1. At its second meeting, the Working Party identified and discussed some of the principal problems arising from Hungary's application for accession. Preliminary positions taken by various delegations on selected problems are set out below.

I. Questions relating to Hungary's commitments

(a) Hungary's Schedule

2. It was noted that Hungary was prepared to commence tariff negotiations after 1 July 1971 on the basis of the customs tariff, as recently revised, which would be made available to contracting parties in due time. Some delegations expressed doubts about the role of the tariff because they felt that there were also other instruments to regulate imports. Certain delegations expressed the opinion that Hungary's schedule should consist of tariff concessions in the form of both bindings and reductions of duties. Most delegations reserved their position as to whether they would enter into tariff negotiations with Hungary until they had seen the new tariff and more detailed import statistics.

3. Some delegations asked whether Hungary would envisage to undertake a firm quantitative import commitment in Hungary's schedule, perhaps for a short transitional period to be replaced later by tariff concessions. The Hungarian representative, however, stated that he was unable to envisage a quantitative import commitment of any kind.

(b) Non-applicability of tariff to centrally-planned economy countries - special import turnover tax

4. It was noted that Hungary did not at present apply its tariff to imports from centrally-planned economy countries. In Hungary's view it would not be meaningful to apply the tariff to imports from centrally-planned economy countries because of the special trading system between these countries (especially as regards fixed prices). Other countries questioned whether they would not be put in a less favourable position because of this difference in tariff treatment. In this
connection, the representative of Hungary made the following statement:

"If Hungary becomes a GATT contracting party and should, at that time, conditions continue to exist under which tariffs are not applicable to goods from socialist countries with centrally-planned economy, as goods are exchanged at fixed prices under quotas, the Hungarian side will inform the GATT contracting parties accordingly, pointing out that this circumstance does not put the non-socialist GATT contracting parties in a less advantageous position than hitherto and does not mean they are disadvantageously discriminated."

5. Other delegations considered that this situation was the result of a historic and economic development which must be taken into consideration. A proposal was made that the problem might be dealt with by a specific provision in the protocol, involving a derogation or waiver of Article I obligations in this respect for a limited period.

6. According to some delegations, this question had to be seen in the light of the fact that a special import turnover tax was applied to imports of certain products from centrally-planned economy countries. A list of the products subject to this tax had been circulated in Spec(71)4. Some countries considered that this tax did not satisfy the provisions of the GATT. The delegation of Hungary expressed the opinion that special import turnover tax could not be assimilated to tariffs. One delegate considered that it would be useful if Hungary could supply answers to the questions in Annex A of the Consolidated Document on Border Tax Adjustments (L/3389).

(c) Hungary's tariff reductions and exemptions for co-operation contracts

7. Some delegations considered that Hungary's tariff reductions and exemptions granted to imports of certain goods in the context of co-operation contracts could be inconsistent with Article I and, to the extent that tariff items would be bound, with Article II. The Hungarian delegation did not share this view, holding that these possibilities were open to all firms which had entered into co-operation contracts irrespective of in which country they were located.
(d) Quantitative Restrictions and Licensing System

8. Some delegations considered that the Hungarian economic system enabled Hungary to exercise a stricter control over imports than could be exercised by most contracting parties - even those that maintained special quantitative restrictions against imports from Hungary. The Hungarian representative said that in his view Hungary's import regulating system was no different from that in force in most contracting parties and that Hungary was ready to discuss the incidence of its restrictive measures provided that other contracting parties did the same. The Hungarian delegate indicated also that, as a contracting party, his country would be prepared to discuss its quantitative restrictions and licensing system under the relevant Articles of GATT.

9. Attention was also drawn to the licensing tax charged by Hungary for special reasons on imports from convertible currency countries.

II. Questions relating to commitments of contracting parties

10. The Hungarian delegate drew attention to the fact that some contracting parties maintained quantitative restrictions against Hungary which would be inconsistent with Article XIII after Hungary's accession, and called for their early elimination. The delegations of the countries concerned could envisage agreement not to increase the discriminatory element of these restrictions and to eliminate substantially all of them over a transitional period, e.g. by 1975. Other delegations, while considering that restrictions should be eliminated immediately, could envisage a transitional period of a few years for their complete elimination.

11. On the assumption of a transitional period for elimination of these restrictions, the question arose of the treatment to be given to any restrictions still remaining at the end of this period. Text to be circulated separately regarding reasons for maintaining restrictions. Countries still applying such restrictions were of the opinion that a Working Party could be invited in due course to examine the possibility of their elimination; these delegations were opposed to the idea of requesting a waiver. Some delegations, however, suggested that countries still maintaining restrictions at the end of the period should apply for a waiver under Article XXV:5.
III. **Safeguard Clause**

12. Several delegations of contracting parties considered it important to have in a protocol of accession a specific safeguard clause. They stated that the need for such a clause or clauses arose from the nature of the economic régime of Hungary - a country with a centrally-planned economy - as well as, inter alia, the special character of the Hungarian system of price formation, price multiplier and subsidies. Moreover, they considered that the existence of a safeguard clause would be of assistance in achieving liberalization of quantitative restrictions. The Hungarian delegation maintained that it had not been proved that the reasons enumerated by these delegations were valid. Some delegations, while not ruling out the possibility of a safeguard clause, considered that existing provisions of GATT notably Articles XIX, VI, and XXII, were adequate. Some other delegations considered that the existing provisions of GATT were fully adequate. The Hungarian delegation did not see the need for clauses other than Article XIX, VI and XXII unless it would be proved that goods imported from Hungary were causing particular difficulties different to those foreseen in these Articles.

13. Several delegations pointed out that in their view the question of a safeguard clause was closely linked to that of elimination of discriminatory quantitative restrictions.

IV. **Consultations**

14. Some delegations pointed out that a special system of periodic consultations would be helpful.

V. **Other questions**

15. The Hungarian delegate indicated that his country would be prepared to notify its subsidies. One delegation suggested that Hungary should also give consideration to making an expression of intent to sign the Declaration giving effect to Article XIV:4.

16. It was indicated that Hungary, not being a member of the IMF, would be prepared to accept a clause as set out in the Polish Accession Protocol (paragraph 8) in lieu of a special exchange agreement with the CONTRACTING PARTIES under Article XV:5.

17. It was agreed that the Working Party should be convened again on . . . .