CONSULTATION WITH HUNGARY

FOURTH REVIEW UNDER THE PROTOCOL OF ACCESSION

Report by the Working Party on Trade with Hungary

1. At its meeting on 11 June 1981, the Council established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the fourth consultation with the Government of Hungary provided for in the Protocol of Accession, and to report to the Council.


3. The Working Party had before it the following documents relevant to its work:

   L/5201 Hungarian foreign trade statistics
   L/5200 and Adds. 1 to 5 Notifications by contracting parties on discriminatory restrictions maintained on imports from Hungary on 31 August 1979

4. The Working Party also had available other relevant documentation and information furnished by the delegation of Hungary, as indicated in documents L/5201/Add.1, 2 and 3, L/5233 and L/5216, as well as three meeting papers containing lists of restrictions, deposited during the meeting.

5. The following report sets down the main points of discussion in the Working Party under the following headings:

   A. Hungarian exports
   B. Hungarian imports
   C. Developments in Hungary's trading regulations
A. Hungarian Exports

6. The Working Party noted that the following contracting parties had notified that they did not maintain any discriminatory quantitative restrictions on imports from Hungary.

- Argentina
- Australia
- Austria
- Brazil
- Canada
- Chile
- Czechoslovakia
- Finland
- Japan
- New Zealand
- Poland
- Romania
- South Africa
- Spain
- Switzerland
- United States
- Yugoslavia

7. The Working Party took note of the notifications on discriminatory quantitative restrictions by:

- European Communities
- Norway
- Sweden

8. Notifications submitted by contracting parties for the previous consultations are listed in the Annex.

9. The representative of Sweden referred to his Government's notification of discriminatory quantitative restrictions maintained against Hungary contained in document L/5200/Add.1 and explained that this notification reflected the situation on 31 August 1981. Since then, consultations had been engaged with Hungary with a view to removing the remaining restrictions applied under paragraph 4 of the Protocol of Accession.

10. The representative of Hungary recalled the terms of paragraph 4 of the Protocol of Accession of Hungary and the fact that the notification by the EEC (L/5200/Add.3) contained no indication of elimination of the restrictions. He expressed his dissatisfaction in connexion with the late submission of that notification. Referring to the quantitative restrictions listed in the said notification, he asked the EEC and its member States to indicate in each case the exceptional reasons for which these quantitative restrictions had been maintained. He referred to three meeting papers distributed by his delegation concerning new quantitative import restrictions, inconsistent with Article XIII of the General Agreement, applied by the EEC against imports from Hungary: (a) introduced by Greece since the last session of the Working Party; (b) since the last notification made in the name of the European Communities as contained in document L/4836/Add.2 of 14 November 1979; and (c) applied by certain member States of the European Economic Communities as a result of presumed national liberalization regarding countries falling under EEC Council Regulation 92679. He asked the EEC and its member States on which legal basis, under what GATT provisions they had introduced these new
quantitative restrictions not consistent with Article XIII of the General Agreement. He said that the meeting papers showed that the number of quantitative restrictions had increased.

11. The representative of Hungary said that the accession of Greece to the European Communities had affected the contractual obligations of Greece vis-à-vis Hungary. Prior to the accession of Greece to the EEC, i.e. until 1 January 1981, the import régime of Greece was non-discriminatory towards Hungary. This was confirmed in the reports of the Committee on Balance-of-Payments Restrictions relating to Greece, and in the fact that Greece prior to her accession to the EEC did not notify quantitative restrictions falling under paragraph 4 of Hungary's Protocol of Accession; and finally, by the statement made by the representative of the EEC in the first meeting of the Working Party on the Accession of Greece to the EEC. However, after accession, on 1 January 1981, Greece undertook to align its trade régime to that of the EEC and imports from Hungary were subject to EEC regulations governing imports from so-called state-trading countries Nos. 3286/80, 248/81, and 925/79. On the basis of these regulations twenty-three products became subject to discriminatory quantitative restrictions. These were listed in one of the three meeting papers distributed by the Hungarian delegation. He pointed out that in a recent consultation with Greece in the Balance of Payments Committee his delegation had asked what GATT provision justified these restrictions, and had been told that they were not applied under Article XII of the GATT. He concluded that the existence of these discriminatory quantitative restrictions since 1 January 1981 was contrary to Article XI of the GATT; furthermore they were not in conformity with Article XIII of the GATT neither as to the obligation of non-discrimination nor as to the obligation of taking into account past import performance when establishing the size of a quota and thirdly they were contrary to the contractual obligation under paragraph 4 of the Protocol of Accession of Hungary.

