

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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RESTRICTED

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## DRAFT REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH TURKEY AND EXAMINATION OF THE TURKISH STAMP DUTY

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 Council at its meeting of 24 March 1975. The Committee noted that the previous consultation with Turkey under the same provisions had been held on 1-2 May 1973 (see BOP/R/65). In conducting the consultation the Committee had before it a basic document supplied by the Turkish authorities (BOP/151 and Add.1), a report on the Stamp Duty dated 2 July 1974 submitted in compliance with paragraph 3 of the terms and conditions of the waiver of 3 July 1973 (L/4053) and a background paper provided by the International Monetary Fund dated 1 April 1975.

2. The Committee generally followed the plan for such consultation recommended by the CONTRACTING PARTIES (see BISD, 18th Supplement, pages 52-53). The consultation was held on 24 April 1975. 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.

### 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:

"The Turkish economy has grown strongly in the 1970's with the impetus coming from increases in both domestic and external demand. Initially, the high rate of growth was accompanied by a strong improvement of the external position. Foreign exchange receipts rose rapidly following the devaluation of the Turkish lira in August 1970 as a result of a much improved export performance and strong increase in inflows of workers' remittances. Imports also rose strongly, buoyed by a continuous process of import liberalization, and the deficit on trade account continued to grow. However, the increase in workers' remittances was sufficient to cover the increase in the trade deficit, and the current account strengthened gradually until in 1973 when it showed a sizable surplus.

"In 1974, the balance of payments position deteriorated sharply, and the current account reverted to a deficit of US\$704 million (SDR 585 million) compared with the surplus of US\$484 million in 1973. The value of commodity imports rose by 81 per cent while that of exports rose by only 16 per cent. Of the deterioration on trade account, about US\$580 million was attributable to the rise in the cost of net oil imports. In addition, a strong increase in domestic expenditure, amounting in real terms to some 12 per cent, contributed to the deterioration of the external balance. The trade balance was also adversely affected by a decline in prices of certain export commodities. Particular difficulties were encountered in respect of cotton, for which the domestic support price was set higher than the world market price. The value of industrial and mineral exports continued to increase in 1974.

"Workers' remittances continued to increase rapidly in 1974 and amounted to US\$1,425 million. However, the inflow was far from sufficient to cover the enlarged trade gap. Nonmonetary capital inflows in 1974 comprised essentially project credits. Gross reserves declined in the course of 1974 by US\$259 million and at the end of the year amounted to US\$1,861 million (SDR 1,502 million), or the equivalent of six months' imports in that year. A further decline in reserves of more than US\$300 million occurred in January-February 1975.

"In recent years the import regime has been progressively liberalized by the addition of products to the quota list and by shifting products from the quota to the liberalized lists. This trend is evident in the share of liberalized imports in total imports. In 1972 the ratio of liberalized

imports to total imports was 45 per cent; the corresponding ratio in 1973 was 55 per cent, and in 1974 (January-October), it was about 65 per cent. A number of temporary reductions in import duties were also effected in 1974 in order to alleviate price pressures and shortages on the domestic market.

"The 1975 import program provides for a total level of imports of US\$4 billion, an increase of 32 per cent over the 1974 program, but an increase of only 6 per cent compared with the outcome for 1974. As in the past, actual imports may well exceed the programmed level by a substantial margin. However, any reliable balance of payments assessment for 1975 depends crucially on the prospects for agricultural production as well as for world commodity prices. The Turkish authorities expect some improvement in the balance of payments in 1975, particularly in the trade and current accounts, partly on the assumption that the 1974 balance of payments was affected by a number of special factors that may not recur in 1975. However, the prospects, especially for the trade deficit, are also heavily dependent on the development of domestic demand, and the improvement in the balance of payments may be difficult to achieve in the absence of measures to curb the growth of domestic demand. Turkey's level of reserves are presently at a comfortable level (equivalent to about 5 months' 1974 imports). Present projections by the Turkish authorities indicate a modest surplus in the balance of payments in 1975.

"While these projections are subject to certain uncertainties, to the extent that they are realized, they would allow for a continuation of the liberalization of the import régime undertaken in recent years.

"As regards the stamp duty there would appear to be no clear balance of payments grounds for its maintenance. It does, however, constitute an important source of tax revenue: in 1974 it accounted for 3.6 per cent of total tax revenue which is a significant amount in view of the heavy pressures on the Government for expenditures and the need to reduce the Government's reliance on Central Bank borrowing. For this reason its continued maintenance may be warranted on a temporary basis. It should, however, be replaced by other fiscal measures at an early date."

#### Opening statement by the representative of Turkey

4. The representative of Turkey made an opening statement, the full text of which is reproduced in Annex 1 in which he commented on the effects of recent international economic developments on the Turkish economy, the situation of the Turkish balance of payments, and finally on the request for an extension of

the Stamp Duty waiver until the end of the Third Five-Year Development Plan in 1977. It was the Turkish Government's conviction that improvements of the Turkish balance of payments should rely upon securing expansion of exports and not on restricting imports. The main reasons for import restrictions in Turkey were difficulties in the balance-of payments situation. The steadily increasing deficit on trade account, although compensated by some of the invisible earnings in recent years called for careful management of foreign exchange reserves. The 1974 current account deficit of \$702 million, stagnating workers' remittances, plus the trade deficit of \$820 million in the first three months of 1975 as well as the decline of reserves, down to the level \$1,271 million on 4 April 1975, did not spell out a promising picture. Despite these difficulties, Turkey had continued to liberalize its import régime; liberalized imports were nearly seven times higher in 1974 than they were in 1970 while during the same period total imports had increased almost fourfold. He stressed that the ultimate goal of the Turkish Government was complete liberalization of imports. Since the last consultation the following measures had been taken in this direction: liberalization lists were expanded to include more commodities; some quotas had been increased; prior import deposits, the rates of which had been between 5 and 40 per cent, had been lowered to 2.5 and 20 per cent respectively; the validity of import permits had been extended to six months and the customs clearance period of fifteen days extended to twenty days.

