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

2. The Committee generally followed the plan for such consultation recommended by the Contracting Parties (see BISD 16th Supplement, pages 52 to 53). The consultation was held on 25 January 1978. This report summarizes the main points of the discussion and sets forth the Committee's views concerning the stamp duty, together with a draft decision attached.

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund has been invited to consult with the CONTRACTING PARTIES in connexion both with the regular consultation with Turkey and with regard to the stamp duty. The representative of the Fund made a statement concerning the position of Turkey as follows:
"While the economies of the industrial countries were faced with a serious slowdown in economic activity in 1974 and 1975, Turkey's economy continued to expand rapidly. Real GNP grew by an average of about 8 per cent per annum between 1974 and 1976. Turkey's impressive growth rates were stimulated mainly by expansionary economic policies. Growth slowed down somewhat in 1977 when external payments problems began to affect the development efforts.

"Turkey's drive for growth, however, has been accompanied by a serious deterioration of the financial position of the Central Government, and the public and quasi-public entities. Budgetary expenditures increased substantially and the public enterprises, which are responsible for a substantial part of the capital investment in Turkey, and the agricultural price support agencies have experienced large financial deficits in the last three years. As a result, the public sector has borrowed heavily from the Central Bank for the financing of the rapidly growing deficits in 1975 and 1976. Public sector access to Central Bank financing was again very large in 1977. At the same time, credit to the private sector showed strong growth rates as special arrangements stimulated large inflows of convertible lira deposits. Undoubtedly, the rapid rate of domestic credit creation was responsible for the upsurge in inflation from less than 15 per cent in 1972-73 to well over 20 per cent at annual average rates in 1976 and 1977, and contributed significantly to the deterioration of the current account. Monetary policy in recent years clearly has been subordinate to the financing needs of the public sector.

"Due to the exceptionally strong rise in domestic demand which resulted in a rapid increase in imports, and a deterioration of the terms of trade associated with the rise in oil prices and the slackening demand for Turkey's exports during the recent world-wide recession (Turkey's terms of trade declined by 16 per cent between 1973 and 1975, but recovered in 1976) Turkey's current account deficit rose from US$700 million in 1974 to an estimated US$3,100 million in 1977. The decline in workers' remittances between 1975 and 1977 caused by lay-offs in the European industrial countries in the mid-1970s contributed to the widening of the current account deficit. Another factor was speculation concerning the value of the currency. The balance of payments deficits of US$1,500 million in 1975, US$1,800 million in 1976, and an estimated US$2,300 million in 1977 were financed by running down foreign reserves from US$1,620 million at the end of 1974 to US$750 million in October 1977 (a level equivalent to less than two months' 1977 imports) and by accumulating substantial short-term foreign debts. Sizable payments arrears for import payments accumulated in 1976 and 1977."
In recent years the import regime has been progressively liberalized by adding commodities to the quota list and by shifting products from the quota to the liberalized lists. As a result, the share of liberalized imports increased from 62 per cent in 1975 to 65 per cent in 1976. However, import growth - which amounted to 25 per cent in 1975, 8.2 per cent in 1976, and an estimated 5.3 per cent in 1977 - will be affected in 1978 by efforts to reduce the present large external imbalance through measures curbing domestic demand. The Government raised monopoly prices and prices charged by State Economic Enterprises in September 1977 to yield about LT 40 billion on an annual basis which is equivalent to approximately 5 per cent of GDP. Subsequently, it raised, however, public sector wages, salaries, and pension at an annual cost of about LT 18 billion. The Government has also raised reserve requirements and the guarantee deposit requirement for imports. These measures were accompanied by a depreciation of the Turkish lira by 9.1 per cent in September 1977. In October 1977, an export subsidy of 10-15 per cent was introduced for exports of raw cotton and tobacco.

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

Opening statement by the representative of Turkey

The full text of this statement is appended.

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

Members of the Committee noted and welcomed the fact that some trade liberalization had taken place since the last consultations. They expressed sympathy and understanding for the present difficulties
the Turkish authorities were faced with. They noted and agreed with the views of the International Monetary Fund that in view of the present difficult balance-of-payments situation further steps to liberalize the import régime could only be expected after the present imbalance had been reduced.

