CONSULTATION WITH HUNGARY
DRAFT THIRD REVIEW UNDER THE PROTOCOL OF ACCESSION
Report by the Working Party on Trade with Hungary

1. At its meeting on 25 July 1979, the Council established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the third consultation with the Government of Hungary provided for in the Protocol of Accession\(^1\), and to report to the Council.

2. The Working Party met on 19 and 20 November 1979, under the Chairmanship of Ambassador E. Farnon (New Zealand).

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

   L/4834 Hungarian foreign trade statistics
   L/4836 and Addenda 1 — Notifications by contracting parties on discriminatory restrictions maintained on imports from Hungary on 31 August 1979.
   Spec(79)31 Communication from the delegation of Hungary

4. The Working Party also had available other relevant documentation and information furnished by the delegation of Hungary, as indicated in documents L/4819 and Add.1 and L/4838.

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

   A. General considerations
   B. Hungarian exports
   C. Hungarian imports
   D. Developments in Hungary's trading regulations

\(^1\)BISD 205/3.

*In English only
6. The representative of Hungary, in an introductory statement, pointed out that Hungary's total exports had increased by 0.9 per cent between 1977 and 1978. Exports to contracting parties had increased by 3.6 per cent. Total imports into Hungary had increased between 1977 and 1978 by 12.6 per cent; imports from contracting parties had increased by 14.8 per cent. In respect of the elimination of discriminatory import restrictions in the member States of the European Communities, he recalled that the Federal Republic of Germany and Italy had liberalized the imports of twelve and seven tariff items, respectively. In view of the large number of items subject to restrictions, these figures were not impressive. He further stressed that no autonomous liberalization measures had been taken in Denmark, Benelux, United Kingdom, France or Ireland. The latter country had actually increased the number of discriminatory restrictions since Hungary's accession to GATT. He noted that a limited number of items had been liberalized under the common Community system; but he emphasized that suspensions of restrictions could not be regarded as measures taken under paragraph 4(a) of the Protocol of Accession. The representative of Hungary considered that the Communities had not supplied information on liberalization measures as foreseen in paragraph 4(c) of the Protocol. An examination of the regulations concerning liberalization measures taken by the Communities in respect of State-trading countries and general liberalization measures showed that the Communities had not recognized the legal implications of Hungary's membership in GATT. The different way in which liberalization measures were presented in the two regulations made it difficult to get a clear picture of the commercial policy situation in respect of all items in the case of State-trading countries.
7. The representative of the United States said that since the second consultation, his country and Hungary had entered into a bilateral trade agreement, which provided that the two countries would follow the provisions of the General Agreement and of the Protocol of Accession of Hungary in their trade relations, to the extent that these provisions were not in conflict with the bilateral agreement. He said that, in practice, this meant that the two countries would effectively be applying the General Agreement to each other.

B. Hungarian Exports

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

- Australia
- Austria
- Canada
- Chile
- Czechoslovakia
- Finland
- Japan
- Malawi
- Malta
- New Zealand
- Niger
- Nigeria
- Poland
- Portugal
- South Africa
- Spain
- Switzerland
- Togo
- Turkey
- United Kingdom on behalf of Hong Kong
- United States
- Yugoslavia
9. It was recalled that in the course of the first and second consultations it had been noted that the following contracting parties had notified that they did not maintain any discriminatory restrictions on imports from Hungary:

**First consultation** (1975)
- Brazil
- Cuba
- Cyprus
- Iceland
- India
- Ivory Coast
- Korea
- Pakistan
- Singapore
- Tunisia
- Uganda

**Second consultation** (1977-1978)
- Argentina
- Egypt
- Kenya
- Romania

The Working Party noted that these contracting parties had not communicated additional information to the secretariat for the third consultation.

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

- European Communities
- Norway
- Sweden

11. One member of the Working Party referred to sub-paragraph (i)(c) in Annex B of the Protocol of Accession and sought information on measures that contracting parties might plan with regard to future action under the Protocol concerning restrictions inconsistent with Article XIII of the General Agreement.
He expressed the view that if contracting parties found themselves unable to meet the obligations in the Protocol, this might cast doubt on the legal instrument itself. Moreover, he said that in practice quantitative restrictions had a potential for trade distortion because they could be trade-diversionary in nature, especially in periods of slower economic growth.

12. One member of the Working Party referred to his government's previously expressed concern over the long period that some contracting parties had taken to dismantle progressively their discriminatory restraints applied to imports from Hungary. He referred to the safeguard provisions embodied in paragraph 5 of the Protocol of Accession, and asked whether it had been invoked. He also enquired whether any restraints maintained for "exceptional reasons" had been examined under the provisions of paragraph 4(b) of the Protocol.

