Obstacles to Trade, which are to be considered as products originating in Finland under the terms of the Agreement.

215. The structure of Hungary's new Trade Customs Tariff based on HS is identical with that of the former one and it is applicable to all imports.

216. Goods originating in countries which do not accord unrestricted and unconditional most-favoured-nation treatment to goods of Hungarian origin are dutiable at twice the m.f.n. rate or 20 per cent ad valorem, whichever is greater. Currently, no such duties are applied.

217. Column I of the Trade Customs Tariff contains the preferential rates which are applied to goods originating in, and purchased directly from, developing countries to which preferential status has been given by Hungary. Since 1978, duty-free treatment is accorded to all products imported from least-developed countries.

(b) Tariff averages, ranges and escalation

218. Hungary's simple tariff average was 32 per cent before and 24 per cent after its accession to GATT. After the last tariff reductions resulting from the Tokyo Round entered into force on 1 January 1987, Hungary's tariff average had decreased to 16 per cent. In the period 1987-1990, beyond tariff reductions on tropical products, only minor changes have been made in Hungary's Trade Customs Tariff. They resulted in some tariff reductions. In 1991, the Government intends to introduce tariff reductions which would reduce the tariff average to 13 per cent. These tariff reductions are partly related to the implementation of the conditional concessions resulting from the Tokyo Round (see section (c) for further information).

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82 Under this agreement, from 1985 the importation of all industrial and some agricultural products has been duty free.

83 Until 1980, these rates of duty were contained in Column III of the Trade Customs Tariff. Column III was eliminated by Decree No. 1/1980 (I.16) MT.

84 In determining the eligibility of a developing country for preferential tariff treatment, the main considerations are that (i) its per capita national income should be lower than that of Hungary; (ii) it should maintain normal trading relations with Hungary without applying discrimination; (iii) it should be an Asian, African or Latin American country; and (iv) the origin of the product enjoying preferential tariff treatment should be certified.
219. In 1988, Hungary's average tariff level exceeded that of OECD countries, except for Australia and New Zealand. According to data from the GATT Tariff Study, most developing countries at about the Hungarian level of economic development had higher tariff levels (Chart IV.1).

Chart IV.1
Tariff averages of some Contracting Parties and Hungary Pre-Uruguay Round

Source: GATT Secretariat; Hungarian Government.
220. In 1988, more than two-fifths of imports from m.f.n. sources entered into Hungary under tariffs between 5.1 and 10 per cent. Another 25 per cent were subject to duties between 10.1 and 25 per cent. Less than one-fifth of imports from m.f.n. sources were duty free, the shares being 40 per cent for agricultural products and 15 per cent for industrial products (Chart IV.2).

Chart IV.2
Imports into Hungary by tariff range
1988
(Per cent)

<table>
<thead>
<tr>
<th>Tariff ranges</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free</td>
<td></td>
</tr>
<tr>
<td>0.1-5%</td>
<td></td>
</tr>
<tr>
<td>5.1-10%</td>
<td></td>
</tr>
<tr>
<td>10.1-25%</td>
<td></td>
</tr>
<tr>
<td>25.1-50%</td>
<td></td>
</tr>
<tr>
<td>Over 50%</td>
<td></td>
</tr>
<tr>
<td>Unspecified</td>
<td></td>
</tr>
</tbody>
</table>

Source: GATT Tariff Study.

85 The amount of customs duty paid by importers was Ft. 20.7 billion in 1985; Ft 22.2 billion in 1986; Ft 24.9 billion in 1987; Ft. 22.6 billion in 1988; Ft. 31.7 billion in 1989 and an estimated Ft. 34.8 billion in 1990. In 1989, the amount of customs duty represented 5.9 per cent of government revenue.
221. As evident from Chart IV.3, in 1988 the Hungarian customs tariff was characterized by tariff escalation between primary, semi-processed and finished products. The ratio between tariff averages on finished products and raw materials was around 2.2 on simple average basis. This was lower than for most OECD countries, reflecting relatively high Hungarian tariffs on raw materials (simple average tariff of 4.9 per cent).

Chart IV.3
Average applied tariffs for Hungary by stage of processing, 1988

Source: GATT Tariff Study.

222. Tariff escalation was particularly pronounced in the wood, pulp and base metals sectors. It was below average in the textiles and clothing, leather, rubber, chemicals and mineral sectors (Chart IV.4).
Chart IV.4
Applied sectoral tariffs for Hungary by stage of processing, 1988

Source: GATT Tariff Study.
223. Hungary had fully bound tariffs on 83 per cent of its CCCN tariff lines, covering 88 per cent of Hungary's merchandise imports in 1988. For industrial products, a much larger share of tariff lines (93 per cent) was bound than for agricultural products (23 per cent). In 1988, 26 per cent of agricultural imports and 95 per cent of industrial imports entered at bound rates (Chart IV.5). Hungary's overall level of tariff bindings was lower than in most OECD countries, but high as compared to other countries at Hungary's level of economic development.

Chart IV.5
Imports into Hungary at bound rates of tariffs, 1988

US$ billion, per cent

<table>
<thead>
<tr>
<th></th>
<th>Unbound</th>
<th>Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>74%</td>
<td>26%</td>
</tr>
<tr>
<td>Industry (excl. petroleum)</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td>87%</td>
</tr>
</tbody>
</table>

Total import value: US$ 5.7 billion

Source: GATT Tariff Study.
224. During the Tokyo Round, Hungary made some conditional binding concessions. Accordingly, concessions marked with "XX" "will not enter into force unless and until Hungary's trading partners still applying quantitative restrictions inconsistent with Article XIII of the GATT against export products of Hungary have eliminated these restrictions". In view of the fact that Hungary's trading partners abolished these quantitative restrictions with effect from 1 January 1990, Hungary decided that the tariff reductions would enter into force in 1991.

225. In the light of the overall economic changes, Hungary will also review its tariff bindings. Hungary's general policy is to raise its level of tariff bindings. Nevertheless, Hungary may ask for the renegotiation of some bound tariff items.

(d) Tariff concessions

226. Hungarian customs legislation provides for several tariff concessions in the form of customs quotas, concessional tariffs and tariff suspensions. Every year, the Minister of International Economic Relations and the Minister of Finance publish in the official Gazette a list of products which can be imported under these concessions.

227. Tariff quotas are fixed annually for a small number of selected products. Up to the amount of the quota, the products can be imported duty free or at reduced duties. For 1990, tariff quotas comprised eight ex items of the Brussels Nomenclature. For 1991, eight ex items of the HS are covered.

228. Concessional tariffs may be granted to goods (mainly materials, components and semi-finished products) which are used for a particular production purpose. For example, concessional tariffs apply to certain chemicals if used exclusively for the production of semi-conductors. Decisions on products covered are made in the light of industrial policy objectives. In many cases, the concessions consist of duty-free treatment, and in others of substantial reductions in duties. In 1991, concessional tariffs are applied to 91 ex HS items. Duty-free treatment applies to 10 of them.

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87 Hungary has reserved the right under Article XXVIII:5 of the General Agreement to modify its tariff schedule. GATT document TAR/188, 13 October 1990.
89 Annex 34 to Joint Decree No 3/1990 (II.16) KeM - PM.
229. Under the tariff suspension scheme, duties were either substantially or completely suspended for thirty-two items in 1990. For 1991, partial suspension relates to 31 ex HS items, and full suspension to 5 items.

230. In recent years, the value of goods imported under these tariff relief schemes corresponded to between 1 and 1.5 per cent of Hungary's convertible currency imports.

231. A temporary admission scheme is in place for clearing customs for goods imported temporarily for purposes specified by the Hungarian customs regulations without foreign exchange engagement, or with foreign exchange engagement but with reservation of foreign ownership. Goods imported under this scheme have to be re-exported within the deadline specified in regulations or by the customs office. Otherwise, the goods should be cleared for domestic use and the customs duty has to be paid.

232. At the request of the importer, the National Headquarters of Customs and Excise Authority may, in agreement with the Ministry of International Economic Relations, remit or reduce the duty payable or already paid. The reason for this rule is to offer a possibility in warranted exceptional cases for duty remittance or reduction (e.g. to rectify the effects of possible anomalies in the tariff structure). The provision has rarely been used, and the Government intends to abolish it.

233. Hungary operates a duty drawback system. The duty collected will automatically be refunded by the customs office, if within two years from the date the duty falls due it is certified that the imports cleared for home use have been used to manufacture goods for export and that these goods have been exported. Duties are also refunded if the goods are for some reasons returned later to the supplier or if there was an overpayment of duty.

(e) Duty-free zones

234. In agreement with the Ministry of International Economic Relations, the Ministry of Interior and the Ministry of Transport, the National Headquarters of Customs and Excise authority may designate, on request, a duty-free zone. A duty-free zone is considered as a foreign territory in respect of customs, foreign exchange and, unless otherwise provided, foreign trade regulations.

235. Goods may be delivered to a customs-free zone without the payment of duty. Use of duty-free territories for retailing is prohibited. For the establishment of manufacturing units, the authorization of the Ministry of Finance and the Ministry of International Economic Relations is needed if the participation of foreign companies exceeds 50 per cent. Goods entering Hungary from duty-free territories are to be regarded as imported directly

Annex 4 to Joint Decree No 7/1990 (XII.30) NG5KM-PM.
from abroad. The total number of duty-free areas was 109 in 1990, among these 66 industrial duty-free zones.

(f) Tourist trade

236. Before 1990, special (lower) customs tariffs were applicable to goods brought in by travellers or sent as presents. Also, no value added tax was imposed on these imports. This differential treatment contributed to a substantial increase of "private imports" which helped to offset bottlenecks of consumer goods on the home market.

237. In response to a sharp increase in this "private foreign trade", customs (and foreign exchange) rules concerning passenger and gift traffic were made more restrictive in 1989. From 1 January 1990, the same tariff rates have been applied to "tourist trade" as to other imports. From the same date, the value added tax has also been applied for these imports.

(g) Tariff preferences

238. In 1972, Hungary introduced a scheme of tariff preferences in favour of developing countries. Preferential tariff rates were applied to 60 products. The number of beneficiary countries amounted to fifty-seven.

239. Since 1972, Hungary has developed its GSP scheme in several stages. This resulted in the broadening of the coverage of products falling under preferential treatment, reductions in preferential tariff rates and the extension of the list of beneficiary countries.

240. At present, the number of beneficiary countries is 109. In 1990, about 1,500 tariff lines, corresponding to about one-half of all tariff lines, are subject to preferential rates. Duty-free treatment was accorded for approximately 600 products. For other products covered by the GSP scheme, m.f.n. rates were reduced by between 50 and 90 per cent. For items for which no rate of duty was shown in Column I of the Trade Customs Tariff, m.f.n. rates were applied to imports from GSP beneficiaries. The most important items in this category included meat and edible offals;

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91 In 1989, customs duties were imposed on consumer goods worth over US$1 billion. In addition, 68,000 passenger cars were imported by private persons. For details on the new regulations see appendix 1 to the joint decree No. 39/1976 (XI.10) PM/KKM as established by the joint decrees No. 17/1989 (IV.1), No. 34/1989 (VIII.31) and No. 46/1986 (XII.27) PM/KeM.


dairy products; preparations of meat and fish; miscellaneous edible preparations; aluminium and products; and ships and boats. About 95 per cent of imports from beneficiary countries receive GSP treatment on the Hungarian market.

241. The Hungarian GSP scheme does not contain any quotas or ceilings limiting the value or quantity of imports receiving preferential treatment. In 1989, the value of goods imported under Hungary's GSP scheme represented 3.8 per cent of Hungary's total imports of merchandise, down from 6.2 per cent in 1985.

242. Since 1 January 1978, Hungary has accorded duty-free access to all imports sourced directly from least-developed countries. This special treatment within the framework of Hungary's GSP scheme has been granted without any quantitative restrictions. At present, 41 least-developed countries are beneficiaries of this treatment, but the amount of trade involved is very low.

243. In the framework of the mid-term review meeting of the Uruguay Round, Hungary tabled an indicative offer of tariff reductions on tropical products to be included within its GSP scheme. These tariff reductions entered into force on 27 June 1989.

(h) Rules of origin

244. Hungarian customs rules contain different provisions concerning the certification of origin depending on the source of importation. The general rule is that products are considered to be originating in the country where they were produced or underwent substantial processing. The criterion for substantial processing is that the value added by processing should exceed 50 per cent of the total value of the finished product. In case of importation from countries enjoying m.f.n. treatment, no certificate of origin needs to be presented, unless specifically requested by the customs authorities.

245. Regarding rules of origin for products imported under the GSP scheme, Hungary has applied, as from 1981, the "Agreement on uniform rules for determining the origin of goods from developing countries in connection with the granting of tariff preferences under the general system of preferences." 


95 The Agreement was worked out within the CMEA and signed in Moscow, on 5 June 1980, by five Eastern European preference-giving countries, including Hungary. According to the Annex of the Agreement "Goods shall be considered to be obtained in a country covered by the preferential tariff system in the following cases: (a) When they are wholly obtained in the (Footnote Continued)
246. Under the Agreement between Hungary and Finland on the reciprocal removal of obstacles to trade, goods imported from Finland should be accompanied by a declaration of origin established in accordance with Protocol No.3 of the Agreement.

(i) Customs valuation

247. Since 1980, Hungary has been a signatory to the Agreement on Implementation of Article VII of the GATT. The provisions of the Agreement have been incorporated into the Hungarian legal system.

248. In Hungary, dutiable goods are cleared by the customs office at the request of the person entitled to dispose of the goods. Customs clearance requires a declaration of goods. When requesting the customs clearance of dutiable goods imported in the course of foreign trade activity, an invoice must be attached to the declaration, unless the goods are to be further transported or stored outside a bonded store. At border customs stations, customs clearance may be requested without invoice, but the invoice must be presented within the following 60 days. The concept of customs clearance includes the passing of the goods, storage, clearance for domestic use, inbound processing, export control, temporary export permits and control of exit.

249. Under Hungarian customs law, an appeal is possible to the authority that is the immediate superior of the organ making the customs clearance. The decision on the appeal is final. However, in respect of determination of the customs value, decisions of the second instance can be contested before the courts.

(ii) Other levies and charges

250. All imports settled in convertible currencies are subject to a 2 per cent customs clearance fee. Imports are also subject to a

(Footnote Continued)

country in question; (b) when they are obtained in the country in question with the use of raw materials or semi-finished or finished products originating from another country or of unknown origin, provided that such products have undergone sufficient working or processing in the exporting country ...". The Agreement indicates the conditions under which particular goods shall be considered to be wholly obtained in a country covered by the preferential tariff system and defines the requirement concerning "sufficient working or processing" in the exporting country. The Agreement also provides for full and global cumulation.

96 Decree No 57/1980 (XII.27) MT.

97 For details see Joint decree of the Minister of Finance and Minister of Foreign Trade No. 39/1976 (XI.10) PM-KKM.
statistical fee of 3 per cent and, if subject to import licensing, to a licensing fee of 1 per cent.

251. In 1988, a general turnover tax (VAT) was introduced as part of a comprehensive tax reform. The VAT operates with three rates. Most products are taxed at the normal 25 per cent rate. A reduced 15 per cent is applicable to basic consumer services. A zero rate is applicable to essential food products, pharmaceuticals, books and a few other goods. In case of exports, the VAT is fully refunded. In case of domestic use or consumption, the VAT is levied irrespective of the domestic or foreign origin of the products or services.