12. The representative of Hungary recalled the obligation under paragraph 4 of the Protocol of Accession of Hungary for contracting parties maintaining quantitative import restrictions incompatible with Article XIII of the GATT to remove them progressively. He recalled that in preceding reviews Hungary had discussed the matter with the Commission of the Communities rather than with its member States. He expressed some doubts that this corresponded to the real responsibilities involved, as the Protocol of Accession referred to "contracting parties" maintaining quantitative restrictions. It was a fact that, until 1973 when the Protocol had been signed, it had been member States and not the Community which maintained quantitative restrictions. In 1980 the EEC Council Regulation No. 3286/80 addressed itself to quantitative restrictions. However Regulation No. 3286/80, which listed the products subject to quantitative restrictions, in the member States of the EEC, showed that the product coverage of quantitative restrictions applied by them was not uniform and varied from one member State to the other; in fact it was simply a compendium of national lists of quantitative restrictions. The text of that Regulation pointed to the fact that it was the member States and not the Community who maintained the restrictions, as illustrated by Article 4, paragraph 3 of the text. The text also provided for a considerable degree of national jurisdiction by member States concerning the treatment of quantitative restrictions. It was clear that a member States' decision could not be over-ruled by the Commission in the case of quantitative restrictions.
This was reflected *inter alia* by the relevant provision of that regulation relating to the elimination of quantitative restrictions maintained only by a single member State of the Community. In the Hungarian delegation's view the situation could be summarized as follows: quantitative restrictions were maintained not by the Community but by its member States. It was true that their elimination was partly subject to Community procedures, but in any case the member States had retained broad competence. Thus it would not be correct to say that the Community had substituted itself for its member States in this matter. This was the reason why Hungary considered that the implementation of the obligations contained in the Protocol of Accession of Hungary was the responsibility both of the Community and its member States.

13. The representative for Hungary stressed that it was not his intention to question the practice, institutions, or objectives of the EEC, provided their exercise did not infringe on Hungary's contractual rights and did not result in discriminatory practices and did not hurt the legitimate commercial interests of Hungary.

14. One member of the Working Party reiterated his authorities' concern with the maintenance of discriminatory quantitative restrictions. He suggested the establishment of a time-table for their removal, and looked forward to hearing the reasons for which these restrictions were still maintained. He noted with interest the statement made by the representative of Sweden.

15. Another member of the Working Party said that while his authorities did not apply any quantitative restrictions on imports from Hungary, they were concerned with the continued application of such restrictions by other contracting parties. He hoped that some indication would be given, under the terms of Article 4 of the Protocol of Accession, for the removal of these restrictions.

16. One member of the Working Party shared the concerns expressed by Hungary concerning the maintenance of discriminatory quantitative restrictions and called for their elimination.

17. One member of the Working Party expressed his concern with the continued application of discriminatory quantitative restrictions on imports from Hungary and the introduction of new restrictions on these imports since the last meeting of the Working Party. He pointed out that the period for their progressive elimination had become extremely long and that their scope and incidence had increased. He asked for a convincing explanation of the exceptional reasons for the maintenance of these restrictions under paragraph 4(b) of the Protocol of Accession. He also asked whether safeguard provisions under paragraph 5 of this Protocol had been invoked. Furthermore he drew the attention to the fact that Hungary joined different non-tariff codes negotiated during the MTNs which address themselves to problems conducive to the use of quantitative restrictions, and whose faithful application on trade with Hungary could facilitate their dismantling and elimination. He stressed that adequate safeguards against possible injury caused by Hungarian exports existed in respective provisions of GATT, like Article VI and XIX, and in the provisions of paragraph 5 of the Protocol of Accession, as well as in some of the codes negotiated in the MTNs and consequently he called for accelerating the process of elimination of quantitative restrictions applied against Hungarian exports. In conclusion he
stated that if contracting parties found themselves unable to meet the obligations under the Protocol this might cast doubts not only on this legal instrument but also on the GATT itself.

