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 (L/4840). The Committee noted that the previous consultation with Turkey under the same provisions had been held on 25 January 1978 (see BOP/R/99). In conducting the consultation the Committee had before it a basic document supplied by the Turkish authorities (BOP/199), a request for the extension of the Stamp Duty Waiver (L/4840), and a report on the Turkish Stamp Duty submitted in accordance with the decision of the CONTRACTING PARTIES of 17 April 1978 (L/4779 and Corr.1). It also had before it a background document provided by the International Monetary Fund dated 16 February 1979, and supplementary background material dated 19 September 1979.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (see BISD, 18th Supplement, pages 52-53). The consultation was held on 30 October 1979. This report summarizes the main points of the discussion and sets forth the Committee's views concerning the Stamp Duty, together with the draft decision attached.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund has been invited to consult with the CONTRACTING
PARTIES in connexion both with the regular consultation with Turkey and with regard to the Stamp Duty. The representative of the Fund made a statement concerning the position of Turkey, as follows:

"Since 1977 Turkey has experienced severe external payments difficulties which resulted in a sharp decline in imports of about 30 per cent in real terms in 1978. The limited availability of imported raw materials placed severe constraints on manufacturing output and capacity utilization was very low. The latest official estimates suggest that total output rose by 3 1/2 per cent in 1978. Notwithstanding that there was a very good harvest, this may be an overly optimistic estimate.

"The external payments situation remained extremely difficult in the early months of 1979. In the first six months of the year, the recorded value of imports was 7 per cent higher than in the corresponding period a year ago but, taking into account the sharp rise in prices of imported oil and industrial materials, this is likely at best to have implied no change in volume. The resultant import shortages probably continued to affect manufacturing output adversely.

"In the absence of adequate restraint on domestic demand, the lack of foreign exchange and the associated shortages of imports for manufacturing industry contributed to an acceleration in the inflation rate from about 25 per cent in 1977 to about 50 per cent in 1978. Various price indices have more recently shown somewhat divergent movements; however, the rise in the wholesale price index (a key indicator of price movements) accelerated from a rate of about 50 per cent in the course of 1978 to about 65 per cent in the course of the 12 months through July 1979. In March and April 1979 the inflation rate was influenced by substantial increases in the prices of goods and services sold on the domestic market by the State Economic Enterprises and the Monopolies Administration and this was also the case in June. The price increases were necessary to curb the sharply rising operating losses of these enterprises.

"Official data on the development of wages so far in 1979 are not yet available. Some recent wage settlements concluded in the public sector seem, however, to imply increases well in excess of those concluded in the second half of 1978. In addition, minimum wages were again raised sharply; those for non-agricultural workers were increased on May 1, 1979 by 64 per cent and those for agricultural and forestry workers on June 1, 1979 by 78 per cent. Settlements so far concluded in the private sector appear to provide for wage increases and fringe benefits together amounting to an annual increase of about 100 per cent in the first year
Parts I and II

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

5. Members of the Committee thanked the Turkish representative for a very clear and comprehensive statement. They expressed sympathy and understanding for the multitude and complexity of problems facing the Turkish economy. They noted that there had been reinforced international co-operation to find solutions to the difficulties in the Turkish economic situation, which were aggravated by the current state of the world economy. It was recognized that the present balance-of-payments situation was extremely difficult and that progress towards equilibrium and trade liberalization could only be expected to be achieved gradually. It was pointed out that in its basic document for the consultation the Turkish authorities had indicated a growth in GNP in 1978 of 3.5 per cent; it was asked whether this estimate had been revised and whether any estimates existed for 1979 and 1980. The representative of Turkey said that GNP figures for 1978 had been deflated by some 30 per cent. No major increases in GNP were expected for 1979, due to the slack economy and the rising unemployment, which reached nearly 20 per cent in 1979. As for 1980 the overall GNP target in the development plan was 8 per cent per annum. It was explained that the plan set the intentions of the Government; whether these could be achieved would depend on internal and external factors.

6. It was noted that the current rate of inflation was very high and it was asked whether the Turkish authorities were taking measures to contain this rate, especially with respect to demand inflation. In this context it was remarked that a major component of Turkey's recent inflation had been increases in wages and fringe benefits ranging up to 100 per cent,
especially in the public sector. In the IMF documentation it was stated that a key set of wage negotiations were due late in 1979 with metal workers, and it was asked whether these negotiations had been concluded. The representative of Turkey said that major wage negotiations had taken place in 1978 and that there had been large wages and salary increases in 1978 and 1979. However, as the rate of inflation was around 60 per cent and the wage increases had averaged 30 per cent in 1979, the increases amounted to a reduction in real income. These increases were insignificant compared to other monetary aggregates and could not explain the present rate of inflation. The representative of Turkey added that wage increases in the public sector did raise the cost structure in the economy. It was a very sensitive issue and the Turkish Government had to come to a social contract with the public sector; it remained an area of major concern. The representative of Turkey added that the losses incurred by State Economic Enterprises were one of the main causes of domestic inflation in recent years. In the past the prices practised by the State Economic Enterprises had been kept artificially stable and low in an effort to reduce inflation. In 1978 and 1979 the pricing policies had been made very much more flexible.