252. On a number of consumer goods, excise taxes (called "consumer taxes") are levied as established by Law No LI of 1989 (Table IV.1). Since 1 January 1991, no differentiation is made between domestic and foreign products. Until the end of 1990, for cigarettes imported from convertible currency sources or produced under a foreign licence, the consumer tax was substantially higher than for domestically produced cigarettes. Decree No 1/1991 (I.1) of the Government eliminated consumer taxes on pepper, fur garments, crystals and chinaware. The differentiation in taxation between imported and domestically produced cigarettes was also abolished.

(iii) Import prohibitions and restrictions

253. Imports of certain goods are subject to specific conditions or restrictions contained in the following regulations:

- Law-Decree No 15 of 1986, promulgating the Washington Agreement of March 3, 1973 on the trade in endangered species of animals and plants;

- Decree No 61/1990 (X.1) of the Government introducing a special mechanism and permission for the traffic of certain internationally controlled goods and technologies;

- Law-Decree No 25 of 1979 and joint Decree No 4/1980 (VIII.16) of the Ministers of Health and Internal Affairs promulgating and implementing the Vienna Convention of 21 February 1971 on psychotropic products; and

- Government Decree No 112/1990 (XII.23) listing in its Annex 1/b specific product groups, such as nuclear products, uranium ore; materials and equipment suitable for producing and handling

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98 Act XLIII of 1990.

99 For imported cigarettes forint 1600/1000 pieces against forint 770/1000 pieces for domestically produced cigarettes.
biological weapons; military hardware; hunting and sporting guns and ammunition; and waste suitable for recycling.

Except for any further specific requirements maintained for non-commercial reasons, all these products are subject to import licensing.

(iv) Import licensing

254. Until January 1989, importation (and exportation) of all products and services were subject to licensing in Hungary. During the negotiations leading to Hungary's accession to the GATT, the objectives of the licensing system were described by the Hungarian authorities as follows:

(a) "Control of the import and export activity. The licensing system is a means of checking that only those enterprises should pursue foreign trade activity which are authorized to do so.

(b) Control and influencing of the fulfilment of Government obligations assumed on a reciprocal basis in the bilateral agreements.

(c) Safeguarding of the balance-of-payments situation in such a way that imports can continuously increase in proportion to the increase of exports."

255. In the Report of the Working Party on the Accession of Hungary, it was noted "that imports of all products into Hungary were subject to licensing. The representative of Hungary assured the Working Party that his country's licensing system was not operated in a discriminatory manner. He stated that possession of a licence automatically entitled an importer to the necessary foreign exchange, and that an enterprise having been granted a licence has the right in its framework to use it for import. He declared that it was the intention of the Hungarian authorities to carry on a liberal practice provided that balance-of-payments considerations would not hinder this practice and provided that no discriminative quantitative restrictions would be applied by contracting parties against Hungary."

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100 GATT document L/3301, paragraph 3, 26 January 1970.

101 GATT document L/3889, paragraph 15, 20 July 1973. The operation of the Hungarian import licensing system has been at the centre of attention at several meetings of the Working Party on Trade with Hungary. At the second meeting of the Hungarian Working Party, in reply to a comment which referred to "the inability of importers to get licences and foreign currency" for some imports, the Hungarian delegation stated that "... for all practical purposes licences were granted automatically." See GATT document L/4633, paragraphs 22-23, 28 February 1978.
256. In 1980, Hungary signed the GATT Agreement on Import Licensing Procedures. It notified its import licensing as "non-automatic" in the sense of Article 3 of the Agreement.

257. With effect from 1 January 1989, Hungary’s import licensing system governing imports in convertible currencies has been changed. For products representing about 40 per cent of Hungary’s imports in convertible currencies, the licensing requirement has been terminated. With effect from 1 January 1990, another 30 per cent of Hungary’s convertible currency imports has been freed from licensing.

258. In 1991, the import liberalization process has been continued. Annex 1/b to Government Decree No 112/1980 (XII.23) lists products which remain subject to licensing (Table IV.2). At present, according to a calculation made by the Hungarian Government, over 90 per cent of imports is licence-free. However, information on the number of tariff items without import licensing requirements, and their share in the total number of tariff items, has not been available for this report. Liberalization has not covered the food sector, some mineral products (like iron ore, bauxite) coal, semi-finished and finished buildings, overground construction activities, a number of chemical products, pharmaceuticals, military goods, vehicles and telecommunication articles. The consumer goods quota has also been maintained.

259. The choice of goods for import liberalization was based on the following aspects:

- Promotion of restructuring by imports of advanced techniques and technologies in the form of machinery and components;

- Where imports of finished products are licence-free, imported inputs should also be liberalized;

- Exposing product areas to competition where (i) there is no chance for domestic producers to become competitive, or (ii) a relatively favourable competitive position of domestic producers could be assumed.

102 The number of tariff lines affected by import liberalization according to international nomenclatures cannot be exactly calculated. Products subject to import licensing have been specified on the basis of the Hungarian foreign trade nomenclature which differs substantially from both the CCCN and the HS nomenclature.

103 The calculation was based on Hungary’s imports settled in convertible currencies in 1990. The value of these imports amounted to US$6.4 billion.
260. Furthermore, consumer durables, including items previously subject to "tourist imports", such as computers, technical products, components, subassemblies, entertainment electronics and deep-freeze boxes, have been liberalized.

261. In 1989, imports of some liberalized items increased substantially over the preceding year. For example, imports of machinery expanded by 35 per cent; materials and components by 13 per cent; and consumer goods by 79 per cent. Total imports in convertible currencies (US$ terms) increased by some 5 per cent, while those of liberalized items by over 24 per cent. According to data for 1989, the share of liberalized products amounted to 42 per cent of convertible currency imports, compared with 35 per cent one year ago.

262. As a result of import liberalization, competition has become more vigorous on the domestic market. Fewer complaints were registered about the lack of imports. Operation and production methods in manufacturing plants have become safer. The supply of consumer goods which had been the targets of "shopping tourism" has improved. Several producers are reported to have been able to reduce production costs because they no longer run into production bottlenecks due to delayed licensing. Other effects of the import liberalization included a more accentuated "dollar-rouble conversion". For several products, imports from CMEA sources dropped, although not necessarily only because of liberalization.

263. The legal basis of licensing has been established by Law No. III of 1974 on Foreign Trade. The detailed regulation based on this law was issued by the Government and the Minister of International Economic Relations. The fundamental principle of import licensing is that foreign-trade contracts can only be concluded, modified and executed after

104  Imports of colour TVs increased by 132 per cent, that of children's clothing by 571 per cent.

105  In 1990, according to the calculations made by the Ministry of International Economic Relations, one third of domestic production has been competing with imported products as a result of import liberalization, up from 14 to 15 per cent in 1989. In 1991, this ratio is estimated to reach 60 per cent.

106  This term refers to a situation when a product containing spare parts or basic materials imported against dollars was sold to the rouble area.

107  Hungaropress, Economic Information, 1990/1.

a licence has been obtained from the Ministry of International Economic Relations.

264. Until the end of 1990, all products which were not included in the import liberalization list continued to be subject to import licensing regardless of their source. From 1 January 1991, the basic principle is that foreign trade operations are not subject to licensing, unless otherwise stipulated (Government Decree 112/1990 (XII.23)). Accordingly, a positive list is annexed to the decree enumerating the products which are covered by licensing requirements (for the list of products subject to import licensing, see Table IV.2). Furthermore, the decree authorizes the Minister of International Economic Relations to make exports and imports subject to licensing for national security reasons; in emergency situations jeopardizing the supply of basic necessities; and for reasons justified by international obligations of the Government. The decree also provides that imports or exports can temporarily be subjected to licensing with respect to countries where bilateral trade relations are not based on market economy institutions and instruments.

265. Apart from the administration of the import quota for consumer goods (see following section), the declared purpose of the import licensing system has been

- to pursue a liberal import policy, provided that no discrimination of any kind is applied towards Hungary by contracting parties still maintaining quantitative restrictions;

- to ensure that only companies registered to conduct such activities should engage in importation;

- to observe statistically the conclusion of foreign trade contracts and imports; and

- to observe and influence the implementation of fixed quotas in trade with Annex A countries.

266. Applications for import licences can be lodged with the licensing authority (Ministry of International Economic Relations) by legal entities, economic associations not possessing legal entity or single entrepreneurs which carry out foreign trade activity in accordance with the provisions

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109 Presently no such countries have been identified by Hungarian legal regulations.


111 No longer applicable with effect from the beginning of 1991.
By the end of 1990, there were over 10,000 economic units listed in the register of foreign trading companies.

Detailed information is required in applications. The applicant may be required to enclose supplementary information and certification. It is sufficient to indicate that permits required by other legal rules or other certificates of compulsory registration (for example, plant or animal health certificates, safety certificates, etc.) have been obtained; it is not necessary to present them.

Until the end of 1990, applications could be introduced for individual or general licences. The individual licence entitled to the conclusion and performance of a foreign trade contract in accordance with the conditions determined in the licence. General licences gave the right to conclude and perform foreign trade contracts in respect of the goods or services determined in the licence in respect of a certain country or countries. The vast majority of imports subject to licensing was carried out on the basis of general licences. From 1991, general licences are not used any more. For products which are still subject to licensing, individual licences can be issued.

Until the end of 1990, Hungarian legal rules specified neither the minimum nor the maximum length of time for processing applications. Licences were generally issued within 10 days. From 1 January 1991, Hungarian legal rules set 15 days for processing applications.

The licence entitles the purchase of foreign currency of the amount given in the licence in accordance with foreign exchange regulations. Wherever a licence is needed, its possession is a condition to obtaining foreign exchange. Since 1989, a forint cover requirement applies to all imports, which means that the foreign exchange can duly be purchased from the National Bank of Hungary if the importer's bank certifies that the necessary forint cover is at the disposal of the importer.

For a short description of the most important provisions of the Decree see Chapter II.

The information includes the name and number of company, name of executive, serial number of application, date of submission, country of origin, contracting country, forwarding terms, conditions of payment, year of quota and serial number (if applicable), nature of transaction, number of article, denomination and quality of goods, quantity unit, quantity, unit price, currency, value in foreign exchange and in forint and the domestic buyer.

Bulletin No. 8001/1989 (PK.5) MNB. Earlier, the import cover requirement was only applied to imports for investment purposes (Bulletin No. 406/1976, MNB-AFB.)
equivalent of the transaction value has to be deposited in a blocked bank account.

271. Unless otherwise specified in the licence, its validity is for 12 months. In case of expiry, a new application should be filed.

272. There are no published criteria for issuing import licences. At the beginning of 1988, a "Normative Import Licensing System" (SALDO) was introduced. Under this system, the value of imports of certain enterprises was agreed with the Ministry of Trade at the beginning of the year, and enterprises were then free to import goods (except finished consumer items) up to the agreed value without further scrutiny. The value of these automatic licences would increase (decrease) in a preset proportion if the firm's exports exceeded (fell short of) a predetermined level. The share of these enterprises was about 50 per cent in convertible imports and 70 per cent in convertible exports. The scope of this system was largely reduced by the partial liberalization of imports in 1989. Enterprises that did not participate in the SALDO system had to obtain specific licences for those imports that remained subject to licensing. The system was abolished in 1990.

273. From 1 January 1991, the issuing of a licence is rejected if justified by reasons of national security, compliance with international obligations or a situation which jeopardizes the supply of basic necessities. The application is also to be refused if data in the application are misleading; if special authorizations prescribed by other legal regulations have not been enclosed; if the applicant is engaged in trade in goods subject to specific authorization (Table II.1B) and the applicant does not conform with the specified conditions. Upon request the reasons for refusal should be given. In the event of refusal, applicants have a right of appeal to the Minister of International Economic Relations. Decisions of the Minister are final; applicants can not appeal to a tribunal.

274. Apart from product specific liberalization, a number of foreign trade activities have been exempted from the licensing obligation. They include
- re-export of goods and inward processing in Hungary, except for cases when such exports/imports are related to commitments entered into by Hungary under international agreements;

115 Between 1985 and 1988, major exporting enterprises (their number was above 200) had benefited from a never-published enterprise-specific "orientation import quota". Within the framework of their quota, enterprises enjoyed a great deal of security regarding their imports. See, Heti Világgazdaság (1989), 28 January 1989, pp. 50-51.

116 See Section (iii) above.
contracts for transportation of goods carried out by foreigners, and for forwarding of goods:

- insurance in respect of foreign trade activity;

- importing or exporting of product samples and gifts; and

- foreign trade contracts on works protected by copyright.

Imports committed to be returned in unchanged condition are licence-free, as are goods carried abroad with the obligation of bringing them back in unchanged condition.

275. In 1990, 27 import applications with a total value of US$5.5 million were rejected regarding trade in convertible currencies. In the same year, 2,097 import applications with a total value of 135.3 million roubles were rejected regarding trade in non-convertible currencies.

(v) Import Quotas

276. At the time of Hungary's accession to GATT, Hungary maintained quantitative restrictions on electric energy, automobiles, foundry and furnace coke, fertilizers and consumer goods imported from convertible currency sources. During the negotiations for Hungary's GATT accession, the Hungarian delegation pointed out that "...the need for maintenance of such restrictions in Hungary arose from balance-of-payments considerations and ... they were consistent with Articles XII-XIV". The Working Party noted the statement of the representative of Hungary that, after accession, his country would consult on its quantitative restrictions under the relevant Articles of the General Agreement.

277. Since Hungary's accession to GATT, the Hungarian Working Party has regularly reviewed the application of these quantitative restrictions. Since 1973, Hungary has maintained quantitative restrictions only on consumer goods. In 1982, Hungary invoked Article XII of the GATT and introduced some trade measures, including import quotas for certain primary products. The global quota on consumer goods also remained in force.

278. The value of the consumer goods quota was gradually increased from US$100 million in 1984 to US$200 million in 1990. In addition to the increase of the quota, a number of items have been removed from its coverage and were put on the list of products not requiring import

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117 GATT document L/3426, paragraphs 49-51, 1 September 1970.


119 GATT document L/5363, 7 September 1982. This quota was abolished in 1989.
licensing. They include spices, children's clothing and household appliances. The list of products which were included in the quota is presented in Table IV.3.

279. The value of the quota was published annually in the Trade Gazette. The quota was not broken down by countries or importers. Licence applications against the quota for consumer goods were examined on receipt. Licences were granted immediately in the order of arrival of applications until the quota was used up. If applications exceeded the value of the quota, past retail trade performance was taken into account by the authority in allocating licences. The licensing authority did not prescribe the source or the country from which to import. As a number of consumer goods were not covered by the consumer goods quota, the overall value of imports of consumer goods from contracting parties was several times the value of the quota.

280. With effect from 1 January 1991, the rules regarding the consumer goods quota have been modified. The value of the quota is set for a six-month period and quotas are published in the Official Gazette 30 days in advance. The validity of the licences issued under the quota is 120 days. The Ministry of International Economic Relations (MIER) may set individual ceiling amounts within the global quota for individual product groups and may also set the maximum share of utilization within the quota by one importer. Along with product groups, individual country shares can be allocated, based on past performance. Individual product group ceilings may be increased by the unused portion of other product groups. The MIER may also establish a supplementary quota. Licences are granted on a "first come, first served" basis (for the list of goods covered by the quota see Table IV.4).

281. The new global quota on consumer goods incorporates some other quotas which were established separately until the end of 1990. These quotas include the quotas which were established for the exchange of goods between Hungarian department stores and department stores of some convertible currency countries; and the quotas used in the border trade with Yugoslavia, the Czech and Slovak Federal Republic and Romania. Outward processing is also covered by the consumer goods quota.