18. One member of the Working Party said that while his authorities did not maintain any discriminatory quantitative restrictions on imports from Hungary it was generally opposed to quotas and particularly discriminatory quotas. He expressed his authorities' regret that these restrictions had not been eliminated within the time-limit foreseen in paragraph 4 of the Protocol of Accession and pointed out that the arrangements provided for in paragraph 5 of the Protocol precluded the maintenance of discriminatory quantitative restrictions.

19. Another member of the Working Party said that he supported the early removal of these restrictions and was concerned that progress had been so slow. He was concerned that restrictions, instead of being eliminated, were being increased and called for measures to be taken in order to achieve full compliance with the GATT and with the Protocol of Accession.

20. Another member of the Working Party said that his Government's policy was in disfavour of discrimination, especially in matters of quantitative restrictions. He therefore supported the statements calling for an early removal of remaining quantitative restrictions.

21. The representative of the EEC began by saying that the entire problem had to be judged in the light of the realities of the present economic crisis, which was affecting the Community like other countries. In the circumstances, it was not realistic to expect the EEC to accelerate and intensify its efforts to eliminate the quantitative restrictions it was still applying which concerned sensitive industrial sectors. On the contrary, it should be borne in mind that Hungary had been able to continue to expand its trade with the Community, in a climate of significant protectionist pressures. With regard to the Community's observance of its international obligations, the representative of the EEC pointed that, as in previous years, its commitments under the Protocol of Accession of Hungary to the General Agreement, and in particular those in respect of paragraph 4(a) thereof, had been fully met by the Community. He recalled that between 1973 and 1975 the EEC had liberalized some thirty positions. He also pointed out that every year the EEC had increased the size of its quotas which amounted to a de facto liberalization. Some of the quotas had not even been filled, whereas other quotas had been surpassed. He explained that in the Federal Republic of Germany there was an experimental liberalization under way which allowed a de facto surpassing of quotas. This amounted to a de facto liberalization. He recalled that quantitative restrictions applied to only 4.1 per cent of Hungarian exports to the EEC, which was the largest export market for Hungarian goods. Referring to the statement made by another representative, he invited the Hungarian representative to have bilateral discussions with the Community in order to find constructive solutions for the problems at hand. As to the academic meditations adduced concerning the Community's powers in matters of trade policy, the representative of the EEC said that he did not consider the Working Party the proper place for such a discussion. In any case, the powers of the Community did not lend themselves to discussion, since they were clearly established by the Treaties instituting the European Communities and by the regulations subsequently adopted, which entrusted the powers of
initiative and final decision to the Commission and the Council of the European Communities. He then pointed out that the notification by the Community offered a clear picture of the real situation. It took into account the wishes expressed by the preceding Working Party and also conformed to the general policy of the European Communities, which was to furnish specific information concerning legislation and trade. All decisions affecting import régimes had been immediately published in full detail, so that the transparency of an EEC régime was beyond any possible criticism. He felt that many countries could imitate the information policy of the European Communities and publish in extenso all pertinent decisions of interest to the other contracting parties. Turning to the question of the restrictions applied by Greece he pointed out that the accession of Greece to the EEC had brought about a radical change in Greece's import régime. Before 1 January 1981, 147 products had been subject to quantitative restrictions, whereas after 1 January 1981 only thirty-eight products remained subject to such restrictions. By 1 January 1986, this number would be reduced to twenty. The important thing was that almost 80 per cent of the restrictions had been eliminated with respect to Hungary and that no new restrictions had been introduced. In addition, the mentioned restrictions in the textiles sector - which had not been discriminatory - had been suspended under an agreement concluded between the Community and Hungary. He found it surprising that Hungary welcomed solutions arrived at bilaterally and then criticized them multilaterally. The papers which the Hungarian delegation had had circulated at the opening of the meeting and which the Community had not been able to study in detail did not at first sight appear to present any new elements, although they did contain a number of inaccuracies. No new discrimination had been introduced between 1979 and 1981. It was nevertheless possible that, owing to adjustments in the Community's régimes, there had been certain shifts which, however, had cancelled each other out. What was more, there had been changes in the tariff nomenclature and in foreign-trade classifications and such changes took place periodically - a factor which Hungary had not taken into account. As to the case of Ireland, the restrictions which had been maintained for a product as a transitional measures under the Act of Accession of Ireland to the European Communities had been applies erga omnes and were not of a discriminatory character.