Members of the Committee referred to the very considerable budgetary deficit which in their view was one of the major problems in Turkey, it was asked whether the new government would consider a more restrictive budgetary policy in the context of an economic stabilization plan. It was also noted that the rate of inflation was high, some 20 per cent per annum, possibly 28 per cent in 1977. Monetary expansion had also been very rapid. It was asked what plan the new government had to reduce inflationary pressures, to limit the budgetary deficit and the monetary expansion. The representative of Turkey replied that the new government would pursue the previous government's budgetary policy which would go before parliament for discussion without any notable changes. This policy envisaged 1978 as a year of stabilization for the Turkish economy. It was even thought in some sectors that there might not be a budgetary deficit in 1978. He recalled that 1977 deficit and rate of inflation should be considered as maximum. It was asked also what effects the rate of inflation had had on the competitiveness of Turkey's exports. The representative of Turkey said that it was well known theoretically that inflation had a negative effect on the competitiveness of exports. However, he added it was difficult to give a precise assessment of the effects of domestic inflation on the competitiveness of Turkish exports.
It was noted that while Turkey had a liberal legislation on foreign investments, long-term capital inflows contributed very little to the balance of payments, and it was asked whether Turkish authorities would consider changes in their policy in this field. The representative of Turkey agreed that long-term capital inflows were at a low level at $50 million. Legislation to promote long-term capital inflows existed since 1955, but it was applied in the context of the development plan, which determined which areas of the economy were open to foreign investors. These did not always coincide with foreign investors' plans. Nevertheless foreign investments were accepted in other areas than those approved by the development plan, but in this case they enjoyed no tax benefits. The new government could re-examine the situation in this field.

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

Members of the Committee noted that the rate of growth in Turkey was very high, some 8 per cent per annum despite conditions of world recession. While these growth targets were commendable they seemed to be leading to a difficult financial position. It was asked whether in view of world economic conditions the Turkish authorities would not re-examine the development programme in the light of projected economic growth in its main export markets. The representative of Turkey said he was not in a position to say which modifications would be brought to the development plan.
Several questions were asked concerning external financing, in particular whether the 1977 balance-of-payments deficit would be financed by short-term suppliers' credit as the level of reserve was very low (two-months' imports); it was also asked what policies would be adopted to handle the growing external debt and whether any negotiations were envisaged to improve the maturity structure of the external debts. The representative of Turkey said that the foreign debt at present amounted to $6,500 million of which the government share, including the State-economic enterprises, was $5,800 million, and the private sector's share was $700 million. The 1978 programme provided for a repayment, capital and interest, of $704 million for the current year.

In reply to a question concerning the priority of sectors in the industrial field in the development programme, the representative of Turkey said that priority would go to labour-intensive and export-oriented industries. Asked what steps were envisaged to diversify Turkish exports, the representative of Turkey said that his authorities had made efforts in this field, as trade statistics showed. Turkey's traditional export; tobacco, cotton and hazel-nuts had a diminishing share in total exports, whereas industrial exports had risen from 30.4 per cent of total exports in 1976 to 33.4 per cent in 1977. He added that it was not only a matter of diversification of exports by Turkey, but also a matter of satisfactory access to main markets.

Members of the Committee noted that since April 1977 Turkey had stopped foreign currency payments to suppliers abroad; it was asked when these payments would start again and which payments would get priority. The representative of Turkey said that the arrears amounted to $1,700 million. The Turkish authorities were fully aware of the importance of the problem and every effort would be made to solve it satisfactorily. Payments would be effected according to dates of imports.
Members of the Committee noted that in addition to global quotas and licensing one of the features of the import régime of Turkey was the numerous other charges on imports. Thus in addition to the normal customs duty there was a customs surcharge of 15 per cent of the duty, a 5 per cent quay duty or port tax as well as a production tax which ranged from 50 to 70 per cent according to the product concerned. It was asked what rôle these different charges played and what were their effects. It was also remarked that some of these charges might not be in accordance with provisions of Article VIII of GATT insofar that they were not commensurate with services rendered. Generally, it was noted that the import procedure of Turkey was complex. The representative of Turkey acknowledged that complex import procedures were detrimental to trade, however, he assured the Committee that the different aspects of Turkey's import régime were not aimed at restricting imports. He suggested that a higher rate of development and employment in Turkey would tend to lead to rationalization of all procedures including those applying to imports. Referring to the 15 per cent customs surcharge he said that this tax had been applied since 1933, and that its proceeds were destined to municipalities only. It was compatible with the provisions of GATT as it preceded Turkey's accession. The 5 per cent quay duty or port tax had been applied since 1936 and was destined to cover all services rendered by port authorities and was in conformity with Article II:2 of the GATT. He pointed out that some 90 per cent of Turkish imports entered the country by ship. Production taxes had been applied since 1933 and had been modified in 1957. They affected only certain goods and they were equivalent to internal taxes on domestic production.
Members of the Committee asked questions concerning the nature of the guarantee deposits in local currency which registered importers and industrialists were required to pay when submitting an application for an import licence. This guarantee deposit varied between 2.5 and 40 per cent of the value of merchandise; it was asked in this context whether this measure did not constitute in fact a prior import deposit and whether it applied only to payments by letters of credit or to all forms of payment. The representative of Turkey said that this measure was applied to all imports in a non-discriminatory manner as to source. The rates applied for industrialists were somewhat lower than those for registered importers, so as to reduce the cost of imports to producers.