282. The value of the consumer goods quota for the first half of 1991 has been set at US$250 million \(^{121}\), and at US$650 million for the whole 1991. The quota for the first six months covers 15 product groups. Sources of imports, individual country shares and the maximum share which can be applied for by one applicant are also specified (Table IV.5). A number of consumer goods (undergarments, spices, household appliances and consumer

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121 In February 1991, the quota has been increased to US$302 million.
electronics) are not covered by the quota, nor are they subject to import licensing. Thus, the overall value of imported consumer goods is expected to exceed the amount of the quota.

(vi) Countertrade

283. Countertrade has been frequently addressed at meetings of the Hungarian Working Party. At the second meeting of the Working Party, reference was made to the increase in countertrade activity in Hungary. The point was made that the reason for this was the inability of importers to get licences in respect of some imports.122

284. The Hungarian delegation referred the Working Party to an official statement which laid down the views of the Hungarian administration with respect to countertrade, underlining that it was up to the individual enterprises to decide whether or not to conduct countertrade. It was also stated that these kinds of company practices were against the Hungarian trade policy guidelines and were thus discouraged by the Government. The main elements of the official statement are:

- Forms of countertrade transactions should be eliminated where such products are imposed on the partner which the enterprise itself is unable to sell, or for which it has no marketing organization for proper distribution;

- countertrade deals are considered useful, if the foreign supplier is the user of the counter items offered, or if it has an established commercial organization for the distribution of the counter items;

- uneconomical or obsolete products of inferior quality should not be offered as counter items, because it is not desirable to conserve outdated production through countertrade;

- in the case of purchase of capital goods, the offer as counter items of goods produced with the equipment bought should serve the purposes of improvement of quality, guarantee, or the introduction of the goods on the market.123

285. Since the publication of this official statement, Hungary has not changed its attitude to countertrade.124 In paragraph 3 of Article 10 of the EEC-Hungarian Trade Agreement, the parties agreed that "counter-trade

122 GATT document L/4633, paragraph 22, 28 February 1978.


practices may create distortions in international trade and they should be regarded as temporary and exceptional. For this reason they agree not to impose counter-trade requirements on companies established in the Community or in Hungary nor to counsel them to engage in such trade practices*.

286. According to some business reports, the substantial phase-out of import licensing resulted in a decline in countertrade. Enterprises which formerly had to export goods in countertrade to finance their import purchases can now import a number of products without an import licence. Many of these items were formerly acquired within the framework of compensation deals. They are now purchased in straight commercial contracting.\(^{125}\) (Hungary does not collect data on countertrade.)

(vii) Standards and other technical requirements

(a) Standards

287. Hungary is a signatory to the GATT Agreement on Technical Barriers to Trade (Standards Code). The Hungarian Standardization Office, a Government agency, has overall responsibility for the standards system. The Office has the legal power to implement Government policy regarding standardization. The expenses of the Office are covered by the budget of the Government. Legal supervision over the activity of the Office is carried out by the National Committee for Technological Development on behalf of the Government.

288. The Government intends to reform the system of standardization bodies. As in most western European countries, The Hungarian Standardization Office will operate in the form of an independent standard institute by 1992-93. The institute will be financed through revenue from its services rather than from budgetary sources. It will provide the technical background for drafting standards and related rules of law. Sectoral standardization bodies will cease to exist. It is expected that independent trade and industry associations will also deal with issues relating to standardization.

289. In Hungary, there are presently two types of State standards, notably national and sectoral standards. National standards are issued by the Hungarian Standardization Office. They are binding and supersede any sectoral standard. Sectoral standards are issued by individual ministries and some other central government agencies.

290. National standards are in conformity with international norms. Hungary participates in the work of the International Organization for

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\(^{125}\) Business Eastern Europe, 8 May 1989.

\(^{126}\) The basic legal instrument on standardization is Decree 78/1988 (XI.16) MT on standardization and product quality.
Standardization (ISO) and the International Electrotechnical Commission (IEC). Hungary also participated in the standardization activity of the CMEA. In addition, especially because of Hungary's present and intended future relations with the EC and other western European countries, Hungary maintains a close relationship with several foreign, in particular European standardization bodies.

291. Among the 19,000 Hungarian standards in force, there are 40 IEC, 21 EN, 723 ISO, 18 ISO guide and 2,100 CMEA standards (most CMEA standards were adopted in the machinery sector). The remaining Hungarian standards are based mostly on DIN and BSI standards. With the intention of changing the CMEA orientation of its standards, Hungary declared in 1990 that it would not continue to participate in CMEA standardization activities. In practical terms, Hungary already has suspended the application of its legislation relating to CMEA standards and intends to modify its relevant laws and regulations.

292. Hungarian standards are also applicable to imported products. However, importers can derogate, without any specific authorization, from the application of a Hungarian standard, unless the derogation would concern specifications regarding human life, health or safety. In such cases a specific authorization is needed from the Standardization Office. Decisions in these issues are taken by a Professional Committee, whose members do not include the representatives of Hungarian producers of the items at issue. Decisions are taken on the basis of professional considerations.

293. Certificates issued by foreign institutions, indicating the compliance of products with Hungarian standards based on international or other national standards, are recognized only on a contractual basis. The Hungarian Standardization Office has already concluded such a contract with the German TÜV. Contracts with some other western European institutions are in preparation.

(b) Quality Control

294. In Hungary quality control plays an important rôle in ensuring the products' conformity with standards and quality requirements, as well as in protecting consumers' interests. New consumer goods, whether manufactured domestically or imported, are controlled by the Commercial Quality Control Institute (KERMI). They can only be introduced into the Hungarian market if they satisfy the requirements of health, safety and consumer protection regulations. The Hungarian Electro-technical Control Institute (MEEI) controls the compliance of both domestically manufactured and imported electro-technical products with the Hungarian standards relating to protection against electric shock. For marketing of these products in Hungary, an affirmative MEEI certification is needed.

295. Domestic and foreign pharmaceuticals must be registered with the National Hungarian Institute for Pharmacy (OGYI). After registration, approval for merchandising must be requested from the Ministry of Health.
Veterinary drugs are also subject to registration. They can only be imported by designated importers.

(c) Health and sanitary regulations

296. Animals and animal products can only be imported on the basis of a veterinary permission issued by the Ministry of Agriculture. They must enter into Hungary through veterinary border check points and be accompanied by a valid veterinary certificate. Imported animals should stay in quarantine for a period of 15 (birds) or 30 days (mammals). For imports (or exports) of breeding animals (or propagation materials) a separate permission is needed from the Ministry of Agriculture. Hungarian rules follow international regulations in the subject. Hungary has been a founding member of the Office of International Epizootics.

297. Importation of plants can be made only through designated checkpoints, but no case-by-case licence is needed. Hungary is a member of the IPP Convention and follows EPPO standards and recommendations.

(d) Marking and labelling regulations

298. Law IV of 1988 on food and its implementing decree No. 10/1988 (VI.30) MEM-SZEM established rules for marking and labelling food products which have to be applied to both domestic and imported products. The main rule is that basic data should be indicated in Hungarian, such as net quantity, name and address of the producer (in case of imported products the name of the company bringing the product in circulation), the deadline for consumption, the temperature for storage, a listing of ingredients and additives, energy content, and the symbol of the Hungarian standard if the product was produced on its basis. In the case of products of small surface and some other products, the number of data to be indicated is more limited. There are some specific rules for products containing alcohol or vitamins.

299. Products of the cosmetics industry should indicate in Hungarian such basic data as the denomination of the product; its function, handling instructions if justified; date of production, and deadline for its utilization; the name of producer (or importer); quantity of the product or volume; and precautionary instructions. According to Decree No 2/1984 BKM, users' manuals should be provided with consumer durables. The treatment of imported and domestic products is the same.

300. There are specific marking and labelling requirements in force concerning human and animal pharmaceuticals.
(viii) **Government procurement**

301. In Hungary, there are no specific legal provisions for government procurement. However, Decree No 36/1988 (VIII.16) of the Minister of Finance on tendering includes a general rule that a tender should be invited if the purchase is financed partly or wholly from budgetary sources and the value of contract exceeds forint 10 million or forint 2 million in case of technical services. The decree does not differentiate between domestic and foreign suppliers.

(ix) **Local content requirements**

302. Hungary does not apply any local content requirements. However, according to press reports, in some cases licences to establish joint ventures with foreign participation were issued subject to the condition that the convertible currency balance of the joint venture will be positive after a certain period of time (see Chapter III). The licensing requirement for joint ventures has been abolished with effect of 1 January 1991.

(x) **Import price subsidy**

303. Until the end of 1990, an import price subsidy was paid on imports of energy carriers bought from convertible currency sources. The subsidy was to reduce the price of imports from these sources to the internal prices resulting from cheaper imports from CMEA sources.\(^\text{128}\) This subsidy was abolished by Decree No 148/1989 (X11.28) MT.

(xi) **Safeguards**

304. Until recently Hungary did not have any specific safeguard legislation. However, paragraph 5 of the Protocol for the Accession of Hungary to GATT includes a specific safeguard clause. Being part of the Accession Protocol, this clause has been incorporated into the Hungarian legal system. It can be applied reciprocally, by both individual contracting parties and Hungary.\(^\text{129}\) To date, Hungary has never applied paragraph 5 of its Protocol of Accession.

305. Hungary’s bilateral agreements with the United States and the European Economic Community also include a bilateral safeguard clause which

\(^{128}\) The amount of subsidy was (in Ft. billion): 5.6 in 1985; 1.5 in 1986; 0.55 in 1987; 2.3 in 1988; and 2.1 in 1989.

can be applied on a reciprocal basis. These bilateral safeguard clauses have never been used.

306. Hungary's transformation to a market economy, the phasing-out of import licensing and the shift from CMEA to western markets increased import competition in Hungary. In this context, the Government adopted Decree No 113/1990 (XII.23) on safeguard measures. The Decree, which entered into force on 1 January 1991, is based on the safeguard provisions of the Protocol of Accession of Hungary to the GATT. The Protocol allows to take safeguard action selectively. According to Section 1 of the Decree, safeguard actions can be taken if any product is being imported into Hungary in such increased quantities or under such conditions as to cause or threaten serious injury to domestic producers of like or directly competitive products.

307. Any safeguard action is limited to a duration of one year. The Minister of International Economic Relations may take the following safeguard measures: establishment of import quotas; introduction of surcharges; initiation of quality and/or price related arrangements with the exporters concerned; and other measures which prevent or remedy the injury. These other measures may include the withdrawal or modification of import licences or the introduction of import licensing.

308. Safeguard procedures can be initiated by the domestic producers effected by the imports or they can be started ex officio. The procedure shall be finished within 90 days.

(xii) Anti-dumping and countervailing duties

309. Hungary has signed the GATT Anti-dumping Code and has incorporated the Code in its legal system. To date, Hungary has made no recourse to anti-dumping actions. Government Decree No 111/1990 (XII.23) on the application of anti-dumping measures entered into force on 1 January 1991. According to the Decree, anti-dumping investigation may be initiated at the request of the domestic producers affected or ex officio. Initiation of the investigation should be published in the Official Gazette. Cases have to be terminated with 120 days. Anti-dumping duties can remain in force for a maximum period of five years.

310. Hungary is not signatory to the GATT Subsidies Code. There have been no countervailing duty actions on the part of Hungary.

(2) Measures Directly Affecting Exports

(i) Export duties

311. Hungary generally does not impose export duties or charges. However, Government Decree No 61/1990 (X.1) provides for the possibility to impose a levy in certain cases on exports of agricultural products. This provision was applied in a few cases for the exports of pigs and live rabbits, both being produced in Hungary at costs below world market price levels.
(ii) **Minimum prices**

312. Hungary is a member of the International Dairy Agreement. Minimum export prices apply to all dairy products covered by the three protocols of this Agreement.

313. Minimum export prices apply under export restraint arrangement on steel products with the EEC. Under the arrangements conducted with the EC authorities, Hungarian exporters are to observe EC threshold prices for certain types of wine, cheeses and pig meat.

314. In case of non-compliance with the EC agricultural threshold prices, EC rules penalize all Hungarian exporters, even if the below-threshold price sale was made by just one exporter. In such cases, according to Hungarian civil law, companies suffering damage due to the EC sanctions can sue the exporter whose prices triggered the sanctions.

(iii) **Export prohibitions and restrictions**

315. Exports of certain goods are subject to conditions and/or restrictions contained in the following regulations:

- Law Decree No 15 of 1986, promulgating the Washington Agreement of 3 March 1973 on trade in endangered species of animals and plants;

- Law Decree No 25 of 1979 and joint Decree No 4/1980 (VI.24) of the Ministers of Health and Internal Affairs promulgating and implementing the Vienna Convention of 21 February 1971 on psychotropic products; and


316. Up to 1990, a large number of export prohibitions and restrictions maintained by the member countries of the COCOM Committee applied to Hungary. In response to the fundamental changes in Hungary, these measures have been eased substantially or abolished. At the same time, Hungary undertook to ensure by an appropriate export control mechanism that products imported and subject to COCOM regulations are not diverted to other purposes or other destinations. Rules concerning the trade in such goods and technologies are laid down in Government Decree No 61/1990 (X.1). Annex 1/a to Government Decree No 112/1990 (XII.23) lists products which are, apart from export licensing, subject to special conditions or requirements maintained for non-commercial reasons. These products include materials and equipment suitable for producing and handling biological weapons, military hardware, hunting and sporting guns and ammunition, and waste suitable for recycling.

317. A number of products are subject to obligatory quality control before exportation (Decree 2/1968 (V.30) KKM). The list of products
subject to control is contained in Table IV.6. The purpose of quality control is to determine whether the quality of goods to be exported meets the requirements of the export contract or whether the quality of the product otherwise meets export or other special requirements. The quality control of the goods subject to this obligation must be entrusted to the MERT Quality Control Ltd. However, a negative certificate issued by MERT does not prevent the exporter from exporting the goods in question.

318. As noted in Chapter II, a number of goods and services can be exported only by economic units which have been specifically authorized. For some product groups, there is only one or a very limited number of exporters. Export control measures are also taken in connection with the administration of export restraint agreements or in connection with specific market regulations maintained by some importing countries (slaughtered poultry - EC, Austria and Switzerland; goose liver - EC).

(iv) Export licensing

319. Until 1990, all Hungarian export contracts were subject to licensing. As far as convertible currency exports were concerned, export licensing served largely statistical purposes. In case of voluntary export restraint arrangements (steel, textiles, sheep and sheepmeat), export licensing was used as an instrument for the implementation of the arrangements. Export licensing was also to ensure that only authorized companies export goods and services whose exportation was not free for all companies.

320. Trade with countries listed in Annex A to Hungary's Protocol of Accession to GATT was based on bilateral inter-governmental agreements. In

130 Section 11 of Government Decree No. 112/1990 (XII.23) lays down the following rules: "(1) In case the Government of the Hungarian Republic itself or the organization by the Government so authorized entered into an international treaty regulating trade, then the firms who are trading in the same type of goods must establish co-operation in such a way as shall make possible the compliance with and conforming to the import regulations and the practices of specific markets, and shall be conducive to avoid adverse effects against the interests of domestic production or trade and to the creation of effective presence on the foreign market. This provision must also be applied in cases where an individual country or group of countries imposes a quota as to quantity or value regarding the importation of a specific type of goods or imposes a minimum price regarding such importation.
(2) When issuing licences pursuant to Section (5)1 and in the interest of carrying into effect the provisions contained in sub-section (1) of this section the Minister will proceed so that account will be taken of the points of view of the self co-ordinating trading associations of the firms which are engaged in trading in the relevant goods."
these relations, the export licensing system was used for controlling the implementation of the protocols of deliveries.