13. The representative of Hungary said that those safeguard provisions had been invoked with respect to imports of Hungarian electric lamps and electric motors into the European Communities. The first instance had resulted in a restraint undertaken by the Hungarian exporter, while in the second instance it had not been possible to arrive at a satisfactory solution. His authorities regretted the latter outcome because they had sought to demonstrate Hungary's good intentions as well as the utility of the safeguard clause as an effective protection against market disruption. With respect to any restraints maintained for "exceptional reasons", he said that none had been brought to the attention of his government. He urged that the unusual features of the safeguard mechanism in paragraph 5 of the Protocol of Accession be brought to the attention of exporters in other contracting parties.
14. The spokesman for the European Communities agreed that exporters should be made aware of the benefits to be derived from the trading arrangements provided for in the General Agreement and the Protocol of Accession. He expressed regret that the Hungarian representative did not fully appreciate the exemplary practice of the European Communities in providing transparency and in publishing all decisions and regulations affecting trade. He also regretted that the Hungarian representative had not expressed satisfaction with the efforts made by the European Communities to liberalize progressively the measures applied to imports from Hungary. He said that the low prices of some Hungarian exports had resulted in a continuation of certain restrictions, but that the overall liberalization could be seen in the enlargement of a number of quotas and in the suspension of some measures, together with the elimination of other restrictions altogether. With respect to the Hungarian remarks\(^1\) on the notification by the European Communities\(^2\), the spokesman for the European Communities explained how, except for one item (CCT 77.01 a), all the subject measures had been liberalized.

15. The representative of Hungary thanked the spokesman for the European Communities for his explanations, pointing out that his own delegation's remarks had been based entirely on the published documentation available to it. He regretted, however, that at such a late date the European Communities had not indicated any measures adopted with a view to eliminating discriminatory restrictions, as called for in paragraph 4(c) of the Protocol of Accession. Moreover, his government did not share the view that suspension of discriminatory restrictions fulfilled the obligation under the Protocol to remove them progressively, or that measures taken in a bilateral context

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\(^1\) Spec(79)31
\(^2\) Contained in L/4836/Add.2
could be included as evidence of steps taken under the Protocol. He added that if the restrictive measures were in fact maintained because of the sensitivity of certain items, this would seem to call for a global measure rather than a discriminatory restriction. He asked why the European Communities had chosen to continue to maintain discriminatory restrictions against imports from Hungary in the light of the obligations embodied in the Protocol, and enquired as to the method by which decisions were taken with respect to import measures maintained by individual member States.

16. The spokesman for the European Communities referred to sub-paragraph 4(a) of the Protocol of Accession and said that no new restrictions had been introduced with respect to imports from Hungary. He noted that the obligation to remove restrictions progressively did not relate to a specific target date, and that the liberalization thus far effected, representing one-third of the former restrictions, was significant when compared to the situation that had prevailed when the Protocol had been adopted. This was particularly so in the light of unfavourable economic developments in more recent years, which could not have been foreseen, and in the context of which the remaining restrictions had to be understood. In respect of future action that might be undertaken, he responded to the question raised by the representative of Hungary and earlier by another member of the Working Party, in paragraph 11, by stating that the practice of the European Communities provided only for reporting measures actually taken. He added that final decisions concerning restrictions maintained by member States were taken in the context of the common commercial policy of the European Communities. He also said that his authorities fully intended to comply with the terms of the Protocol, because it represented the first element in a more complex future trade policy structure.
17. One member of the Working Party regretted the continued existence of discriminatory quantitative restrictions applied to imports from Hungary, and expressed the view that adequate safeguards were found in Article VI and XIX thereof, as well as in the provisions of paragraph 5 of the Protocol of Accession.

18. One member of the Working Party deplored the fact that there still existed discriminatory restrictions on imports from Hungary fully six years after Hungary had acceded to GATT, and urged that all measures inconsistent with Article XIII of the General Agreement be removed swiftly.

19. One member of the Working Party referred to the Hungarian trade policy measures that had been described in document Spec(72)52, and enquired as to the current Hungarian export incentives, including subsidies, State tax refunds and tax allowances. He also asked whether fiscal and price reforms, reportedly under consideration in Hungary, would have any effect on that country's exports.

20. The representative of Hungary said that with respect to fiscal and price reforms, from 1 January 1980 almost all prices in Hungary would have to correspond to world market prices. A turnover tax refund would also be introduced, while the State tax refund would disappear. There would be agricultural subsidies, but no other subsidies or direct State intervention. As for export incentives, which were to be distinguished from subsidies, the Hungarian National Bank borrowed capital abroad and lent it to Hungarian commercial enterprises, which had to compete with one another with respect to borrowing terms.
C. Hungarian Imports

21. One member of the Working Party asked about the current status of the Hungarian global quotas on consumer goods, referred to in document L/4633. He enquired whether Hungary had consulted in GATT on any quantitative restrictions falling within the scope of paragraph 16 of the 1973 Report of the Working Party on the Accession of Hungary. He also asked about the criteria and need for the automatic import licensing system in Hungary, and requested clarification on whether a 1978 Hungarian decree would permit the reintroduction of an import deposit scheme.