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

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

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

Noting that Turkey still maintained two bilateral trade agreements it was asked whether there was a time-table envisaged for their elimination. The representative of Turkey said that these two agreements were with the USSR and with Albania; none of the parties concerned had so far expressed the wish to change the nature of the relationship and no time-table had been set to abolish these agreements.
Members of the Committee noted that the Turkish authorities were requesting an extension and modification of the stamp duty waiver to cover the five-year period of the development plan, at a new rate of 25 per cent. The Committee further noted the statement by the International Monetary Fund that the stamp duty was an important source of tax revenue but that the Fund believed this measure should be replaced by alternative fiscal measures in the context of a programme to restore external balance and internal stability. Hence the increase in the stamp duty from 10 per cent to 25 per cent was a measure which in the opinion of the Fund was justified on a very temporary basis at this time, but needed to be replaced by more appropriate measures at an early date. The Committee also noted that Turkish authorities continued to aim at the replacement of the stamp duty as a fiscal measure by a system of value added taxation. The Committee was told that the legislation for the VAT was ready and that it was likely to be submitted to Parliament for discussion in 1978. However, in view of the difficulties which were well known of changing to a value added tax system it could not be expected that Turkey would adopt the VAT in the near future. The representative of Turkey added that until such time the Turkish authorities would need the revenue raised from the stamp duty. It was pointed out by members of the Committee that the use of a stamp duty to raise revenue resulted in the taxation of imports without a similar tax on domestic transactions. In reply to a question as to the factors that had accounted for the increased rate of the stamp duty, from 10 to 25 per cent, the representative of Turkey said that the present rate was based on the present
rate of exchange. Finally, the Committee noted that there was a delicate question of timing needed for the new government to introduce a package of stabilization measures which would enable it to reduce its reliance on the stamp duty as a source of revenue.

Conclusions
1. The Committee expressed sympathy for the multiplicity of problems facing the Turkish authorities. It recognized that further steps to liberalize the import régime could only be undertaken after the present imbalance had been reduced. The Committee drew attention to the importance for Turkey of adopting a programme to restore external balance and internal stability, as indicated by the Fund.
2. The Committee hoped that the views and concerns expressed during the consultation would when relayed to the Turkish authorities contribute to defining the new government's economic policy.
3. Stamp duty

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

Draft Decision

TURKEY - STAMP DUTY

Considering that the CONTRACTING PARTIES, by decision dated
3 July 1973, and 15 July 1975 waived, subject to specified terms and
conditions, the provisions of paragraph 1 of Article II of the General
Agreement to the extent necessary to allow the Government of Turkey to
maintain as a temporary measure, the Stamp Duty not exceeding a specified
ad valorem rate, on imports into Turkey of products included in
Schedule XXXVII, until 31 December 1977;

Considering that the Government of Turkey has requested an extension of
the waiver to permit the maintenance of the Stamp Duty until the end of the
Fourth Five-Year Development Plan on 31 December 1982;

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

Taking note of the view of the International Monetary Fund that the
Stamp Duty constitutes an important source of revenue, but that it should be
replaced by alternative fiscal measures in the context of a programme to
restore external balance and internal stability;
Taking note of the statement made by the Government of Turkey that its objective was to achieve gradually complete liberalization of trade;

Taking note that the Government of Turkey had assured the contracting parties that internal procedures were under way to introduce a fiscal reform which would enable it to eliminate the Stamp Duty;

The CONTRACTING PARTIES, acting pursuant to the provisions of paragraph 5 of Article XXV of the General Agreement and in accordance with the procedures adopted by them on 1 November 1956,

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

Terms and conditions

1. The rate of the Stamp Duty shall not exceed 25 per cent of the value of the imported goods as assessed for the imposition of the customs duty, and shall be lowered progressively, as circumstances permit.

2. The continued application of the Stamp Duty shall be accompanied by commensurate efforts by the Government of Turkey to remove progressively quantitative restrictions on imports.

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

4. The Decision shall be valid until the removal of the Stamp Duty or until 31 December 1979, whichever date is earlier.
5. If any contracting party considers that the effect of the Stamp Duty maintained under this Decision is unduly restrictive and that damage to its trade is caused or threatened thereby, it may make representations to the Government of Turkey, which shall accord sympathetic consideration to such representations and afford that contracting party adequate opportunity for consultation.

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