321. In January 1990, Hungary suspended all export licences for exports denominated in roubles because of the accumulation of a very substantial Hungarian trade surplus. Taking account of the barter-like nature of this trade, this surplus was considered to be undesirable because it was tantamount to an interest-free loan. The suspension was lifted and new export licences were gradually issued from the second quarter of the year. In 1990, 10 export licence applications with a total value of US$0.7 million were rejected regarding exports to the convertible currency area. The number of rejected applications in non-convertible currency exports was 49, representing 32.1 million roubles.

322. From 1991, Hungary eliminated most export licensing. Export licensing is maintained for a transitional period with respect to deliveries aimed at settling outstanding non-convertible currency trade balances. Exports of products covered by specific regulations maintained for non-commercial reasons (see Section (iii) above) are also subject to licensing. It is also used to regulate exports of military goods or dangerous products and to implement export restraint arrangements and similar measures (for the list of products subject to export licensing see Table IV.7.)

323. The main procedural rules for export licensing correspond to those for import licensing. In case of exports subject to Government Decree No 61/1990 (X.1) on the trade of certain internationally controlled goods and technologies (see Section (iii) above), an export licensing fee of 1 per cent is levied.

(v) Export restraints

324. Under the MFA, Hungary has concluded bilateral agreements with the EEC, Canada, Norway and the United States. A similar agreement has been concluded with Sweden in the framework of the 1978 bilateral trade agreement, covering also footwear. For 1990 and 1991, the EC has increased Hungary's quotas by about 50 per cent from $100 million to 150 million. In 1990, the rate of quota utilization was low.

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132 Average rate of quota utilization in 1990: EC - 60 per cent (30 product categories); United States - 50 per cent (14 product categories); Canada - 100 per cent (one product category); Norway - 26 per cent (four product categories); Sweden - 38 per cent (seven product groups), and over 70 per cent for footwear.
325. Voluntary export restraints have also been applied to Hungary's exports of steel, sheep and sheepmeat.

326. The EEC-Hungarian steel agreement includes voluntary quotas and a price observance system (Table IV.8). For 1990, quotas were increased by 15 per cent.

327. The Hungarian-EEC agreement on sheep, sheepmeat, goat and goat meat was concluded in 1981. In the period 1984-1989, a quota of 10,050 tons for sheep and 1,150 tons for sheepmeat was provided (carcass weight bone-in). Hungarian exporters fully utilized these quotas. Sheepmeat quotas were increased by about 20 per cent for 1990.

328. Recently, the EC has imposed two definitive anti-dumping duties on products of Hungarian origin, one related to copper sulphate and the other to electric motors. Hungarian enterprises of sheet glass, urea and artificial grindstone have agreed to price undertakings in exports to the EC.

(vi) Export subsidies

329. At the time of Hungary's accession to the GATT, Hungary granted a "State-refund" to enterprises which made losses in export business because the export revenue converted into forint by way of the (foreign trade) price multiplier did not cover their production costs (see Chapter III). The other function of the State refund was to reimburse taxes which were charged on export products. With effect from January 1980, the State refund was abolished and a turnover tax refund was introduced which remained in force until 1988. In 1988, a value added tax was introduced which is refunded on exports. In 1980, Hungary declared that, except in agriculture, it did not provide any export subsidies.133

330. Hungary is not a signatory to the GATT Subsidies Code. Under Article XVI:1, Hungary notified its subsidies in 1984.134 Accordingly, subsidies were in place for exports of live animals, meat, cereals, dairy products, vegetables, fruits, other products of vegetable origin and other

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134Paragraph 13 of the Report of the Working Party on the Accession of Hungary contains a statement that "Hungary undertook in accordance with Article XVI:1, and in accordance with the practice of the CONTRACTING PARTIES, to notify regularly its measures falling under Article XVI, and upon request would be ready to enter into consultations with any contracting party or parties on this subject". GATT document L/3889, 20 July 1973.
agricultural products. The amount of subsidies notified was Ft 3.4 billion.  

331. In 1990, Hungary notified that it continued to grant export subsidies to certain agricultural product groups with the objective of partially offsetting the damaging effects of international subsidy competition in areas of Hungarian trade interests.  

The value of assistance to exports in convertible currencies was Ft 29.5 billion in 1989. It was expected to decline to about Ft 23.5 billion in 1990.

332. For trade in non-convertible currencies, a special price equalization mechanism was in force. With a view to guaranteeing "average profitability" of companies engaged in this trade, a special support and levy system was used to equalize price differentials between the special prices used in these relations and world market and domestic prices.

333. A large number of products enjoyed considerable export price support due to artificially depressed CMEA rouble prices. In CMEA trade, commodities in general were traditionally priced below world market levels and the prices of agricultural products were particularly depressed due to heavily subsidized sales to these markets by a number of suppliers. This required for some products high levels of export price support. In 1990, support amounted to up to 360 per cent of the export price (dairy products). Some other highly-supported export products included beef meat with bones (350 per cent); chicken (290 per cent); other poultry products (220 per cent); pigmeat (276 per cent); tinned meat (220 per cent); wine in the cask (220 per cent); pigs for slaughter (200 per cent); and products of the sugar industry (160 per cent).


136 The legal base for agricultural export subsidies are the Decrees No. 148/1989 (XII.28) and No. 109/1988 (XII.27) of the Council of Ministers. Certain products, such as grains, maize, oilseeds, and sugar have been left outside the program and continue to be exported without subsidies.

137 GATT document, MTN.GNG/NG5/W/154, 13 February 1990. Under this programme, export subsidies provided to specific product groups are to be cut at differing rates. The assistance allocated for major product groups is as follows: pigs and pork - Ft 1.3 billion in 1990 against Ft 4.8 billion in 1989; cattle and beef - Ft 2.8 billion, down from Ft 3.4 billion; poultry - Ft 2.5 billion down from Ft 3.2 billion; dairy products - Ft 1.1 billion against Ft 1.2 billion in 1989.

138 For the full list see Annex 4 to the Government decree No. 148/1989 (XII.28) MT. The amount paid for CMEA price equalization was about forint 43.5 billion in 1990 (Table IV.10).
334. For a number of products, a levy was imposed on exports in non-convertible currencies. In 1990, the top rate was 30 per cent on washing powder and other household chemicals, followed by 25 per cent on plastics and chemical yarns, and 24 per cent on industrial and household electrical equipment, telecommunication products and some instruments. In 1989, the total revenue from the levy was 23.9 billion forints, dropping to 21.1 billion (preliminary data) in 1990.

335. Import prices of most energy products and raw materials imported from CMEA partners were lower than those originating in market economies. Internal raw material and energy prices were already based on world market prices. Enterprises using scarce raw materials and energy products originating in lower-priced rouble relations were obliged to pay the price differential (KUTEFA) to the budget.

(vii) Export Development Programme (EDP)

336. The Export Development Programme (EDP) was established in 1985 to promote investment aimed at speeding up structural adjustment and improving the productivity and competitiveness of companies on convertible currency markets, thus strengthening their export capabilities. Any company, regardless of size and ownership, can apply for the incentives available under the programme. The EDP is administered by an interdepartmental committee which considers the rate of return, the technical parameters of the investment and the marketing perspectives of the product.

337. Investments eligible for support can take advantage of incentives such as reduced profit taxes; refund of the value added tax paid on the investment; support from the Trade Promotion Fund; R&D assistance from the Central Fund for Technical Development; and relief from advance forint cover obligation regarding imports of raw materials and components. In case of leasing under an EDP investment project, the customs value is established taking into account the regulations concerning depreciation. Until the end of 1990, participants in the EDP could also obtain credits with low interest rates supported from the budget. Effective 1991, this facility was abolished. EDP investments should have a return ensuring that the costs are recovered from the net convertible currency revenue within five years.

338. Companies participating in the EDP conclude a contract with the Ministry of International Economic Relations. In case of non-compliance with the contractual conditions, the assistance provided should be

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139 For the full list see Annex 2 to the Government decree No. 148/1989 (XII.28) MT.

140 For the list of products and the amount to be paid see Annex 1 to the Government decree No. 148/1989 (XII.28).
reimbursed. There are no specific rules regarding settlement of disputes resulting from contracts between the MIER and the companies.

339. According to a 1988 Survey, 521 enterprises participated in the Export Development Programme (EDP). Of these, 180 joined the system in 1986, 228 in 1987, and 112 in 1988. In the three-year period 1986-1988, the convertible currency exports of these enterprises combined increased by US$1.45 billion (in 1988 alone by US$965 million). In 1990, the proposed 180-190 investment projects are expected to generate additional exports worth US$210 to 230 million.

340. EDP promotion focuses on engineering, chemicals, food, metallurgy and light industries. In 1988 and 1989, the investments made by enterprises participating in the EDP accounted for about 11 per cent of total industrial enterprise investments in Hungary. Expenditures under the programme increased from forint 5.6 billion in 1987 to 7.2 billion in 1988, 7.7 billion in 1989 and an estimated 8 billion in 1990.

(viii) Export credit financing and insurance

341. Hungarian exporters mostly use short-term commercial credits. Medium-term credits (repayment period one to five years) are applied mainly for exports of machinery and vehicles. Longer term credits are also extended occasionally for the export of turn-key projects. Short-term commercial credits are refinanced by the National Bank of Hungary. Guidelines for the extension of medium- and long-term credits are established jointly by the Ministry of Finance, the Ministry of International Economic Relations and the National Bank. The spread and interest rates of the credits closely follow the conditions applied by the OECD countries. Basic considerations include the creditworthiness of the buyer and the availability of appropriate guarantees.

342. Companies extending export credits can reduce the risks through export credit insurance. The insurance may relate to both the production and the sales period. The insurance may cover economic, political and exchange rate risks. In the content of the transformation to a market economy, work has been started in the administration, involving also foreign experts, to establish a new, modern export credit guarantee and insurance system.


142 Idem.

143 A breakdown of expenditures by measures was not available to the Secretariat.
(ix) **Trade Promotion Fund (TPF)**

343. The aim of the Trade Promotion Fund is to stimulate convertible currency exports. It is financed from the State budget and administered by the Investment and Trade Promotion Agency within the Ministry of International Economic Relations. All economic operators, including legal entities, associations, private entrepreneurs, are eligible for support from the Fund. The Fund supports:

- market research;
- introductory participation at exhibitions, fairs and shows (rent of space, cost of installation, etc.);
- publicity expenses;
- testing of technical products abroad, cost of standard specification, production of samples and models;
- supply of foreign-market information service;
- training and education aimed at widening know-how in foreign trade;
- operation of national and regional foreign-trade promotion organizations;
- invitation of foreign specialists; and
- foreign travel linked to market research, trading activities or establishment of joint ventures.

Financing from the Fund can be obtained in the form of loans or grants up to 75 per cent of the incurred cost. The grant element is limited 50 per cent of the incurred cost.

344. In 1989, Fund support amounted to 5.1 billion forints. Two-thirds of this amount was used to support companies under the Export Development Programme. In 1989, the Trade Promotion Fund also served to pay compensation within the framework of an inter-state barter agreement concluded with Czechoslovakia. The agreement concerned an exchange of maize for furnace coke. Due to the dry weather, Hungary could not fulfil its maize export obligation.

345. In the context of efforts to reduce the deficit of the State budget, in June 1990 the Government cut the budgetary sources available to the Trade Promotion Fund by 500 million forints. The budgetary allocation to the Fund was 4.2 billion forints in 1990.

(x) **General Intervention Fund (GIF)**

346. Up to 1990, payments from the General Intervention Fund were used to support agricultural exports and to alleviate market disturbances endangering the supply of basic consumer goods, especially of foodstuffs. For example, assistance was given from the Fund for the development of distribution and storage facilities for meat products and for winter storage of vegetables.

347. In 1989, the GIF still had 13.5 billion forints at its disposal, while the 1990 budget allocated only 3.2 billion forints to it. The reason
the cut was that export support had been deleted from the titles the GIF can be used for. In June 1990, the Government further reduced, by 1 billion forints, the budgetary sources available to the GIF. The 1991 budget provides for 700 million forints to the Fund.

(3) Measures Affecting Production and Trade

(i) State trading

348. During its GATT accession procedure, Hungary explained that its State-owned foreign trade enterprises "operating on the ground of commercial considerations pursue an activity of a sort which makes it unnecessary for the Hungarian Government to provide a special guarantee in regard of the observance" of Article II, paragraph 4 and Article XVII, paragraph 4. Consequently, Hungary notified that "State trading in the sense of Article XVII does not exist in Hungary".144

349. A reform of State-owned enterprises in 1985 gave larger freedom to "self-governing" enterprises (for details see Chapter II). However, about 25 per cent of State enterprises remained under "administrative management" which means that the State retained a great deal of supervisory power and control over these enterprises, including the appointment (and dismissal) of the director of the enterprise and the possibility to interfere in trade decisions. Among these enterprises, there were eight specialized foreign trade enterprise, exporting and importing such products as minerals, electric energy, mineral energy sources, coal, some chemical products, grains, and oilseeds.

350. As mentioned in Chapter II, there is a list of products which can be exported or imported only by a limited number of specifically authorised enterprises, including some enterprises under "administrative management". From 1991, the number of these products has been reduced. As a result, the number of traders with specific trade privileges has been reduced. Among these, there are presently three State-owned foreign trade enterprises under "administrative management" which enjoy exclusive export and import rights. The products affected are military goods and energy carriers, like gasoline, some oil products, fuel oil and coke.

351. For products not included in the list mentioned above, no exclusive or special privileges exist. According to the Hungarian Government, enterprises under administrative management make their purchases and sales in accordance with commercial considerations, have no price setting power and are under a legal obligation to conclude contracts with domestic partners.

352. According to press reports, privatization of foreign trade enterprises has begun. A number of "self-governing" foreign trade enterprises are trying to change their ownership form through involvement of domestic industrial enterprises, banks, financial institutions and foreign capital. Privatization will also include State enterprises under "administrative management". It has not yet been decided how the trade interests of the State concerning some products of strategic importance could be ensured in enterprises to be privatized. One of the possible methods under consideration is the maintenance of a substantial share of State ownership in some foreign trade enterprises.

(ii) Subsidies

353. Budgetary support provided to the Hungarian agricultural sector has been decreasing in recent years. The total value of budgetary assistance provided as production and price support, income support, input subsidies and support to convertible currency exports has evolved as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>Ft. 52.3 billion;</td>
</tr>
<tr>
<td>1989</td>
<td>Ft. 52.3 billion;</td>
</tr>
<tr>
<td>1990</td>
<td>Ft. 32.4 billion (preliminary).</td>
</tr>
</tbody>
</table>

In real terms, the decrease of overall support is higher than reflected in these figures, as inflation in Hungary was 15% per cent in 1988, 17 per cent in 1989, and 30 per cent in 1990.146

354. The decrease in overall assistance included the phasing out of several forms of support and the freeze or cut of expenditure on other programmes. The following support programmes were phased out:

- milk price supplement;
- beef cattle price supplement;
- sheep and goat price supplement;
- support to soybean production;
- support to fish farms;
- input subsidy for protein feeds; and
- subsidy on irrigation water use.

The development of budgetary expenditure on other major forms of support is shown in Table IV.10. Expenditure on income-related support programmes provided to agricultural producers in disadvantaged regions was cut from 6.6 billion forints in 1989 to 6 billion forints in 1990.


355. Internal prices of agricultural products have been freed, except for milk, bread and wheat. Consumer prices for milk, butter and cottage cheese have remained subsidized, although to a decreasing extent. The last remaining input subsidy on fertilizers was abolished at the beginning of 1991. Preferential credits, available until the end of 1990 at an interest rate of 3 percentage points lower than the market rate, were also discontinued.

356. For areas with an unfavourable geographical location, support will remain in place. Certain types of agricultural investments may be supported through a maximum 20 per cent tax preference (profit tax refund).