7. Members of the Committee noted that the stabilization programme set ceilings on the growth of the money supply and introduced various measures concerning interest rates. Real interest rates seemed to be negative in early 1979 and it was asked whether this was still the case. It was also asked whether more market-oriented interest rates would not serve to control inflation and whether the Turkish authorities had plans to move in this direction. The representative of Turkey replied that from 1974 until April 1978 there had been no increases in interest rates in Turkey at all.
Thus rates were constant and negative. In 1978 with the changes in policy there were substantial increases in interest rates. This policy was pursued in 1979 and there were further large increases including in the discount rates. Nevertheless, they were still negative; with a rate of inflation of 60 per cent it was hardly possible to adopt more market-oriented rates. Such a policy was only possible when prices were stable or showed only small increases. The representative of Turkey stressed that this change in interest rate policy had had a very favourable response; time deposits had increased by 60 per cent and overall bank deposits by 50 per cent. Members of the Committee noted that the Turkish Central Bank credit had expanded at a rate of over 36 per cent in July 1979 and asked whether this figure was expected to fall in the coming months. The representative of Turkey replied that the stabilization programme also set limits to Central Bank credits, and stated that the limits would be maintained. So far the limits had been observed and it was hoped that in the coming months the tendency would be kept. The Government was committed in the stand-by arrangement with the International Monetary Fund not to lower the reserve requirement of banks. Re-discount rates had increased from 10 per cent to 10.75 per cent for short-term credits, and 11.5 to 14 per cent for medium- and long-term credits.

8. Members of the Committee referred to the new exchange rate policy which consisted of a dual exchange rate: one for transactions in agricultural goods and petroleum and another for manufactured goods. It was asked whether this policy had been successful in making Turkish exports more competitive. It was also asked whether the Turkish authorities intended to unify these rates in future or make use of a more flexible foreign exchange régime. The representative of Turkey replied that the two-tier exchange rate
system of LT 36 and LT 47 to $1 was part of the new stabilization programme and had been introduced after two successive depreciations of the Turkish lira. Whether these two rates would be unified in the future would depend on a number of political factors which could not be foreseen. It was significant that the black market rate at the moment was aligned to the rate for manufactured goods exports i.e. LT 47. It would of course be desirable to see the gap between LT 36 and 47 diminish in the future.

9. Members of the Committee commented on the reduction of imports in real terms in 1978 and asked what effect it had had on the Turkish economy. The representative of Turkey replied that the reduction in imports was due to the severe shortage of foreign exchange rather than import restrictions, and that its effect on economic growth had been severe.

10. Members of the Committee also asked about the results to date of measures taken to increase receipts on invisibles account especially tourism and workers' remittances. The representative of Turkey said that despite Turkey's very favourable geographical situation with regard to tourism net receipts from tourism had been negative until 1977. Measures had been taken in 1978 to control this deficit; Turkish tourists were not permitted to travel abroad more than once every three years. This had helped to turn the balance to a surplus of US$145 million in 1978; the surplus expected for 1979 was US$200 million. Another factor that had contributed to an improvement in invisibles was the measures taken to encourage workers' remittances which had increased substantially. They had reached in the first eight months of 1979 $1.3 billion and by the end of the year the figure estimated was $1.7 billion.
ll. Questions were also asked as to what measures were envisaged to promote foreign investments. The representative of Turkey explained that the law on foreign investments was liberal in its essence; however, there had been complaints of delays due to administrative bottlenecks. The new code of investment in Turkey provided for 100 per cent ownership for foreign investors in the tourism sector. Export promotion sectors would also be allowed to have 100 per cent foreign ownership. The new investment code was ready and needed to be approved by the new government. It was not expected that any policy changes would be introduced by the new government.

12. Other questions were asked with respect to investment policies in particular in fields where Turkey enjoyed comparative advantages, such as agriculture and tourism. The representative of Turkey replied that investment priorities, especially under the budgetary constraints now prevailing, were focussed on energy projects and export-oriented industries. Other types of investment projects would have to be delayed in view of the limits set to Central Bank lending. Investment in tourism and agriculture would be carefully limited for the time being. The representative of Turkey pointed out that for the first time in 1978 there had been a policy change in favour of export-oriented industries. Measures taken under the stabilization programme had led to increases in exports especially of manufactured goods. The new exchange rate system had been accompanied with a retention scheme which allowed exporters to retain up to 50 per cent of export proceeds. In order to reinforce export competitiveness it was necessary to curb domestic demand. Policies had been adopted to curb inflation. Budgetary measures, credit and monetary measures had been taken. In 1979 budgetary expenditure had increased by only 23 per cent compared
to 1978 which, with a rate of inflation of 60 per cent, amounted to a reduction in expenditure. Measures had also been adopted to forbid additional budgetary appropriations. It was expected that the budgetary deficit in 1979 would be of the order of 61 billion TL.