22. The representative of Hungary said that the general economic crisis could not be invoked as justification for the maintenance of quantitative restrictions inconsistent with Article XIII of the GATT. He asked on what GATT basis the discriminatory quantitative restrictions were maintained. He warned against the precedent of using the current economic crisis to free a contracting party of its GATT obligations. If this justification could be used vis-à-vis Hungary it could be used vis-à-vis others too. The fact that these restrictions applied to some 4 per cent of Hungarian exports to the Communities was not relevant to the question of non-conformity with the GATT. He stressed that he was not stating that the EEC was in violation of its obligations but asking under what GATT provision it maintained its restrictions against Hungary. He also pointed out that paragraph 5 of the Protocol of Accession, which provided for a specific safeguard clause, was the proper instrument to be used in times of crisis. He also recalled that his delegation had accepted this selective safeguard on the understanding that it would facilitate the elimination of discriminatory quantitative restrictions, as reflected by paragraph 9 of the Report of the Working Party on the Accession of Hungary. On the question of the Greek restrictions the
representative of Hungary said that in the light of the contractual obligations between Greece and Hungary it was irrelevant that the number of restrictions had been reduced from 147 to thirty-eight. He added that within the terms of reference of the Hungarian Working Party what was relevant was to examine if any of the measures applied by Greece were contrary to the contractual obligations of Greece vis-à-vis Hungary. He recalled that the representative of the EEC said that five products had become subject to discriminatory quantitative restrictions applied by Greece which confirmed the substance of what his delegation had established in that respect. He had taken note of the statement of the representative of the EEC according to which thirty-three products remained subject to erga omnes restrictions in Greece. He recalled that a recent submission by Greece to the Balance-of-Payments Committee (BOP/221) mentioned less than ten products which remained subject to erga omnes restrictions.

23. The representative of Hungary said that in drawing up the three meeting papers 1 to 3 his delegation had based itself exclusively on EEC notifications to GATT and EEC regulations and publications. His delegation agreed to examine these lists with the representative of the EEC. He reiterated his question on the GATT justification for these restrictions and enquired about the measures to be taken by the EEC and its member States in 1982, under paragraph 4 of the Protocol.

24. Returning to the problem of the effects of Greece's accession to the European Communities, the representative of the EEC repeated that most of the restrictions had been eliminated as a result of that accession, so that Hungary could only welcome the new situation. Moreover, any comparison between Greece's export régime before and after its accession had to take into account two elements. First, prior to its accession, Greece had applied a clearing mechanism in respect of certain countries, including Hungary. Secondly, there had been a system of optional licensing applicable to a very large number of products. During the negotiations on Greece's accession, the Community had succeeded in obtaining the elimination of both the clearing mechanism and the licensing system. Lastly, Greece's adoption of the common external tariff had led to an appreciable reduction in the level of its customs duties with respect to third countries. Consequently, any comparison between the previous and the present régime should, to be fair and accurate, take into account the structural change that had occurred. Referring to the three papers furnished by Hungary at the beginning of the meeting, the representative of the EEC indicated that the unverified lists of restrictions they contained, while designed to impress by their length, could be explained. First, the Greek import régime had been thoroughly modified, as had already been abundantly made clear; secondly, there was a textiles agreement for Hungary and other members of GATT; and lastly, certain modifications in tariff nomenclature had entailed technical modifications in the Community's regulations: in the case of France and the few products whose trading status was claimed by Hungary, to be in dispute, the Commission of the European Communities was examining the problem and hoped to settle it on the occasion of the next revision of various Community regulations. Provided there was agreement on a number of principles and definitions, the Community was prepared more carefully to examine the lists which, for the moment, could only be misleading. It could not be excluded, however, that such an examination would still leave a certain margin of residual error. That being said, it was clear that since the last review by the Working Party, the Community had
introduced no new restriction with respect to Hungary and had even increased the size of its quotas. As to the problem of the date of 1 January 1975 in paragraph 4(b) of the Protocol, he drew the Working Part's attention to the fact that it had no authority to amend the provisions of the Protocol. It was true that on 1 January 1975 not all of the discriminatory restrictions had been eliminated, but, inasmuch as such a situation had been provided for in paragraph 4(b) of the Protocol, there was no reason now to fix a new target date. In conclusion, he renewed his invitation to the Hungarian delegation to hold bilateral discussions in order to find satisfactory solutions for pending problems.