357. Besides agriculture, the other important sector benefiting from direct budgetary assistance provided to coal and mineral mining activities was cut from 7.7 billion forints to 2.8 and 2.9 billion, respectively in 1989 and 1990. (For a detailed list of consumer, housing, producers and other subsidies, see Table IV.10.)

(iii) R&D Assistance

358. In 1989, Hungary’s total R&D expenditure, excluding R&D-related production and services expenditure, was Ft. 33.8 billion, equivalent to 2 per cent of GDP. 6.8 billion forints came from the State budget. The most important source was the Central Fund for Technical Development (Ft 13.4 billion).

359. The Fund (CTDF) aims at assisting sectoral development programmes, basic research programmes and the development of R&D infrastructure. Enterprises have to pay 4.5 per cent of their previous year’s before-tax profit to the CTDF. Seventy to 80 per cent of the CTDF is allocated in response to competing projects of firms and research institutes.

360. During the 1980s, several other funds and organizations were established to stimulate innovation. About fifteen small, self-financing innovation banks have been founded. The financial resources spent on medical, social, natural sciences or humanities originate mainly from the State budget.

361. A number of national authorities take part in the supervision and management of R&D at governmental level. The supreme scientific body of the country is the Hungarian Academy of Sciences which cultivates all branches of science. Its financial means are provided from the State budget. The National Committee for Technological Development (NCTD) is a body of the Government. It provides opinion, consultation, co-ordination and, in specific areas, governs matters of technological development of national economic importance. Its primary task is to form the governmental technological development policy. The Committee administers about 30 per cent of the CTDF. Individual ministries are responsible for supervising the R&D units and organizing the tasks related to research and science policy in their area of responsibility. They dispose over 50 per cent of the CTDF; the Ministry of Industry and Trade alone controls
about two-fifths of the financial means available to the Central Fund for Technical Development.

(iv) Profit taxes

362. Law No. IX of 1988 on Entrepreneurial Profit Tax, as amended by Law No. XLIV of 1989 and Law No. XCIX of 1990 grants tax preferences to certain economic activities. Until 1991, a business society, association or company with foreign participation of at least 20 per cent or 5 million forints benefited from a tax allowance of 20 per cent. This allowance was abolished at the end of 1990.

363. Furthermore, the tax allowance was 60 per cent for the first five years or from the beginning of the sale of products or services if (i) more than half of revenue originates from the manufacture of products or the operation of a hotel built by the society, association or company, (ii) the business capital surpasses 25 million forints, and (iii) foreign participation is at least 30 per cent. In this case, a tax allowance of 40 per cent was applied from the sixth year. Under the same conditions, an allowance of 100 per cent in the first five years and 60 per cent from the sixth year was granted for enterprises engaged in activities defined by the law as particularly important.

364. Recent amendments to the Law No. XXIV of 1988 increased the business capital requirement from Ft. 25 million to 50 million and introduced an end to the "tax holiday" at the end of the tenth year. The list of particularly important activities was also widened with the inclusion of the production of vehicles. Table IV.11 sets out Hungarian profit tax allowances between 1986 and 1990.

(v) Industrial cooperation

365. Hungary has concluded bilateral, inter-governmental cooperation agreements with its major trading partners. In these agreements, governments undertake to promote economic cooperation in various, mostly industrial fields.

167 Particularly important activities have been defined by Annex 8 of the Law No. IX 1988 as amended by Law No. XCIX of 1990 to include investment in electronics and electronization; vehicle parts manufacture; machine tool production; manufacture of agricultural, food processing industry and forestry machinery; production of machine parts and components; packing technique, manufacture of pharmaceutical products; plant protecting agents and intermediary products; development of the Hungarian protein basis food production; industrial jobwork; production of propagating material and breeding stock; agricultural production; tourism; telecommunication; and production of vehicles.
366. Before its accession to the GATT, Hungary granted tariff exemptions and reductions in the framework of cooperation. Following its accession to the GATT, Hungary ceased to continue this practice.

367. Especially in the 1970s, industrial cooperation with industrialized countries played an important role in Hungary's economy. It was seen as a means to accelerate technological progress and the development of new branches of production and new technical cultures. The importance of industrial cooperation has declined in recent years mainly because rules on joint ventures have been liberalized.

368. In 1990, the turnover realized in the framework of cooperation agreements among companies amounted to about 5 per cent of Hungarian exports to industrial countries. In 1988, 1,952 such industrial cooperation agreements were in force, among them 1,265 with companies from market economies. Most agreements have been concluded with German, Austrian, Swiss, French, United States' and Swedish companies. The number and significance of cooperation agreements with enterprises of CMEA countries will decline with the shift to convertible currency accounting (see Chapter V).

369. Licences for industrial cooperation contracts were issued by the Ministry of International Economic Relations. With the basic changes in the import licensing system, the licensing of industrial cooperation contracts is no longer required.

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V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Introduction

370. After World War II, Hungary's economic structure changed profoundly as a consequence of large-scale nationalization, economic planning and the country's isolation from the world economy. Economic policy promoted heavy industry at the expense of agriculture. As a result of close CMEA cooperation, large parts of the Hungarian economy became dependent on CMEA markets. The economic reforms of 1968 introduced some important changes, but the basic characteristics of economic policy could not be reversed.

371. Hungary's recent efforts towards opening to the world economy have induced structural changes and a gradual shift of trade patterns. In 1990, Hungary's trade with Western Europe and other market economies expanded substantially while trade with CMEA countries declined. Over the next few years, the share of CMEA countries in Hungary's trade is likely to further decrease.

372. In agriculture, privatization will result in changes in the farm structure. The number of smaller farms will multiply. These changes are expected to boost the demand for agricultural machinery used by such farms. In the extraction industry, the energy industry, the chemical industry, metallurgy and the production of buses and other commercial vehicles, output of many product lines is expected to grow relatively slowly or to decline. Dynamic developments are expected in the fields of electronics, the computer industry and biotechnology. Production of passenger cars is soon to begin. These changes are likely to induce a gradual shift towards light industrial products and higher quality products in Hungary's export basket.

(2) Agriculture

373. Hungary's agriculture has always played an important rôle in the country's economy, reflecting a favourable natural environment for this sector. For a long time, agriculture provided employment for more than half of the population (51% per cent in 1930). After 1945, Hungary gradually became a moderately developed industrial country. However, agriculture and forestry remained major economic activities, contributing about one-fifth to GDP over the past two decades. In 1989, 18% per cent of the active workforce was engaged in agriculture, down from 25 per cent in 1970.

374. Hungary is self-sufficient in all basic foodstuffs. About one-third of agricultural output is exported. Between 1920 and 1939, 72 per cent of Hungary's total exports consisted of agricultural products. In the late 1980s, while export volume had grown substantially, the share of agricultural products in Hungary's exports had come down to about 30 per cent of the country's total exports of merchandise to the convertible currency area, and to about 13 per cent in trade with CMEA countries.
375. Before 1945, large estates were dominant in Hungarian agriculture. Land-ownership changed fundamentally with the 1946 land reform. Privately owned small and medium peasant farms (between 0.5 to 12 hectares) were established over nearly 80 per cent of the arable land. In the late 1940s and early 1950s, large-scale cooperative farming was introduced, basically through forced collectivization. Collectivization was continued in 1959 and completed by 1961. During the 1970s, smaller cooperatives were amalgamated. By 1978, a total of 131 state farms with an average 7,500 hectares operated about 13 per cent of Hungary's agricultural land, and 1,300 cooperatives with an average 4,200 hectares over 77 per cent of the land. The remainder of arable land was farmed by private smallholders and specialized cooperative groups. The number of small individual plots and private farms was about 1.5 million. These figures have hardly changed since then.


377. About two-thirds of agricultural production originates from state farms and the co-operative sector. State farms produce mainly mass commodities, such as grain, meat and wine, and mostly for export. Cooperatives have more flexible production structures. Yields of private farming are substantial, accounting for about one-third of total agricultural output. The production process of private farmers is more labour-intensive than in the state or cooperative sector.

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149 Land privatization is among the most controversial issues to be resolved by Hungary's new Government. One of the three governing parties, the Smallholders Party, included in its programme the restitution of the 1947 land-property relations. This would involve large-scale re-privatization of land cultivated by cooperatives and state farms. However, this approach would differ from the privatization principles adopted in respect of other economic units (industrial companies, shops, restaurants, houses, etc.) which generally exclude the restoration of the original ownership. A recent decision of the Constitutional Court stated that a privatization programme which would restore original ownership only with respect to land, while not providing the same possibility for other sectors, would be unconstitutional. In addition, the ruling of the Constitutional Court stressed that there are no constitutional reasons for privatization of land owned by cooperatives. The Government intends to introduce a bill in Parliament, dealing with the general compensation of nationalized assets, including land.

378. The most important export items of Hungary's agriculture are wheat, maize, meat, meat products, oilseeds and vegetable oil, certain dairy products, vegetables, fresh and canned fruits and wine. Exports of agricultural technologies and complex production systems are also significant. For example, Hungary's firms supplied maize production systems and technologies to a number of CMEA members and other countries. Other agricultural activities of great importance for Hungary are exports of broiler strain stocks and the installation of large-scale poultry farms.

379. In 1989, agricultural exports to Annex A (CMEA members, Albania, China, the Democratic People's Republic of Korea) countries accounted for 42 per cent of total Hungarian exports of agricultural products. The most important products exported to these destinations have been bulk commodities like wheat and maize, meat as well as fresh and canned fruits, vegetables and wine. In recent years, about 40 per cent of these exports, mainly meat and cereals, have been traded against convertible currencies or were exchanged under barter type arrangements involving imports of commodities like oil or other fuels. The shift to convertible currency accounting in trade with CMEA countries and the economic consequences of German unification pose new challenges to Hungary's agricultural exports.

380. While Hungary is competitive in producing a range of agricultural products, its agricultural exports face major trade barriers in Western markets, in particular in Hungary's traditional major EC markets. As a consequence, export opportunities of products traditionally sold to Western European markets (e.g. live cattle, beef and other meat products, cereals, wine etc.) have been greatly reduced. Currently, Hungarian agricultural exports are mostly made up of products like fruit and vegetables, special cuts of meat or certain types of poultry. According to Hungarian estimates, the damage to the country's agriculture resulting from agricultural protectionism and subsidization in developed market economies is US$150-200 million annually. The "subsidy war" between major agricultural exporters was one factor behind the fact that, between 1981 and 1987, Hungarian export prices, expressed in US dollars, fell by 35 per cent.

381. To limit the loss in market share, Hungary increased its agricultural export subsidies in a period of budgetary austerity and other economic difficulties. Exporters of agricultural products were granted an export subsidy of up to 8 per cent of export prices between 1982 and 1985. In August 1985, the maximum rate of subsidy was raised to 28 per cent, principally to offset low world market prices. The maximum subsidy had further increased to 34 per cent by 1987. In 1990, the overall level of

151 For example, in 1973 Hungarian exports of live cattle amounted to 120,000 tons. Since then, exports have been minimal.

agricultural export subsidies in convertible currencies trade was maximized at 28 per cent, but the average support rate did not actually exceed 17 per cent. Due to artificially low CMEA prices for agricultural prices, exports to these markets required very substantial subsidization.

382. A major part of Hungary's agricultural exports is characterized by relatively low level of value added. In order to meet the demand of the domestic population and to foster export performance, efforts have been made to strengthen the international competitiveness of the sector. They include a number of World Bank programmes (Table V.1).

383. In 1983, total subsidies flowing into agriculture were estimated at Ft. 26.2 billion. This was equivalent to 10 per cent of the value of gross agricultural production and a little higher than the estimated gross profit of all state farms and co-operatives of Ft. 23.8 billion in 1981. According to the same estimates, "true agricultural taxes" were Ft. 8.2 billion. According to another source, the total subsidies for the food sector, including price support for exports and the price reduction of imports, amounted to 40 per cent of the value of output and annual subsidies for this sector were estimated to be equivalent to about 9 per cent of GDP in 1987. Total Government support to agriculture peaked at Ft. 58 billion in 1987. Then it dropped to Ft. 52.3 billion in both 1988 and 1989. In 1990, there was a cut of some Ft. 20 billion (preliminary data). In the light of the accelerating rate of inflation in recent years, the decrease in real terms was more substantial. Recent Government estimates suggest that, following major support reductions in 1989 and 1990, the contribution of agriculture to the state budget is about twice the direct financial support given to it, including the support accorded within the framework of CMEA export price support.

384. Between 1982 and 1986, producer subsidy equivalent (PSE) estimates showed an increasing trend for most agricultural product categories. However, concerning wheat and maize, PSE estimates were negative in the whole period examined. Since 1988, government intervention in the agricultural sector has substantially decreased. As noted in Chapter IV, agricultural subsidies have been reduced or phased out. Administered prices, setting the minimum and maximum level of domestic purchase prices, have been abolished for a large number of products. At present, only minimum purchase prices are established for live cattle and pigs, as well as for maize and wheat used both for bread and feeding. In recent years, measures were taken to eliminate the domestic purchase monopolies which


155 GATT document, MTN.GNG/NG5/TG/PSE/HUN/1.
were widespread in the agricultural sector. Following the dissolution of the Grains Trust and the Meat Trust in 1988 and 1989, the Dairy Trust was also split into smaller units at the end of 1990.

385. By 1990, most commodity-specific forms of agricultural production support have been phased out and are replaced by limited, sector-wide support measures. Thus, agricultural investments are subject to a tax benefit amounting to 20 per cent of the investment costs. There is another form of tax benefit, covering 50 per cent of the interest costs paid on investment credits. There is a new support scheme providing income support to producers in disadvantaged regions; according to a decreasing scale of fertility of the soil, they receive increasing lump-sum amounts on every hectare under cultivation.

386. Prior to the early 1980s, agricultural products were exported and imported by specialized foreign trade enterprises. Each individual product category was exclusively marketed by one enterprise. Since 1982, but especially from 1988, an increasing number of companies have engaged in exports and imports of agricultural products. Until the end of 1990, for several important products, foreign trade has remained subject to special authorization ("list of exceptions"). At present, the only agricultural product still subject to this special authorization is pig-meat exported to EC countries. This limitation expires on 1 July 1991.

387. Recently, Hungary has abolished import licensing for a number of items. The list of licence-free products includes some agricultural items such as certain fodders, agricultural tropical products, including unroasted coffee and spices, coconut and palm seed oil, certain seeds and honey. However, trade in numerous agricultural and food products remains subject to licensing (see Chapter IV). Hungary is one of those countries which submitted an offer in the framework of the Uruguay Round negotiations based on the tariffication of non-tariff measures, including licensing. In this context, the methods and details of substituting tariffs for import licensing are under consideration.

\[156\] For exports, these products included raw meat, sausage and salami to EC countries; slaughtered poultry to EC countries, Austria and Switzerland; goose liver to EC countries; paprika; milling industry products and combined fodder; sugar; vegetable oil industry products; cereals; sugar beet; oil seed; cattle; pig; sheep and breeding products; poultry and poultry-farming products; unprocessed feather; and forestry products. Regarding imports to Hungary, items for which special authorization was necessary included cereals, oil seeds, coffee beans, cocoa beans, living animals and animal products (except raw wool), and a number of food processing products (Table II.1/A).
(i) Live animals and meat

(a) Beef and cattle

388. Hungary, a traditional producer and exporter of live cattle and bovine meat, is a signatory to the GATT Arrangement Regarding Bovine Meat. Production levels have always considerably exceeded domestic consumption. Until the late 1970s, cattle numbers had been around two million head. The number declined continuously in the 1980s. The downward trend stopped in 1988 when an increase of 1.5 per cent brought herd numbers to 1,690,000 head. In 1989 and 1990, the decrease continued to below 1.6 million head. The main reasons for this drop are deteriorating market access possibilities and conditions bringing about a worsening profitability of cattle raising (Table AV.7).