13. Members of the Committee noted from the basic document that the Turkish authorities intended to increase the domestic savings rate through monetary and fiscal measures and asked whether there were any figures or projections in this area. The representative of Turkey replied that domestic savings in 1979 were expected to show an increase of about 15 per cent.

14. Questions were posed concerning arrears in debt servicing which had developed early in 1979. The representative of Turkey said that the avoidance of additional arrears constituted a performance criterion in the stand-by arrangement Turkey had concluded with the International Monetary Fund. No further arrears beyond the $150 million incurred early in 1979 were expected. Members of the Committee commented on the level of imports projected for 1979 and 1980. Some projections indicated that Turkey would suffer a current account deficit of $2.3 billion in 1980, for which financing was not yet apparent for $1.5 billion, and asked what plans the Turkish authorities had to finance this deficit. The representative of Turkey said that the financing obtained through the OECD would only be used partly in 1979 i.e. some $500 million. The balance would be used to finance the current account deficit in 1980.

15. In reply to questions posed concerning the role of the price of oil in the Turkish economy and the relationship of oil import to Turkey's overall energy needs, the representative of Turkey said that petroleum made up 51 per cent of Turkey's energy supply. In 1978 the oil imports bill had
amounted to $1.7 billion, which was 85 per cent of total export receipts. He went on to explain that the basic weakness of the Turkish economy was well illustrated by the following figures: up to 1973, 69 per cent of imports were covered by export receipts. He went on to explain that the basic weakness of the Turkish economy was well illustrated by the following figures: up to 1973, 69 per cent of imports were covered by export receipts. But from 1974 on, this percentage changed considerably falling to 29 per cent, some years 35 per cent, and last year 42 per cent. While up to 1973, the deficit was covered by invisible receipts, mainly from workers' remittances, from 1974 on, the gap was so large that external borrowing became an absolute necessity.

If Turkey were to import all of her oil requirements in the current year, in view of world prices, she would have to pay US$3 billion, which would far exceed total Turkish export receipts. Turkish economic difficulties had four fundamental sources: oil prices and the energy crisis; considerable increase of prices for investment equipment; decrease of Turkish exports due to the industrial countries' economic recession but mainly protectionist attitudes against Turkish exports, e.g. EEC restrictions on Turkish textile products; defense expenditures costs, due essentially to the United States embargo.

The representative of the European Community was aware of the importance of the Community's market for Turkish exports and referred to the tariff and other provisions contained in the Agreement of Association. Referring to the textile market, he stated that the exceptionally high relative level of penetration of this market by low-cost imports from various origins had led the Community to moderate the growth of its imports. He was confident, however, that
the situation at the textile market in the Community would improve, thus permitting increases in imports from Turkey within a reasonable period of time.

Parts III and IV - System and Methods of Restrictions and Effects of the Restrictions

16. Members of the Committee asked questions concerning the import régime and in particular on the proportion of imports which were covered by the liberalized list under automatic licensing as opposed to prior approval requirement. The representative of Turkey said that the bulk of imports were under the liberalized list. He went on to explain that for every calendar year an import programme was prepared by the State-planning organization and announced at the beginning of the year by the Ministry of Commerce. The programme classified imports into two categories: (1) the list of liberalized goods - mainly raw materials and spare parts, (2) lists of goods subject to global quotas. Goods that did not appear on either of the two lists were prohibited. Imports in the liberalized list were sub-divided into two categories. There were no limits as to value or quantity of goods imported under these lists. Licences were issued automatically for imports under list I, but licence applications had to be made for goods under list II and were subject to prior review by the appropriate authorities. Import quotas were reserved for registered importers and for industrialists. Quotas were allocated semi-annually and foreign exchange allocations for all quota imports were made by the Ministry of Commerce. Registered importers had to
submit applications through an authorized bank, to the Central Bank and to the Ministry of Commerce in the months of February and August. The Ministry of Commerce issued foreign exchange allocation certificates valid for two months and an import licence had to be secured from the Central Bank. Applications for imports under industrialists' quotas were submitted through the Chambers of Commerce and Industry to the Ministry of Commerce in April and September of each year. All commercial imports required import licences which were issued by the Central Bank for a period of six months. Import licences were issued to registered importers, industrialists, State-economic enterprises and government departments. Before applying for import licences through the authorized banks private individuals and corporate bodies needed to have an importer's certificate from the Ministry of Commerce. Importers were required to deposit a guarantee when applying for imports; this was refunded when payment for the goods was effected.