25. The representative of Hungary said his delegation had no interest in entering into a bilateral trade agreement which would be violated shortly after signature. As to the restrictions on textiles, he stated that he could not accept the suspension of quantitative restrictions as measures falling under paragraph 4(a) of the Protocol.

26. The representative of Hungary made two proposals: (1) that the discriminatory quantitative restrictions applied by Greece as a result of its accession to the European Communities be immediately removed; (2) that the quantitative restrictions where quotas were continuously under-utilized be immediately eliminated. He supported the proposals made by other members of the Working Party: (a) that the Working Party adopt a recommendation with a target date for the phasing out and the removal of discriminatory quantitative restrictions still maintained against Hungarian exports; (b) that the selective safeguard mechanism under paragraph 5 of the Protocol of Accession of Hungary be made use of should the elimination of the restrictions bring about market disruption or risk thereof.

27. The representative of the EEC said that with respect to the first Hungarian proposal his delegation was prepared to examine the problems relating to the Greek quantitative restrictions with a view to reaching a satisfactory solution for all parties concerned. Concerning the second Hungarian proposal the EEC was not prepared to amend the Protocol of Accession by changing the target date for the removal of restrictions; the EEC was disposed to consider acceleration of the liberalization of its quantitative restrictions, but within the constraints of economic conditions. He recalled that the remaining quantitative restrictions on Hungarian exports affected only 4 per cent of Hungary's exports to the EEC; these restrictions could not be removed at present because of the exceptionally difficult economic circumstances and because most of the products concerned were very sensitive. There was no refusal on the part of the EEC to liberalize in the future, it had done so in the past. He stated that the EEC was in conformity with paragraph 4 of the Protocol of Accession and that it had not increased any quantitative restrictions. He reiterated the EEC's invitation to have bilateral discussions with Hungary. With respect to the third proposal he said that there was no need for the Community to demonstrate market disruption under paragraph 5 of the Protocol of Accession as there were no new discriminatory import restrictions applied. Lastly, the representative of the EEC pointed out that it was easy for certain members of the Working Party to associate themselves with Hungary's demands for the immediate elimination of all the quantitative restrictions maintained by the Community when their imports from Hungary were insignificant whereas their exports to that country were by no means negligible. It would be more constructive for those
countries to balance their trade with Hungary by increasing their imports, especially their imports of Hungarian manufactures, for that would serve to reduce the problems posed by those imports for the European Community.

28. The Hungarian delegation stated it was difficult to believe that, after having liberalized trade with such competitive partners as the United States and Japan, Hungarian exports would cause a major economic problem. He recalled that his proposal to use legal and contractual means as provided for by the GATT, including Hungary’s Protocol of Accession, in case market disruption or threat thereof was rejected by the Community. The Hungarian delegation expressed its view that these two elements of the attitude of the Community proved that the maintenance of quantitative restrictions not consistent with Article XIII had nothing to do with economic considerations. The Regulations of the Community Nos. 3286/80, 284/81, 925/79 and 926/79 instituted a clearly discriminatory régime for a number of so-called state-trading countries, among them Hungary. As an example, he mentioned a country listed in these regulations which had neither undertaken obligations, similar to those made by Hungary as a contracting party to the GATT towards the Community, nor taken part in international co-operation. In spite of the contractual relationship under the GATT between Hungary and the Community, Hungary received the same treatment as the country referred to above, which meant that the Community deliberately ignored its GATT obligations towards Hungary. In this light, the proposal of the Community to conclude a bilateral agreement with Hungary served the sole purpose of inducing a partner with insignificant bargaining power to accept unfavourable conditions bilaterally, without the protection provided for by the GATT rules. This was clearly apparent from the text of the so-called schéma d’accord proposed by the EEC, and from its insistence during the MTN's on sectoral import commitments to be undertaken by the so-called state trading countries.

29. The representative of the EEC said that the balance of rights and obligations should be assessed in their general context. In general trade relations with centrally-planned economies had its particularities which had, inter alia, been recognized in the Protocol, in Annex A, and formed part of the global balance. He would leave to the Hungarian delegation the responsibility for its unilateral interpretation of the outline of an agreement proposed by the Communities. In his opinion, the conclusion of a bilateral agreement would help to overcome many problems.