389. As a consequence of lower herd numbers, bovine meat production has decreased in recent years. Total beef and veal production was 125 thousand tonnes (dressed carcass weight) in 1987, 90.5 thousand tonnes in 1988 and 98 thousand tonnes in 1989. Following the subsidy elimination programme, domestic meat prices went up substantially, contributing to a reduction of meat consumption by about 10 per cent.

390. Hungary maintains certain support measures in the beef sector. Up to 1990, the major tool was a price stabilization scheme under which indicative prices were set annually by the Ministry of Agriculture and Food. These prices were applicable mainly for large-scale transactions in beef cattle, that is sales to the processing industry. Contracts could be concluded within a band of plus/minus 10 per cent of the indicative price levels. Prices applied in small-scale transactions were not regulated. This scheme is now replaced by the setting of a minimum (floor) price for live cattle (for slaughtering). This minimum price is fixed at a level ensuring just the return of costs for the most efficient producers. Similarly, for the sale of live cattle not intended for slaughtering, market prices apply. The previous support scheme also included forint 5,500 bonus for each live-born calf and a bonus of forint 20,000 for each head of beef cattle, representing a net addition to the herd. These elements of the scheme were also eliminated from 1 January 1991. According to the most recent estimates available, the percentage PSE of the sector increased from 21 to 46 per cent between 1982 and 1986.

391. Exports of cattle and beef benefit from a subsidy. The maximum support is 30 per cent of the export price in trade in convertible currencies. Export price support of non-convertible currency exports for beef meat with bones was 385 per cent of the export price in 1990.

392. Exports of live cattle stood at 142 thousand head (42 thousand tons) in 1989, down from 215 thousand head (56 thousand tons) in 1985. Beef exports showed a similar trend, with 34 thousand tons both in 1988 and 1989 compared to 64 thousand tons in 1985.

393. Hungary's main export markets of live cattle have traditionally been the EC, the Middle East and the USSR. In 1987-89, the USSR and the
countries of the Middle East played a particularly large rôle, with low sales in EC countries. In recent times, only young cattle for fattening were delivered to EC markets. Slaughter cattle exports were destined to other countries.

394. For beef, especially for frozen beef, the USSR has become Hungary's biggest market since the mid-1970s. In recent years, two thirds of exports to the USSR were either settled in convertible currencies or supplied under barter-type arrangements. Exports of chilled beef are destined mostly to countries in Western Europe and the Middle East.

395. Imports of live bovine animals and beef are subject to import licensing and to tariffs between 0 and 25 per cent. Imports of live animals of the bovine species for breeding purposes are duty-free. In recent years, the import volume of live cattle and chilled meat fluctuated between 12-17 thousand tons. In 1989, these imports amounted to 11.8 thousand tons.

(b) Poultry

396. In 1988, Hungary exported poultry worth US$ 188 million, contributing about one-tenth of world exports of this product. The volume of exports of poultry meat amounted to 240.6 thousand tons, a performance only surpassed by the United States (405 thousand tons), the EEC (401 thousand tons) and Brazil (249 thousand tons). In 1989, exports declined to 180 thousand tons. More than half of these exports were destined for CMEA markets.

397. Between 1982 and 1986, the percentage PSE on poultry rose from 24 to 32 per cent in Hungary. More recently, support to poultry production and export has remained sizeable. In 1990, the export subsidy in convertible currency trade of slaughtered chicken was 30 per cent, and the CMEA export price support on chicken 315 per cent.

398. Imports of poultry into Hungary are very small. The duty on poultry meat is 20 per cent. Poultry and poultry meat are subject to import licensing.

(c) Pigs

399. In 1988, Hungary's production of pig meat reached almost 1 per cent of world output. Its pig meat export, 165 thousand tons, ranked, after the EC and Canada, third among the countries participating in the Arrangement Regarding Bovine Meat. Pig exports accounted for 1.7 per cent of Hungary's total exports of merchandise. Hungary exported more pig meat to CMEA countries than to market economies. A substantial part of exports to the CMEA area were accounted in convertible currencies.

400. Pig meat production has enjoyed support mainly in the form of market price support. The percentage PSE on pig meat rose from 20 per cent in 1982 to 38 per cent in 1986. Pig meat and some processed pig meat products are promoted by an export subsidy of 20 per cent. The CMEA export price support on pig meat was 317 per cent.

401. Hungary's pig meat imports are usually very low. In 1988, they amounted to 8.4 thousand tons. A duty of 15 per cent is levied on imports of live swine for slaughter or swine meat. Pig and pig-meat are subject to import licensing. Presently, one company has been authorized to export or import pork meat. From 1 July 1991, no authorization will be needed for foreign trade in this product group.

(d) Sheep

402. Although Hungary is a minor producer of sheep meat, its export has been notable (US$57 million in 1989) due to its low domestic consumption. In 1980, Hungary concluded an export restraint agreement with the EC, its largest market, on live sheep and goat meat. Export possibilities under the quota are usually fully utilized (see Chapter IV).

403. In 1986, the percentage producer subsidy equivalent for sheep and goat meat was 29 per cent, almost twice the 14 per cent rate estimated for 1982. Support for this sector includes an export subsidy of 25 per cent of the export price if the country of destination is not an EC country. The subsidy in exports to the EC is 20 per cent. A 15 per cent duty is levied on imports of live sheep and goats, and a 20 per cent rate on slaughtered sheep. Import licensing is applied to this sector. Imports are occasional and minor.

(e) Meat and meat preparations

404. Meat and meat preparations are traditional and important Hungarian export products. Their combined export value to convertible currency areas was US$359 million in 1988, while Hungary's imports of prepared and preserved meat barely exceeded US$1 million.

405. The simple average tariff on animals and animal products was 18.1 per cent in 1988. Tariff escalation is evident from the increase in the simple average tariff from 8.1 per cent for live animals to 21.3 per cent for meat and 22.9 per cent for prepared and preserved meat.

406. Livestock, meat and meat preparations remain subject to import licensing. Among the products of this sector, the consumer goods quota includes only canned meat.

407. Importation of animals and animal products is subject to a health and veterinary certificate issued by the exporting country's competent authorities. Animals and meat can only be imported (and exported) via border stations that have veterinary centre facilities.
408. Until the end of 1990, only companies specifically authorized by MIER could import live animals, animal products, products of the poultry and egg processing industries. Similarly, the export of a number of these items was also subject to special authorization. Effective 1 January 1991, all products of the sector can be imported without special authorization.

(ii) Cereals

409. Hungary's wheat production amounts to 1.1 per cent of world wheat output. Its share in world exports is 1.9 per cent. Maize is another important export product, representing 0.6 per cent of Hungary's merchandise exports (Table AV.8).

410. Wheat production has not been subsidized. Between 1982 and 1986, the percentage PSE for both wheat and maize was estimated to be negative (in 1986, -38 and -5 per cent, respectively). This reflects Hungary's favourable endowments for cereal production and the controlled domestic prices in this sector. The price support for exports to non-convertible currency destinations is 130 per cent. In 1989, about 95 per cent of wheat exports went to CMEA countries, partly under barter against oil (1,362 thousand tons). The overwhelming share of maize exports was also destined for CMEA countries, partly under barter deals.

411. Except for rice and barley, imports of cereals are not significant. The average tariff for cereals is low. Up to 1990, all imports were subject to licensing but this requirement has been abolished for wheat for feed purposes and rice from 1 January 1991. Phytosanitary regulations apply. Duties on grains and grain products rise sharply by stage of processing.

412. Major changes took place in domestic grain marketing. In 1989, the sole purchasing agency of cereals in the domestic market, the Grains Trust, was dissolved. Since 1 January 1990, a number of smaller companies operate in the market. The controlled price in force previously is now replaced by the setting of minimum prices for wheat (for feed purposes). Up to the end of 1990, cereals were on the list of exception; five companies were authorized to trade in these products. From 1 January 1991, all cereals have been removed from this list.

158 In 1988, the simple tariff average was 3.4 per cent. The GSP tariff on rice is 5 per cent, the m.f.n. tariff being 25 per cent.

159 The simple average tariff on flour and worked cereal grains was 13 per cent in 1988. On some other processed products (malt, starches, gluten, etc.), the average tariff was 31.7 per cent, while it amounted to 48.8 per cent on bakers' wares.
(iii) Oilseeds, fats and oils

413. The production of oilseeds has been on the rise in Hungary in recent years. Sunflower seed oil has become an important export product, providing around 0.8 per cent of Hungary's total export revenue. Increasing domestic production of oilseeds has been accompanied by a rapidly expanding vegetable oil industry. A major part of crude vegetable oil output and a small proportion of cooking oil production is exported, mainly to convertible currency markets.

414. In most years, sunflower seed production has been given negative support due to taxation and low domestic prices. In 1986, the PSE index turned positive (9 per cent) but more recent PSE figures were again negative.

415. Hungary's imports of these items are mainly limited to oilcakes which are used as fodder in animal husbandry. Imports of oil cakes amount to about 2 per cent of Hungary's imports of merchandise. The main sources of imports are Brazil and the United States. Hungary also imports a number of other products, including groundnuts destined for human consumption, various kinds of fixed oils, coconut oil, palm oil, palm-seed oil and olive oil.

416. Imports of oilseeds are subject to a customs duty of 10 per cent from m.f.n. sources, but enter duty-free from GSP beneficiaries. Flours or meals of oilseeds face a tariff of 10 per cent. Imports of oilcake and other residues are duty-free. The simple tariff average in the sector was 10.6 per cent in 1988. Tariff escalation is pronounced for certain products. For example, the simple average tariff on vegetable oils was 11 per cent, but 30 per cent for margarine (Table AV.9).

417. The liberalization of import licensing, which began in 1989, also included some oilseeds. A number of sowing seeds, including sunflower and soybean sowing seeds, sunflower seed for oil milling and soybeans have been freed from import licensing. The imports of oils of rapeseed, sunflower and soya, as well as hardened vegetable oil and margarine remain subject to licensing.

418. Up to the end of 1990, importation and exportation of oilseeds and vegetable oil industry products was subject to special authorization. This restriction has been abolished with effect 1 January 1991.

(iv) Dairy products

419. Hungary, a signatory to the International Dairy Agreement, is basically self-sufficient in dairy products. It neither exports nor imports substantial quantities of dairy products, with the exception of exports of cheese (0.3 per cent of Hungary's exports in 1989). Hungary has no designated cheese import quota in the US market. Recently, some exports were possible by utilizing unused quotas of other suppliers. Dairy products are promoted by an export subsidy of 30 per cent. The CMEA export price support was 360 per cent.
420. In recent years, the overall profitability of dairy farming decreased considerably due to unfavourable price trends in world markets. In order to offset these effects, certain support measures were applied until the end of 1990. Producers benefited from investment and price support. In particular, a subsidy could be granted for the construction of certain milk-farm installations, covering 50 per cent of the investment costs or amounting to Ft 20,000 per cow space. Producers were granted a price supplement of Ft 2.90 per litre of milk above the basic purchase price. Price support also depended on quality. In case of divergence from the standard 3.6 per cent fat content, Ft 11 was paid or discounted for every kilogramme of milk fat. Milk and cream produced by large agricultural farms were purchased with a price supplement of Ft 0.40 per litre. Since the beginning of 1991, there is no specific support for the dairy sector any more.

421. Previously, the Government granted consumer subsidies for milk and dairy products with a view to stimulating consumption. At present, only milk, butter and cottage cheese are granted consumer subsidies. The prices in force as of 1 January 1988 and 1990 are shown in Table V.2. Milk prices have remained under price control.

422. As from 1991, the imports of cow milk, cheese, butter and milk powder are subject to licensing. The consumer goods quota covers cheese and butter. M.f.n. tariffs of 20 to 30 per cent are levied on several dairy products. Fresh milk and cream face a tariff of 35 per cent, and concentrated milk and cream a tariff of 30 per cent. Cheeses are subject to tariffs between 25 and 50 per cent. Butter faces a 60 per cent tariff. Sanitary regulations, corresponding to internationally applied standards, are issued by the Ministry of Agriculture.

(v) Foodstuffs

423. Hungary's fruit and vegetable exports amounted to about 4.5 per cent of Hungary's export revenue in 1989. Exports of these items face high tariff and non-tariff barriers on its traditional Western European markets.

424. Most preserved products receive a 25 per cent, fresh vegetables and fruits a 15 per cent export price subsidy in trade with the convertible currency area. The CMEA export price support was 65 per cent on fresh vegetables and fruits, 120 per cent on canned fruits and 150 per cent on canned vegetables and other preserved products (Table AV.3).

425. Hungary's imports of foodstuffs largely consist of coffee, tea, spices and tropical fruit. They represent about 1 per cent of total merchandise imports.

(a) Fruits and vegetables

426. Imports of fruit and vegetables are subject to import licensing. The simple average tariff for most vegetables (fresh or dried) was 15 per cent in 1988. Tariffs on non-tropical fruit are higher (simple average rate of 18.5 per cent in 1988). Apples and pears face 25 per cent m.f.n. tariffs,
fresh grapes 40 per cent. Prepared or preserved vegetables and fruit are subject to simple average duties of 25.4 and 26.1 per cent, respectively, resulting in tariff escalation.

(b) Tropical products

427. Tropical products are not grown in Hungary. The value of tropical fruit imports amounted to US$13 million in 1988, representing a very low per capita consumption in international comparison. The bulk of tropical fruit imports are bananas.

428. Imports of tropical fruits are subject to import licensing. The consumer goods quota covers tropical fruits. Up to the end of 1990, certain tropical products (cocoa, coffee etc.) were on the list of exceptions. From 1 January 1991, no special authorization is needed for the imports of these products. In 1988, tariffs on tropical fruit ranged from duty-free to 39 per cent. A 10 per cent consumer tax is levied on chocolate products.

429. Hungary's contribution to the mid-term review package of the Uruguay Round was the inclusion in its GSP scheme of most tropical products for which no tariff preferences existed previously. GSP rates were lowered for other items with a view to reducing preferential tariffs to zero within a period of three years. The implementation of these measures began in June 1989. A number of tropical products (spices) were taken off the list of products subject to import licensing.

(c) Coffee, tea, mate and spices

430. Per capita coffee consumption in Hungary is about 3 kg per year, a higher figure than in most other European countries. In 1988, Hungary imported coffee worth US$93 million (mainly unroasted coffee). Tea and mate imports amounted to US$3 million. Spices were imported worth US$7.5 million.

431. Tea, mate, unroasted coffee and spices are not subject to import licensing. The quota on consumer goods covers roasted coffee only. Up to the end of 1990, a number of tropical products, including unroasted coffee were on the list of exceptions. At present, these products can be imported without special authorization.

160 Oranges face a tariff of 20.4 per cent, mandarins and clemantines of 30 per cent and lemons of 8.4 per cent. GSP tariff rates range from 0 to 5 per cent. Imports of cocoa beans bear an m.f.n. tariff of 5 per cent, while the simple average tariff on cocoa and cocoa preparations was 19.4 per cent in 1988 and on chocolate and other preparations containing cocoa 20 per cent.
432. The m.f.n. tariff on unroasted coffee is 30 per cent and on roasted coffee 50 per cent; tariffs on tea and mate are 40 and 60 per cent, respectively. There are GSP rates of 10 per cent on unroasted coffee and 0 per cent on tea and mate. The simple average tariff on coffee and tea extracts was 56.3 per cent in 1988. A consumption tax of 40 per cent, over and above import duties, has been imposed on roasted coffee and coffee extracts. Spices faced lower tariffs, with a simple average of 21.9 per cent in 1988. Spices are duty-free under the GSP.