22. The representative of Hungary replied that the global quotas referred to by the previous speaker would be eliminated in accordance with the two countries' bilateral trade agreement on a most-favoured-nation basis, although one might ask whether this measure ought to apply to contracting parties which had not removed discriminatory restrictions on imports from Hungary. He said that his country maintained no quantitative restrictions, but did have an automatic licensing system, which was needed to provide assurance that importers could fulfil their forint obligations to the Hungarian National Bank. There was no import deposit scheme in force; but funds had to be provided to the Hungarian National Bank for imports from all countries, including those listed in Annex A to the Protocol of Accession.

23. One member of the Working Party asked whether the Hungarian Ministry of Trade administered imports on the basis of priority lists. He also asked whether retained profits from internal transactions or from intra-CMEA trade could be used for trade with other countries, and if so, at what exchange rates. He further enquired as to the countries with which Hungary maintained

\[1\text{BISD 20 S/34 (L/3889).}\]
payments arrangements. Finally, he asked whether Hungary intended to accede to the Agreement on Import Licensing Procedures.

24. The representative of Hungary replied that there existed no import priorities or allocation of hard currencies, these being obtained at officially published exchange rates. He said that his country currently maintained bilateral payments agreements with Bangladesh, Greece and Iran. He added that implementing legislation was currently being drawn up that would conform to the requirements of the Agreement on Import Licensing Procedures, which Hungary intended to sign.

25. One member of the Working Party enquired about restrictions that might apply to luxury articles imported into Hungary.

26. The representative of Hungary said that the global quotas referred to earlier were administered on the basis of economic criteria, although views might differ with respect to whether certain articles should be considered to be non-necessities.

27. One member of the Working Party asked whether in conformity with Article X of the General Agreement, Hungary published the texts of bilateral agreements with the countries listed in Annex A of the Protocol of Accession. He said that the lists of products annexed to those agreements would be particularly important for exporters from other countries seeking to determine whether there was a potential demand in Hungary for their goods.

28. The representative of Hungary replied that the texts of those agreements were published and could be made available to the secretariat, as in the case of the official Hungarian publication on trade policy measures. He said that the lists themselves resulted from private negotiations among enterprises in Hungary and the other countries in question, and contained
confidential information that would constitute an exception from the publication requirement in Article X. He added that the lists of products were identical to those in the statistical information that had been made available to the Working Party, because trade with those countries conformed to bilateral quotas resulting from the private negotiations among the various enterprises.

29. One member of the Working Party said that it appeared to be more difficult to export consumer goods to Hungary than capital equipment, and that there seemed to be three categories of imports into Hungary, viz. those for which no quota applied, those originating in developing countries, and those subject to global quotas. He sought further information on those quotas, including the criteria used in setting them.

30. The representative of Hungary said that the criteria had remained unchanged from those announced during the Hungarian accession to GATT. He added that, in any case, by virtue of his country's bilateral trade agreement with the United States, the global quotas in question would be phased out in the course of the next Five Year Plan.

31. One member of the Working Party noted that Hungary's balance of payments reflected the discriminatory trade restrictions applied by some countries to Hungarian products. In his view, the elimination of such restrictions, as provided in the Protocol of Accession, would increase Hungary's capacity to import goods from other contracting parties.
D. Developments in Hungary's Trading Regulations

32. One member of the Working Party recalled that paragraph 6(b) of the Protocol of Accession stated that in the consultations, particular attention should be paid to Hungary's trading regulations or changes therein with respect to the countries listed in Annex A of the Protocol. He asked how the import turnover tax compensated for duty-free entry into Hungary of many goods from those countries, and whether there had been any changes in the treatment of such imports.

33. The representative of Hungary said that the turnover tax had never replaced a customs tariff with respect to those imports, but that it had served as a price-equalization mechanism, which would be abolished under the new regulations.

34. One member of the Working Party asked whether there were targeted trade balances with the countries listed in Annex A of the Protocol of Accession. He also enquired whether import licences were required for imports from those countries, and if so, what purposes might be served thereby.

35. The representative of Hungary said that while there were no trade targets, it was in the interest of each partner to have balanced trade with the other. Imbalances could nevertheless occur, and were settled in future trading or through payments in convertible currencies. He also said that import licences were required on imports from the countries listed in Annex A of the Protocol of Accession on the same basis as in the case of other countries, and served as a check on the value and quantity of goods imported.
36. One member of the Working Party asked how Hungarian export prices were set, and whether these were higher in the case of goods destined for the countries listed in Annex A of the Protocol of Accession than for convertible currency exports to contracting parties. He also enquired as to the exchange rates applied in the calculation of these prices.

37. The representative of Hungary said that the export prices were set as a result of discussions among the enterprises concerned, within the limits of the so-called "price principle" and on the basis of officially published exchange rates. He added that the "price principle" called for export prices based on a sliding five-year period, normally the previous five years.

38. One member of the Working Party asked whether there existed bilateral customs-tariff arrangements between Hungary and the countries listed in Annex A of the Protocol of Accession.

39. The representative of Hungary replied that while there were no such arrangements, when goods from those countries were purchased with convertible currencies, the Hungarian customs tariff was applied to them. He said that in 1978, for instance, approximately 15 per cent of Hungarian imports from those countries had been treated in this manner.