30. One member of the Working Party enquired as to the current Hungarian export incentives including subsidies, state tax refunds and tax allowances. The representative of Hungary said that there had been changes since 1975 and that all state refunds had been abolished. Some agricultural subsidies were maintained. All relevant regulations were published. He added that these matters were currently under discussion with the IMF.

31. The representative of the EEC asked when the Hungarian authorities would publish the lists annexed to the trade agreements entered into by Hungary with the countries in Annex A. He pointed out that these were governmental agreements and as such had to be published. While the text of these agreements were available, the attached lists which were of interest to contracting parties exporting to Hungary, were not published.
32. The representative of Hungary recalled that he had explained during the Working Party on the Accession of Hungary that the Hungarian Foreign Trade Code clarified the procedure for drawing up the lists attached to the trade agreements passed with Annex A countries. The lists themselves resulted from private negotiations among enterprises in Hungary and in the other countries in question. In view of the latter circumstance, in accordance with the relevant provisions of Article X of the General Agreement, the Hungarian authorities could not be required to disclose information which would prejudice the legitimate commercial interests of particular enterprises, public or private.

33. The representative of the EEC noted that the lists were not available and said that that meant a lack of transparency in Hungary's foreign trade. That lack of transparency was particularly regrettable since a very large part of Hungary's foreign trade was covered by such agreements, which, having been signed at the governmental level, conferred intergovernmental authority on contracts concluded between foreign-trade enterprises.

34. The representative of Hungary said that in many cases there was only one company involved with the production of a particular product and thus, if the lists were published, they would disclose commercial information which could damage the firm's bargaining position.

**B.C. Hungarian Imports and Developments in Hungary's Trading Regulations**

35. Two members of the Working Party noted with satisfaction that Hungarian imports from contracting parties had increased. One member, noting the rapid rise in Hungarian imports of consumer goods in the first part of 1981, asked about the current status of Hungarian consumer goods quotas. The representative of Hungary said that a target date had been fixed by Hungary for the elimination of consumer good quotas.

36. A member of the Working Party noted that Hungary had recently unified its exchange rates and asked whether the Hungarian authorities were envisaging the free convertibility of the Forint and, if so, within what time table, and whether the Forint would float against the major international currencies. The representative of Hungary replied that there was no time-table for external convertibility of the Forint but that it was the Government's policy to move towards that objective. He added that details concerning this subject were being discussed with the IMF.

37. A member of the Working Party referred to the changes that were being effected in the decision-making process for imports. He asked whether this would lead to further reductions of the monopoly of trading organizations. The representative of Hungary said that, on the one hand, it was his Government's policy to increase the number of companies, including manufacturing ones, entitled to carry out foreign trade activities. On the other hand, for manufacturing companies not having this right, greater possibilities were created to choose among Hungarian trading firms. These measures were adopted in order to ensure greater competition, which would in turn have an impact on the Hungarian economy. His authorities would proceed cautiously in this direction.
38. One member of the Working Party noted that there were changes in the methods of planning which seemed to call for indicative planning rather than detailed direct planning, thus leaving greater play for market forces. He asked how this would relate to planning between CMEA countries and whether it had led to any changes in the bilateral agreements with the CMEA countries. The representative of Hungary said that the methods of co-ordination among CMEA countries were currently under consideration for improvement. It was his authorities' policy to reconcile the co-ordination within CMEA countries with the reforms under way in Hungary's economic system.

39. The representative of the EEC drew attention to document L/5201 which contained on page 3 a summary of Hungary's trade with Annex A countries and with GATT contracting parties, and noted that in that table the Hungarian authorities excluded from the "contracting parties" category those GATT members which were also mentioned in Annex A. He noted that this was the first time that the Hungarian authorities had made this distinction. He asked what publications reproduced the lists of imports into Hungary from Annex A countries. Such lists would enable the other contracting parties to know exactly what products were imported by Hungary from other Eastern countries and were therefore of special value to them. He also asked whether those lists had been made available to CMEA governments.