(d) Other food products

433. Hungary's imports of other foodstuffs are minimal. Trade measures include high tariffs, the consumer goods quota and import licensing. For example, tariffs on sugars were 50.5 per cent in 1988 (simple average), and 61.3 per cent on sugar confectionary. Tariffs on poultry eggs in shell were 30 per cent. Natural honey, a substantial Hungarian export product, also faces a 30 per cent import tariff.

(vi) Beverages and spirits

434. Hungary has a large wine and beverage industry, and has been a traditional wine exporter. In 1989, the value of Hungary's wine export was equivalent to around 0.9 per cent of total export revenue. The Soviet Union, the GDR, the Czech and Slovak Republic, the Western European countries, the United States and Canada were the largest export markets in 1989. Hungary's traditional markets apply several non-tariff barriers against Hungarian wine exports. Austria applies a global quota, Switzerland a quota and a surcharge. Hungarian wine exports are affected by the alcohol monopoly in Sweden and Norway. Hungarian wine exports are also affected by EC technical and health regulations and are subject to a minimum price undertaking.

435. Hungary's wine imports amounted to US$15 million in 1988. Wine imports (commercial quality) face a 15 per cent m.f.n. tariff, GSP imports being duty-free. The customs duty on vermouths is 70 per cent (Table AV.5).

436. Hungary imported beer and other beverages valued at US$41 million in 1988. Imports of beverages are subject to the global quota on consumer goods and to import licensing. Products of the wine industry are subject to a consumer tax of 11-40 per cent of the purchasing price, beer to a tax of 880 Ft/hl plus 15 per cent, and other alcoholic drinks to a tax of 420 Ft/hl plus 14 to 78 per cent. The tax is levied irrespective of the domestic or foreign origin of the products. The mixed tax (ad valorem and specific) on beer might influence the consumer price structure to the disadvantage of lower qualities, while in case of other drinks the bulk of taxation is effected by ad valorem taxes.

(vii) Fisheries

US$12 million in 1988. The relatively low level of imports reflects to some extent traditional Hungarian consumption patterns, but it is also related to the fact that canned fish products are subject to the quota on consumer goods and fish is subject to import licensing. The simple average tariff for fish and fish products was 17.5 per cent in 1988. The GSP rates are between 0 and 10 per cent (Table AV.4).

(viii) **Tobacco**

438. Hungary’s tobacco production falls short of domestic demand. Tobacco imports stood at US$24 million in 1988. Imports of unmanufactured tobacco face tariffs in the range of 32 to 47 per cent; imports of manufactured tobacco bear tariffs between 20 and 90 per cent. The GSP rates range from 0 to 20 per cent. Unlike imports of manufactured tobacco products, imports of unmanufactured tobacco is not subject to the quota on consumer goods. A consumer tax is applied to tobacco and cigars (40 per cent), cigarettes without filter (400 Ft/1000 pieces plus 50 per cent), and cigarettes with filter (650 Ft/1000 pieces plus 50 per cent). Until the end of 1990, a higher consumer tax was imposed on imported cigarettes (Table AV.6).

(2) **Mineral Products**

439. Hungary’s most important mineral deposits are bauxite, some non-ferrous minerals, coal, oil and natural gas. Based on production value, the number one sector is oil and gas extraction (3.2 per cent of Hungary’s industrial production value), followed by coal mining (2.6 per cent) and bauxite mining (0.2 per cent). The mining sector had 94 thousand employees in 1989, down from 103 thousand in 1988, equivalent to 7 per cent of all industrial employees. Hungary has a large metallurgy sector (ferrous and aluminium), accounting for about 5.3 per cent of total industrial employment.

440. Hungary is an importer of all major mineral products. Exceptions include bauxite and some non-ferrous minerals, in particular caoline, bentonite, limestone and quartz sand.

(1) **Coal, petroleum, natural gas**

441. Until recently, Hungary sourced 90 per cent of its fuel imports and 60 per cent of raw and basic materials from CMEA partners, mainly from the Soviet Union. Hungary has been participating in a long-term energy programme of CMEA member countries. In return for energy deliveries, Hungary has contributed to the development of the Soviet energy industry by extending credits and by sharing in the investment costs of projects. A pipeline system for petroleum and natural gas has been established. The Hungarian electricity system has also been integrated into the grids of the European CMEA countries. The common CMEA energy infrastructure alone, basically the pipeline system, made oil and gas imports from CMEA sources by about 10 per cent less expensive than imports from other sources. The bulk of these imports was realized under CMEA trade and payments arrangements.
442. In 1990, the Soviet Union substantially cut back oil exports to Hungary and some other CMEA countries. Thus, Hungary had to import oil from other sources, mainly from the Middle East, for convertible currency. This caused an unforeseen additional expenditure of almost US$500 million. It is expected that, due to continued supply difficulties, energy and raw material imports from the Soviet Union will further decline.

443. In 1989, Hungary’s coal production was about 20 million tons. Its coal imports amounted to about 2 million tonnes, 90 per cent of which originated in CMEA countries. Coal mining in Hungary is a crisis sector. Coal fields are poor. Despite heavy investments in this branch, labour productivity employment and output fell over the past four decades. A number of coal mines have been closed down recently. Output is expected to continue to decline over the next few years (Table AV.15).

444. Internal energy prices are subsidized at both the producer and the consumer levels. The cutback of subsidies in recent years resulted in a reduced gap between domestic and world market energy prices. The Government intends to eliminate all energy price subsidies by 1993. Prices of oil and oil products have been freed from administrative control in November 1990, resulting in further major consumer price increases.

445. Among the mineral energy sources, oil and gas related products are no longer subject to import licensing. Trading in most mineral energy sources remains subject to specific authorization. Companies may obtain such authorization if they can meet the prescribed stockholding requirements. For coal and petroleum, tariffs escalate with increasing degree of processing. The simple tariff average on coal, coke and agglomerates is 6.4 per cent. A tariff rate of 15 per cent is applied to briquettes. Crude petroleum can be imported duty-free. The simple average tariff for refined petroleum was 14.5 per cent in 1988. Imports of gas are duty-free. Petrol and gasoline are subject to consumer tax (Table IV.1).

(ii) Ores and metals

(a) Iron and steel

446. The Hungarian iron and steel industry is mainly based on imported inputs. For example, more than 90 per cent of iron ore input is covered by imports. In 1989, 80 per cent of imported iron ore originated in CMEA countries. To ensure long-term supply of iron ore, Hungary has provided

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162 In 1990, household energy subsidies amounted to Ft. 21 billion.

163 For the number of enterprises engaged in the foreign trade of these products see Table II.1B.
credit for the expansion of Soviet iron ore mining. In 1989, Hungary produced 1.95 million tons of pig iron, 3.3 million tons of crude steel and 2.5 million tons of rolled steel.

447. Hungary is a steel exporter. Some 30 per cent of the production is exported. In 1978, Hungary signed an export restraint agreement with the EEC and in 1985 with the United States (see also Chapter IV).

448. Hungarian metallurgy cooperates closely with other CMEA members within the framework of the Intermetall Organization. The production of certain rolled products profiles expanded in Hungary, while other steel products were imported from the CMEA countries. Exports of ferrous metallurgy products to CMEA countries received a price support of between 59 and 104 per cent.

449. The Hungarian iron and steel sector faces a crisis because of sluggish domestic demand, many outdated production plants and declining exports to CMEA countries. If CMEA exports further decline, 10,000 jobs are estimated to be threatened in 1991. Exports to convertible currency markets are still profitable. However, according to the Government, Hungary's competitiveness in these markets will require substantial structural changes, including through involvement of foreign capital.

450. In 1988, Hungary's iron and steel imports were US$297 million, more than half of which sourced from CMEA countries. In 1988, the average tariff on unworked iron and steel was 4.3 per cent and on ferro-alloys 6.5 per cent. Tariff escalation is generally not pronounced with respect to semi-finished iron and steel products (simple tariff average of 5.8 per cent). However, tariffs on certain finished products such as hot or cold rolled iron and steel sheets and plates are 20 per cent. Import liberalization has included all products of the sector, iron ore being an exception (Table AV.13).

451. Exports of many iron and steel products are subject to licensing, in connection with export restraint arrangements. These products have been removed from the list of exceptions.

(b) Bauxite, aluminium and other non-ferrous metals

452. The Hungarian non-ferrous metal industry is located close to the bauxite mines, mainly because of transport cost advantages. The Hungarian aluminium industry has been based on close international cooperation, as Hungarian energy resources are scarce. Under a cooperation agreement concluded with the Soviet Union, Hungary exports 330,000 tons of alumina for smelting in the Soviet Union. The refined aluminium is re-exported to Hungary. With the introduction of convertible currency accounting, the intergovernmental cooperating agreement expired. The cooperation might continue as an outward processing transaction, if the companies concerned come to an agreement. Hungary is a substantial producer of semi-finished aluminium products.
453. In 1989, Hungary exported 131,000 tons of aluminium products to convertibility currency markets. Exports to non-convertible currency destinations stood at 163,000 tons. Aluminium exports to CMEA countries received a price support of 97 per cent.

454. Except for bauxite and manganese ore, non-ferrous metal ores are not mined in notable quantities in Hungary. Domestic demand is mainly covered by imports. Most copper and nickel imports come from convertible currency sources, while the major part of lead, zinc and tin imports originated from the non-convertible currency area.

455. Until the end of 1990, aluminium, lead, zinc and most other minerals were subject to import licensing. Imports of some items such as molybdenum and wolfram ore, rutile and ilmenite were liberalized in 1989. Within this product group, only bauxite remains subject to import licensing. Unwrought copper, nickel, lead, zinc and tin can be imported duty-free. In 1988, the average tariff protection given to Hungary's aluminium industry was higher (10.4 per cent) than in the iron and steel sector. With respect to aluminium semi-manufactures, tariff escalation is non-existent or low (the highest tariff peak on miscellaneous articles of aluminium being 12.1 per cent). It is higher for copper, lead, zinc and tin products. The average tariff for metal products was 11.2 per cent. Tariffs for some product categories are high. In 1988, for example, the simple average tariff for cutlery was 23 per cent, with a peak rate of 50 per cent for scissors.

(c) Other mineral products and fertilizers

456. Hungary's imports of mineral products and fertilizers amounted to US$388 million in 1988. Crude and manufactured fertilizers are the main import items. Most phosphatic fertilizers are imported from the Soviet Union and North Africa. Austria and Yugoslavia are also among Hungary's suppliers of these products. Hungary produces phosphatic fertilizers in decreasing quantity (AV.18).

457. M.f.n. tariff rates on mineral fertilizers ranged from 3.8 to 10 per cent in 1988, and GSP tariffs from 0 to 3 per cent. Imports of cement are duty-free. Imports of other mineral manufactures, including ceramics, face a simple average duty of 8.6 per cent. In 1988, the simple average tariff on glass and glassware was 9.7 per cent (8.0 per cent on flat glass and manufactures, 10.1 per cent on other glass manufactures). Most mineral products and fertilizers have been removed from the list of products subject to import licensing.

(4) Manufacturing

458. In 1989, industry (manufacturing and mining) contributed 34.3 per cent to Hungary's GDP, virtually as in 1980. The share of this sector in total employment declined from 33 per cent in 1980 to 30 per cent in 1989. In 1989, the engineering industry was the largest sector (24.8 per cent of the total brutto production value of industry), followed
by the chemical industry, the food industry, light industry, metallurgy, electric power generation and the building material industry (Table V.3).

459. The enterprise structure of the Hungarian industry has been characterized by centralization and the dominant rôle of State enterprises. In 1987, the 1,043 State-owned industrial enterprises produced 90 per cent of the value of Hungary's industrial output, with cooperatives accounting for around 7 per cent and private industry for the remainder.

460. Since the promulgation of the new Company Law on 1 January 1989, the establishment of smaller, basically privately owned companies has accelerated. Between January and December 1989, the number of limited liability companies in industry increased from 176 to 1,295 (Table V.4). This trend continued in 1990. The number of newly established companies exceeded 10,000, and some 2,000 companies with foreign participation were established. Most new companies have less than 20 employees, while the average number of employees of State-owned enterprises is around 1,200. In 1990, the number of, and especially the employment at, state enterprises decreased substantially due to privatization and restructuring. With the privatization programme launched in September 1990, the Government intends to reduce the share of public ownership in the economy to 50 per cent by the end of 1993. This would include the privatization of many state-owned industrial enterprises.

461. For several manufacturing sectors, exports account for a considerable part of output. In 1989, for example, 43 per cent of Hungary's engineering output was exported. The corresponding figure was 30 per cent for the chemical industry, 30 per cent for metallurgy, 26 per cent for light industry and 22 per cent for the food industry.

462. A notable feature of the Hungarian export structure is that exports of most manufactures to non-convertible currency destinations have been much higher than exports to convertible currency areas (Table V.5). In the framework of CMEA cooperation, Hungary has built up a considerable manufacturing industry which has become dependent on the rouble-currency market. For a long time, export possibilities to the sheltered CMEA markets did not expose part of Hungary's manufacturing enterprises to competition.

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164 Within the CMEA cooperation, Hungary developed the production of commercial vehicles, telecommunication equipment, components for passenger cars and commercial vehicles, electronics and some other branches of the engineering industry. Cooperation in the chemical industry covered the development of the Hungarian petrochemical and pharmaceutical industries. In light industry, Hungary developed its knitwear, clothing and footwear industries in view of the perceived long-term demand for these items in the Soviet Union.
463. As a consequence of the switchover to convertible currency trade with all Annex A countries, many companies are facing serious problems of adjustment. In response to the changing conditions, a shift in trade has already started in 1990. Thus, exports of machinery in convertible currencies grew, from a low base, by 33 per cent, while deliveries in convertible currencies decreased by 28 per cent. Convertible currency exports of industrial consumer goods and materials and components grew by 23 and 19 per cent, respectively.\footnote{It has been estimated that trade in the engineering sector with CMEA countries declined by about 28 per cent in 1990. The most affected branches were metal working machinery; food processing machinery; machinery for the chemical industry; computer industry; agricultural machinery and buses.}

464. The Hungarian Government intends to provide investment incentives for the development of new production capacities in sectors with favourable growth potential. The establishment of a domestic passenger car industry has been started with the participation of foreign producers. The Government believes that the automobile industry will have a profound impact on the economy, by introducing advanced technology and international cooperation for the production of components. Spillover and spin-off effects are expected to stimulate machinery, electrical and electronic engineering and parts of the chemical and rubber industries. Other dynamic sectors are expected to include informatics; electronics and related activities; biotechnology; cooperation in the production of parts and subassemblies in the engineering industry; and agricultural machinery.

465. The liberalization of Hungary's import licensing systems since 1989 has covered a number of manufactures. At present, the major product groups subject to import licensing include telecommunication equipment, passenger cars, special vehicles, some electrical apparatus, a number of chemicals and numerous textile and leather products and other consumer goods (Table IV.2).

466. Among manufacturing industries, tariff protection varies considerably. The highest protection is given to the electric machinery sector (simple average tariff of about 21 per cent). The level of tariff protection is above 15 per cent in the manufactured articles and transport equipment sectors, and between 10 and 15 per cent in the textiles and clothing and the non-electric machine sectors. In other sectors, average tariffs range between 5 and 10 per cent (Chart IV.2).