17. In reply to a question on import charges the representative of Turkey said that the different charges on imports consisted of a customs duty (unless the product was duty exempt), a stamp duty, a customs surcharge, a quay duty and a production tax. Public sector imports were largely exempted from these charges. In 1970 these charges had amounted to some 50 per cent of the import value. By 1977 they amounted to only 31 per cent of the import value.

18. It was asked whether Turkey's association with the European Communities was expected to have an effect on the level of import restrictions and of exchange control. The representative of Turkey replied that it was too early in the negotiations between Turkey and the European Communities to comment.
The Turkish authorities' aim was to freeze Turkey's responsibilities towards the European Community countries at least until the end of 1983.

19. Questions were asked concerning the implementation of a foreign exchange fund which enabled exporters to obtain foreign exchange for imports to be used in realizing their export projects. The representative of Turkey explained that this foreign exchange fund had been introduced when Turkey was under extreme foreign exchange difficulties. It aimed at meeting industries' immediate input requirements. The scheme was still in effect.

20. Members of the Committee noted that the Turkish authorities had requested the extension of the Stamp Duty Waiver. They also noted the view of the International Monetary Fund that the Stamp Duty should be replaced by alternative measures, in the context of a comprehensive programme to restore external and internal balance. They noted that the main function of the Stamp Duty was to provide revenue. It had been the Turkish authorities' intention to replace it in due course with a system of value-added tax to be introduced with a general fiscal reform. Questions were asked as to the prospects of introducing such a reform and in particular it was noted that experimental applications of the VAT had been undertaken in preparation for its general application. It was asked whether any conclusions could be drawn from the results of these experiments. The representative of Turkey said that the VAT experiment had been carried out to determine the effects of the value-added tax system on the Turkish economy; part of the experiment had been completed. Another aspect of the experiment was to study the effect on prices and costs. The studies had not
been completed yet and a final assessment of the results was not expected for another two to three months.

21. Members of the Committee noted that there had been an increase of over 50 per cent in tax revenues during March–August 1979, compared with the same period of the previous years, in this context it was asked whether the Turkish authorities did not envisage to reduce the rate of the Stamp Duty. The representative of Turkey replied that there had effectively been a 50 per cent increase in revenue, but measured against a rate of inflation of 60 per cent, it was quite clear that there had been no real increase in revenue. It was not the Turkish authorities' intention to give up any revenue instruments at this stage. A detailed account of the status of the Stamp Duty and of the progress in the plans for a value-added tax reform was contained in the opening statement by the representative of Turkey.

Conclusions

22. The Committee expressed sympathy for the multiplicity of problems facing the Turkish authorities, in particular the worsening situation of oil import bills. The Committee noted the explanations given by the representative of Turkey concerning the difficulties encountered by some of their exports, due to restrictions applied by certain traditional trading partners. It noted with satisfaction the introduction of a stabilization programme and a new orientation in exchange rate, monetary and budgetary policy. Despite the extremely difficult balance-of-payments situation Turkey had not resorted to an intensification of import restrictions. Nevertheless, the Committee recommended that Turkey work toward a liberalization of the import régime. The adoption of a comprehensive programme to restore external and internal balance would bring about the conditions to permit liberalization.
Stamp Duty

23. The Committee noted that there was no change in the fiscal rôle of the Stamp Duty since the last consultation. It shared the view of the Fund that the Stamp Duty should be replaced by alternative measures. The Committee further noted that it was the intention of the Turkish authorities to introduce a fiscal reform which, once implemented would obviate the need for the Stamp Duty. The Committee recognized that in the present economic situation of Turkey the immediate removal of the Stamp Duty could not be given first priority. The Committee agreed to recommend to the CONTRACTING PARTIES to grant an extension of the waiver for the application of the Stamp Duty, according to terms contained in the Draft Decision attached in Annex 2.
ANNEX

Draft Decision

TURKEY - STAMP DUTY

Considering that the CONTRACTING PARTIES, by decision dated 20 July 1963, 11 November 1967, 24 August 1969, 30 January 1973, 3 July 1973, 15 July 1975 and 17 April 1978 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 1979;

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 1983;

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 present extremely difficult balance of payments situation;

Taking note that the Government of Turkey had assured the contracting parties that a fiscal reform would be introduced which would enable it to eliminate the Stamp Duty;
Sharing the view of the Fund that the Stamp Duty should be replaced by alternative measures in the context of a comprehensive programme to restore external and internal balance;

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 replace it by alternative measures.

3. The Government of Turkey shall report one year from the date of this waiver on the progress made towards substituting other economic measures for the Stamp Duty.

4. The Decision shall be valid until the removal of the Stamp Duty or until 31 December 1981, 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.