40. The representative of Hungary said that the distinction made in the statistics supplied by Hungary was based on paragraph 3(a) of the Hungarian Protocol. Regarding the lists of products attached to the trade agreements with Annex A countries, the representative of Hungary, recalling his previous statement on the subject, added that these lists could not be published without the consent of the other party to the agreement, whose companies were in the same position as the Hungarian firms involved. If, eventually, Hungary's trading partners consented to the publication of the lists in question, the Hungarian authorities would check carefully that the Hungarian firms' legitimate commercial interests be observed. He pointed out that the publication of non-compulsory quotas did not amount to business information of value, because he could not presume that such quotas would be used, whereas compulsory quotas as those in the trade agreements with Annex A countries contained precise information of commercial value. It was legitimate for Hungarian firms to protect their trade secrets.

41. The representative of the EEC noted that the Hungarian authorities would approach its trading partners with a request to publish these lists. He pointed out that the same problem of transparency that applied to Hungarian exports was also found with regard to Hungarian imports. It was important to the contracting parties to know the nature of these imports as they covered over 60 per cent of Hungary's imports. The importance which the European Communities attached to that problem was easily explained if it was borne in mind that the nature of those agreements gave the countries in question a sort of right of pre-emption over other contracting parties, which were thereby placed in a subordinate position. The non-publication of this information was not in conformity with Article X of the GATT.

42. One member of the Working Party said that his authorities were equally interested in obtaining the lists of products attached to the trade agreements of Hungary with Annex A countries. It was unfortunate that Hungary needed the consent of its trading partners before disclosing this information. However
he noted that the Hungarian authorities undertook to approach their respective partners to get release of this information. He looked forward to hearing the result of these approaches. Should the result be negative the contracting parties might have to reflect further.

43. A member of the Working Party referred to L/5216 concerning the recently unified exchange rate of the Forint and asked whether any other specific steps towards convertibility were envisaged and whether these measures were expected to have an impact on Hungarian imports and exports. The representative of Hungary said that these matters were presently under discussion with the IMF. In response to a question on the exchange rate for the non-convertible currencies the representative of Hungary said that the Hungarian National Bank published the exchange rate for convertible and non-convertible currencies weekly.

44. One member of the Working Party expressed satisfaction at the Hungarian intention to join the IMF. He asked whether the import turnover tax had been abolished and whether licences were still required for imports. He further asked whether there had been any change in the way prices were set for goods from Annex A countries.

45. The representative of Hungary said that the import turnover tax had been largely abolished; at present it was applied inter alia to passenger cars. He explained that all imports, including imports from CMEA countries, were subject to import licences. As for export prices he recalled the explanation given at the previous review; prices were set as a result of discussions between the enterprises concerned within the limits of the "price principle" and on the basis of officially published exchange rates for the transfer of the Rouble. The so-called "price principle" called for export prices based on an average of world prices over a five year period.

46. One member of the Working Party expressed satisfaction at the development of trade relations between Hungary and the other contracting parties. Since acceding to the GATT in 1973 the evolution in Hungary's trade practices had been positive and indicated that in the future there would be further conformity of Hungarian trading practices with the accepted rules and principles of the international trading system. The on-going process of economic reforms and liberalization in Hungary, and the positive impact of Hungarian participation in the international trading system were welcome, as was Hungary's application for membership of the International Monetary Fund. He expressed the hope that trade relations between Hungary and the other contracting parties would continue to develop in accordance with the principles set forth in the General Agreement and the terms of Hungary's Protocol of Accession.