467. Tariff escalation is widespread in the manufacturing sector even though, tariffs on raw materials are generally above the rates applied in
many other industrial countries. In some cases, tariffs decrease as items become more processed.166

(i) Non-electric machinery

468. Hungary has a diversified industrial production of non-electric machinery. Hungarian power generating machinery, agricultural machinery, metal working machine tools and heating and cooling equipment sectors have long export traditions.

469. Imports of non-electric machinery were about US$1.5 billion in 1988.167 About two-thirds of imports were sourced from convertible currency markets.

470. The simple average tariff on non-electric machinery was 18.7 per cent in 1988. The tariff range extends from metal working machinery (simple average tariff of 32 per cent) and book-binding and printing machinery (31.6 per cent) to power generating machinery and agricultural machinery (13.6 and 12.4 per cent, respectively). Most investment goods, including non-electrical machinery, are not any more subject to import licensing (Table AV.14).

(ii) Electrical machines and apparatus

471. Hungary's production as well as imports of electrical machines and apparatus from CMEA sources were protected by import licensing for a wide range of products and generally high tariffs. In 1988, the simple average tariff on imports of electrical machines and apparatus was 26.2 per cent. Imports of a number of items face 50 per cent tariffs; examples are industrial and laboratory electric furnaces, ovens, welding, brazing, folding-up or cutting apparatus, microphones and loudspeakers (AV.14).

472. In the electrical machinery sector, a number of items have been covered by the 1989 import licensing liberalization scheme. They include electric rotating machines and power transmission equipment including spare parts, productive components and accessories; electric hand tools and components; welding machine components and accessories; some electrical household machines components and accessories; and a number of components used in the telecommunication industry. From 1991, this product group has ceased to be subject to import licensing with the exception of telecommunication equipment.

166 For example, in the rubber sector, the simple average tariff on raw rubber was 8.3 per cent in 1988, on semi-manufactured products 15.6 per cent, and on manufactured articles 7.5 per cent.

167 The GATT tariff category "non-electric machinery" includes computers and parts thereof.
(iii) **Transport equipment**

473. Hungary's transport equipment industry accounts for about one quarter of output of its engineering industry. The transport equipment sector actively participated in the CMEA integration programme, which facilitated achieving economies of scale for some products such as rear and front axles, gear-boxes, vehicle chassis and other components for buses and commercial vehicles.

474. Output of the vehicle industry has been declining since 1987 (Chart V.1). Hungary produced almost 12,000 buses in 1989, down from 14,000 in 1980. The buses were mainly exported to the Soviet Union and other CMEA countries. The Hungarian commercial vehicle industry is largely dependent on CMEA markets; only a part of production has been competitive at other markets. Marketing difficulties are expected to spread to CMEA markets, as convertible currency settlement becomes the rule in these trade relations.

![Chart V.1](image-url)

**Chart V.1**

Gross output and exports of the Hungarian vehicle industry 1980-89

- **Billion Forints**
- **Index (1980-100)**
- **Rouble exports**
- **Gross output (right hand scale)**
- **Convertible currency exports**

**Source:** Ministry of Trade and Industry.
475. The Hungarian shipbuilding industry produces primarily cranes, containers, tugboats and barges, mainly for export to CMEA countries. Before 1989, shipbuilding enjoyed tax concessions. In 1990, the industry did not receive production support.

476. Imports of most vehicles were subject to import licences. In 1989, imports of vehicle spare parts and accessories, some manufacturing components for vehicle production, ship and aircraft components were liberalized. From 1991, imports of passenger cars, special vehicles and aircrafts remain subject to licensing.

477. Hungary imported transport equipment worth US$654 million in 1988, subject to a simple average tariff of 17.4 per cent. Tariffs are particularly high on some items such as railway and tramway coaches and tug boats (50 per cent), passenger cars (40 per cent) and buses, lorries, dumpers and special transport vehicles (25 per cent). Most of these items were imported from CMEA sources (Table AV.12). Passenger cars without catalytic converters are subject to a consumer tax (Ft 20,000/piece).

(iv) Chemicals

478. Hungary's chemical industry has rapidly developed since 1960 and has become the second largest industrial sector after engineering. Since 1978-79, the rate of growth has slowed down, reflecting competitive pressure on world markets for some products (fertilizers, petrochemicals) and a weak domestic market.

479. In the framework of CMEA cooperation, Hungary has developed a substantial oil refining industry based on raw materials imported mainly from the Soviet Union. Between 1970 and 1980, a large petrochemical base was established in the framework of the Olefin programme. Finished products, such as foil, pipes, sacks, floor coverings, synthetic yarns, carpets, textiles and packaging materials, are also produced. The Hungarian chemical industry had cooperation agreements with the Soviet Union, involving the supply of some herbicides for nitrogenous fertilizers.

480. Hungary has a developed pharmaceutical industry. In the 1980s, the industry ranked 11th to 12th in terms of world output and 6th in terms of exports of pharmaceutical products. In 1989, about half of Hungary's pharmaceutical exports went to CMEA partners.

481. The liberalization of the import licensing system in 1989 covered many chemicals. Imports of a large number of inorganic and organic chemical raw materials, some veterinary pharmaceuticals, certain plastics and a number of other chemical products, including fungicides, herbicide, pesticide, have been liberalized.

482. In 1988, imports of chemicals amounted to US$1,397 billion. Around 75 per cent of chemical imports came from convertible currency sources. In 1988, the simple average tariff for chemicals was 9.9 per cent. Imports of medical and pharmaceutical products faced relatively low tariffs (simple
average of 6 per cent). Chemical elements and compounds faced 10 per cent average tariffs, and imports of paints and varnishes 17.4 per cent. Tariff escalation was particularly pronounced in the case of plastics, with tariff average on plastic materials of 11.5 per cent and on plastic articles of 21.3 per cent in 1988 (Table AV.15).

483. From 1991, according to Government Decree No 112/1990 (XII.23.), trading in a few specific chemical products remains subject to special authorization due to environmental, health or safety considerations. Such authorization can be given to firms which can ensure the required conditions regarding safe storage, transport and distribution of these products.  

(v) Textiles and clothing

484. Hungary has been a signatory to the GATT Multi-Fibre Arrangement (MFA). Its textile and clothing industries produce approximately 7 per cent of the value of Hungary's manufacturing output and employ approximately 155,000 persons (13 per cent of total employment in manufacturing). From 1986 to 1987, imports of textiles increased from US$252 to 331 million. Between 1985 and 1986, the deficit in textiles trade widened to US$76 million, and subsequently declined to US$42 million in 1987. Hungary has been a net exporter of clothing. During the period 1985-1988, the surplus in trade in clothing rose from US$174 million to US$291 million.

485. In 1988, textile imports were primarily sourced in developed and developing MFA members (52 and 24 per cent of the total). Clothing imports remained broadly based in 1987-1988. However, the share from developed members of the MFA fell from 24 to 15 per cent and the share from developing members decreased from 49 to 43 per cent.

486. The main export markets for Hungarian textile and clothing products have been the developed MFA members and non-MFA countries, led by the Soviet Union which was the largest single customer for Hungarian textile and clothing products.

168 Importation of the following chemicals is limited to authorized companies: phosgene; cyanide; certain phosphorous products; aliphatic compounds, in accordance with international environmental protection agreements; industrial explosives and pyrotechnical material; isotope preparations for therapeutical use. (For the full list of products and the number of enterprises engaged in their trade see Table II.1B.)

169 However, in its rouble trade in textiles products, Hungary had a surplus.

487. Industrial co-operation and outward processing arrangements have traditionally played an important rôle in Hungary's textile and clothing production and trade. In recent years, this co-operation has widened by an increased leasing of machines by the firms concerned. As a result of increasing foreign investment and privatization, the process of decentralization in both the textiles and clothing industries is likely to accelerate.

488. Hungary has concluded bilateral agreements under the MFA with the EEC, the United States, Canada and Norway.¹⁷¹

489. In Hungary, the quota on consumer goods includes textiles and clothing products. Only products imported for direct sale to consumers are covered. (For the list of products subject to the consumer goods quota see Tables IV.4 and 5.)

490. Tariff escalation is common in textiles and clothing.¹⁷² The effective escalation of the protective system may, in addition be even steeper than suggested by the escalating tariff because restrictions under the consumer goods quota or import licensing apply mainly to finished products. Almost all textile and clothing products are included in the Hungarian GSP scheme, enjoying substantial preferential margins (Table AV.11).

491. Within the framework of the 1989 liberalization programme, a number of textiles and clothing items have been freed from import licensing. They include combed wool, combed synthetic wool, certain yarns, raw cotton fabric, sewing thread and undergarments. A number of textile items and, among clothing, outer garments remain subject to import licensing (Table IV.2).

(vi) Raw hides and skins, leather, fur-skins, rubber

492. Two-thirds of raw material inputs to the Hungarian leather industry is imported. Domestic supply is mainly limited to raw hides and skins of pigs. Cattle leather is mostly imported. Developing countries supply more than half of imports. Sheep skins are also imported to supplement local


¹⁷²For example, in 1988 the simple average tariff for textiles fibres and waste was 6.3 per cent, for wool 6.6 per cent and for cotton 3.8 per cent. For yarn, the simple average tariff was 8.7 per cent. The simple average tariff on fabrics and similar products was 12.6 per cent (8.3 per cent for cotton fabrics and 14.1 per cent on synthetic and artificial fibre fabrics). The simple average tariff on clothing and clothing accessories was 14 per cent.

493. From 1991, foreign trade in this product group is open for all companies; earlier, importation was centralized. In 1989, a number of items have been removed from import licensing. From 1991, mostly finished products of the leather industry remain subject to import licensing (Table IV.2). Simple average tariff on raw hides and fur-skins were 4.8 per cent in 1988, on semi-manufactured articles 9.0 per cent, and on manufactured articles 10.8 per cent, resulting in moderate tariff escalation (Table AV.16). A number of leather products like suit-cases, bags and articles of apparel of leather are also covered by the consumer goods quota, adding to the level of protection (Tables IV.4-5).

494. The Hungarian rubber industry is exclusively based on imported raw materials. Requirements for synthetic rubber production are also covered to a great extent by imports. Over 90 per cent of rubber imports come from developing countries. Synthetic rubber is supplied by the Soviet Union and Germany. Hungary produces a substantial quantity of lorry tyres, while tyres for passenger cars are imported. The Hungarian rubber industry is a major producer of camping articles.

495. In 1989, light technical rubber-wear as well as medical and sanitary rubber-wear were removed from the list of products subject to import licensing. From 1991, only rubber shoes remain under import licensing. They are also subject to the consumer goods quota. The simple average tariff on raw rubber was 8.3 per cent in 1988, increasing to 15.6 per cent for semi-manufactures, and declining to 7.5 per cent for manufactured articles.

(vii) Footwear

496. Hungary's footwear industry exports approximately 50 per cent of its production, the other half covering some 85 per cent of domestic demand. Hungarian exports of footwear exceed four times the value of imports. The largest export markets are the Soviet Union, Germany, the United States and France, while imports are notable from China, the Czech and Slovak Federal Republic, Germany, Yugoslavia and Italy.

497. Tariff protection for this sector is not high in international comparison. In 1988, the tariff average on shoes was 10.1 per cent. However, footwear is included in the global quota on consumer goods. Almost all footwear products are covered by the Hungarian GSP scheme (AV.11).

(viii) Wood and cork

498. In 1988, Hungary's US$150 million wood and cork imports originated to almost four-fifths from the non-convertible currency area. Hungary's main source of timber imports is the Soviet Union. The country's largest timber-yard is based on timber imported from this source.
499. In 1988, simple tariff averages ranged from 4.7 per cent (wood-based panels) to 9.8 per cent (manufactured wood and cork articles). Trading in wood products does not require special authorization. Several wood products (e.g. furniture, household wood articles) are subject to both import licensing and the consumer goods quota, in addition to tariffs (Table AV.16).

(ix) Pulp, paper and paperboard

500. Hungary's domestic pulp production falls short of the total demand of the paper industry. Imports of pulp, paper and paperboard are substantial, while exports are negligible. The main suppliers are the Soviet Union, Sweden and Finland. Hungary, jointly with other CMEA countries, took part in the construction of a pulp factory at Usty-Ilim in the Soviet Union to secure its pulp supply. In 1989, 165,000 tons of fibrous pulp paper were imported from non-convertible and 86,000 tons from convertible currency sources. Domestic paper production covers two-thirds of domestic demand. Newsprint is almost entirely imported.

501. In 1988, average duties ranged between 1.9 per cent for paper pulp and paper waste and 8.4 per cent for manufactures of pulp, paper and paperboard. Copy books and paper rolls for office, technical and business use remain subject to import licensing. Copy-books are covered by the consumer goods quota (Table AV.17).

(x) Other goods

502. In 1988, Hungary's imports of professional scientific instruments and photographic, optical and similar goods was US$241 million, originating mainly in market economies (US$188 million). The simple tariff average for these products was 27.2 per cent. Tariff peaks reached 50 per cent for a number of items, mainly instruments (Table AV.18).

503. In the categories photographic and cinematograph supplies; works of art and collectors pieces; and firearms, ammunition, tanks and other armoured fighting vehicles the volume of reported trade was low in 1988. Simple tariff averages were 9.4, duty-free and 8.5 per cent, respectively.

504. Imports of many items of this heterogeneous product group are covered by the consumer goods quota. Examples include jewellery, recorded music and video-tapes and stationery. These products are also covered by import licensing.
VI. TRADE DISPUTES AND CONSULTATIONS

505. Hungary has no statutory domestic procedures for conducting consultations or negotiations with trading partners in case of trade disputes. However, the recently adopted Government Decree No 112/1990 (XII.23.) authorizes the Minister of International Economic Relations to take measures if a trade dispute between Hungary and a GATT contracting party cannot be resolved through the GATT dispute settlement procedure. Hungary settles its trade disputes via diplomatic channels including the GATT. Hungary has not been involved, as complainant or defendant, in any formal GATT dispute settlement procedure.

506. At the meetings of the Hungarian Working Party, established in accordance with Paragraph 6 of Hungary's Protocol of Accession, contracting parties raised a number of issues concerning trade policies and practices of Hungary. They included aspects of Hungary's trade agreements with Annex A countries, Hungary's import licensing and its subsidy system (see Chapter II). In the framework of the country's transformation to a market economy, Hungary is addressing many of the issues which have been of concern to its trading partners.

507. For Hungary, a major trade policy concern was the maintenance of quantitative restrictions not consistent with Article XIII of the General Agreement on imports from Hungary by the EC and some contracting parties. This and other controversial questions had been discussed at the biennial meetings of the Hungarian Working Party. As noted earlier, the remaining restrictions maintained by the EEC have been abolished with effect of 1 January 1990.

508. There were cases when Hungary has complained outside the Hungarian Working Party in the GATT Council and other fora about trade measures of other contracting parties hurting Hungary's trade interests. The issues raised included the method of applying import restrictions by the EEC based

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173 The Decree authorizes the Minister to ban exports or imports for a definite or indefinite period; to introduce licensing requirement or to take other restrictive measures in cases when another country introduces laws or indulges in practices which are contrary to treaties entered into with Hungary or which discriminates against trading with Hungary and if - in case of GATT contracting parties - the dispute could not be resolved through GATT dispute settlement procedures.

174 According to the Hungarian Government, a discriminatory trade measure which has been kept in force on imports from Hungary, is a price surveillance system maintained by Austria on some products imported from Hungary and some other Eastern trading area countries.

175 Meetings of the International Dairy Arrangement, of the International Meat Council and certain GATT working parties.
on health grounds, following the Chernobyl catastrophe; the effects of quantitative restrictions applied by certain GATT contracting parties for agricultural products under waivers or safeguard actions; and the effects on Hungary's agricultural production and trade of agricultural policies of several developed countries.