47. The representative of the EEC called for the integral publication of the lists attached to the trade agreements with Annex A countries, representing more than 50 per cent of Hungary's exports and more than 60 per cent of Hungary's imports. Their non-publication was not compatible with the provisions of Article X of the GATT and as a consequence there was no transparency of Hungary's trade. He considered that this was also a part of the balance of rights and obligations under the Protocol of Accession and reserved the EEC's rights under the GATT, in this respect.
48. In conclusion, the Hungarian delegation stated the following: During the session of the Working Party, Hungary has not received any answer on the exceptional reasons for the maintenance of discriminatory quantitative restrictions, as provided for by paragraph 4(b) of the Hungarian Protocol of Accession. No answer had been given either to the question of which article of the GATT served as legal basis for the maintenance of such quantitative restrictions. The Hungarian delegation drew the attention of the members of the Working Party to its experience with the EEC, concerning the acceptance by Hungary of a specific (selective) safeguard clause, deferring from the provisions of Article XIX of the GATT. Hungary accepted a safeguard clause as contained in paragraph 5 of the Hungarian Protocol, because the representatives of countries maintaining quantitative restrictions not consistent with Article XIII against Hungary's exports, indicated - at the time of Hungary's accession to the GATT - that the inclusion of such a safeguard clause would facilitate the removal of those restrictions. In the light of that linkage between the acceptance of a specific safeguard clause and the obligation of the early elimination of discriminatory quantitative restrictions, the Hungarian delegation stated that the balance of rights and obligations embodied in the Hungarian Protocol of Accession had been disrupted. The Hungarian delegation noted with regret that the constructive proposals tabled by other members of the Working Party had been rejected by the representative of the EEC. The representative of the EEC refused to accept a target date for the full elimination of discriminatory quantitative restrictions, proposed by several delegations. The proposal for the elimination of quotas continuously under-utilized was also turned down. The representative of the EEC had failed to give information on what measures had been adopted by the EEC, with a view to eliminating quantitative restrictions not consistent with Article XIII of the General Agreement, as provided for in paragraph 4(c) of the Protocol for the Accession of Hungary to the GATT. Despite the proposals of some members of the Working Party, the EEC had not undertaken to speed up the elimination of such restrictions. The EEC also refused the offer of the Hungarian delegation to examine, sector by sector, the question of whether the removal of a quantitative restriction not consistent with Article XIII of the GATT caused or threatened to cause market disruption, as provided for in Article 5 of the Hungarian Protocol of Accession. The Hungarian delegation expressed its conviction that a solution could be found to the concerns mentioned above, without damaging the legitimate economic interest of the EEC. In this regard, he reminded the Working Party of Hungary's proposal which was the following: The EEC and its member States should eliminate quantitative restrictions not consistent with Article XIII, still applied against Hungary's exports. Hungary was ready to examine the market situation of products, and - as provided for in paragraph 5 of the Hungarian Protocol of Accession - in case of products whose import might cause or threaten serious injury, Hungary would undertake export restraint, in the light of the identified and justified economic interests of the member States of the EEC. This proposal, to the regret of the Hungarian delegation, was also rejected by the representative of the EEC, as had been a similar proposal made during the negotiation of the bilateral agreement on the trade of textile products. At that occasion the EEC, despite the severe export restraints undertaken by Hungary had rejected the proposal to eliminate discriminatory quantitative restrictions applied to the products in question. The manner of implementation of the Hungarian Protocol of Accession was an issue of interest not only for Hungary but was of importance in a larger context, namely, in the light of the purpose of the GATT Ministerial Meeting
to be held in 1982. The CONTRACTING PARTIES decided to convene their next session at ministerial level "... to examine the functioning of the multilateral trading system and to reinforce the common efforts of the contracting parties to support and improve the system for the benefit of all nations ...". The Hungarian delegation stressed that the strengthening of the GATT system was to serve the interest of all nations, Hungary not being an exception. The Hungarian Protocol of Accession being an integral part of the GATT system, the Hungarian delegation expressed its intention to act, in each and every GATT forum, on the basis of the considerations expressed above.

49. The representative of the EEC, after expressing the view that repetition of the same arguments was not likely to contribute to progress in the discussion, replied to the Hungarian statement, stressing the principal matters of interest to the European Communities. First of all, he asked that Hungary publish in full the annexes to the trade agreements between Hungary and CMEA member countries, which covered 50-60 per cent of Hungary's trade. If Hungary persisted in considering that that request was not receivable, its refusal would affect the transparency of Hungary's trading system and, consequently, the balance of rights and obligations resulting from the Protocol of Accession. Secondly, he reiterated his explanations concerning the exceptional reasons for which the European Communities had not been able to do away with all of the quantitative restrictions of a discriminatory character applied to Hungary, reasons connected with the serious economic crisis which affected the economy of the European Community and which were felt with particular sharpness by certain sectors for which those measures were being maintained. That did not mean that the Communities were refusing progressive elimination of those restrictions; it meant only that it was not possible, under existing economic circumstances, to accelerate the movement of liberalization. With respect to the few marginal cases resulting from the accession of Greece to the European Community, the latter would be prepared, while observing the considerable liberalization effort made by Greece on that occasion, to take note of the Hungarian requests and to examine the problem. More generally, in conclusion, he stressed the view that a solution of the problems between the European Community and Hungary could more easily be reached in a bilateral framework.
ANNEX

Notifications submitted by contracting parties on discriminatory restrictions maintained on imports from Hungary.

**First consultation (1975)**

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