5. The increase in imports in 1974 represented an 81 per cent jump over 1973. The main reason for this increase was the additional oil bill which totalled \$860 million. At the same time invisible earnings had slowed in 1974, due mainly to a decline in workers' remittances from abroad in turn due to restricted demand for foreign workers in Europe. The total number of these workers sent abroad had been twenty thousand in the past year as against the usual figure of one hundred thousand in previous years. Foreign exchange reserves also declined in 1974 by nearly \$430 million. Reserves were expected to decline still further in 1975. The trade deficit for the first three months of 1975 had amounted to \$820 million compared to \$219 million for the corresponding period of 1974. At the end of 1974 international reserves were \$1,609 million. By April 4, 1975 they stood at \$1,271 million.

6. Turning to the question of the Stamp Duty the representative of Turkey said that he was instructed to request an extension of this waiver until the end of the Third Five-Year Development Plan in 1977. He pointed out that the Stamp Duty was applied to all Contracting Parties without any discrimination. The Duty contributed to the Turkish budget a sum of TL 14 billion in the Third Five-Year Plan period and could not be abandoned unless some other source of revenue could be found. If the Stamp Duty were to be eliminated, the Treasury would have to rely on deficit financing by borrowing from the Central Bank. The Duty was not an anti-inflationary measure in itself but contributed to achieving stability. The present rates were 9 and 9.5 per cent; these would be reduced by 5 to 10 per cent in 1976. Since its introduction the Stamp Duty had played an important part in fiscal and economic measures

in the context of the Development Plan. It helped alleviate pressures on the balance-of-payments and met financial requirements of the Plan. He recalled the efforts of the Turkish authorities to move from an internal tax system to a value added tax system which would create the favourable preconditions for the abolition of the Stamp Duty. However a considerable amount of time would be needed to complete a tax reform; hence the request to extend the waiver until the end of 1977. Finally he recalled that the increase in Turkish domestic expenditure and also in the cost of imports, particularly of oil imports, had turned out to be well above programme estimates and had caused a clear reversal in the balance-of-payments situation. Under the present circumstances the waiver granted in 1973 should also be evaluated within the context of the balance-of-payments consideration.

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

7. Members of the Committee welcomed the different measures of trade liberalization which had been taken since the last consultation. The ongoing process toward full realization on a non-discriminatory basis was appreciated and it was hoped that it would continue despite present difficulties. It was noted that although there had been a deterioration in the 1974 balance of payments, the level of reserves at the end of that year had stood at a comfortable level; however, a further decline of reserves had taken place in the first quarter of 1975. It was noted that the International Monetary Fund considered the level of reserves comfortable at an equivalent of about five months 1974 imports.

As there was a difference in dates between the Fund and the Turkish authorities' assessment of the level of reserves, it was asked at how many months' imports present reserves stood. The representative of Turkey replied that on 4 April 1975 the reserves stood at \$1,271 million, the equivalent of approximately two months' imports. It was hoped that any measures taken to prevent a further decline would not have the effect of passing on the burden to other countries which were in greater difficulty. The representative for Turkey pointed out that the level of reserves measured in terms of number of months' imports was a very relative measurement; of greater significance was the trend which was clearly downwards.

8. Members of the Committee noted the various factors which were contributing to a deterioration of the Turkish balance-of-payments situation, such as the decline of remittances of workers abroad, due to the effects of recession abroad, the increase of Turkish imports and particularly of oil prices, the level of exports which had suffered some set-backs due to cotton prices and also noted the statement by the IMF indicating that a modest surplus in the balance of payments for 1975 had been projected. In this context, they asked what were the prospects for the Turkish balance of payments. The representative of Turkey said that the prospects based on the first quarter of 1975 were not optimistic. As for 1976, it was too early to tell. In reply to questions concerning the long-term prospects for the balance of payments, the representative of Turkey said that long-term projections made at the beginning of the third Five-Year Development Plan aimed at eliminating deficits in the balance of payments by 1982.



This also coincided with the calendar for harmonization with the European Common Market. Asked whether these projections had been revised in the light of recent international economic developments, the representative of Turkey said that the next long-term projections would be made for the fourth Five-Year Development Plan which would cover the years 1977 to 1982. Members of the Committee wondered whether this aim would be achievable in the light of the sharp increase in petroleum prices which had not been taken into account in the formulation of the third Five-Year Development Plan.

9. In reply to questions concerning the level of remittances from workers abroad, the representative of Turkey said that these would stagnate in the future due to the sharp decline in the number of workers who could find employment abroad. He recalled that compared to a figure of 100,000 workers in previous years, only 20,000 workers had found such employment abroad in 1974 and that the prospects for 1975 were not optimistic.

10. Members of the Committee pointed to the Turkish estimate for the level of imports in 1975 which, according to their basic document, would show an increase of 6 per cent over the 1974 level. They remarked that the level of 1974 imports had been high on account of the cost of oil and also due to an increased demand for internal consumption. In this context, it was asked what measures the Turkish authorities envisaged in order to avoid excessive internal demand. The representative of Turkey remarked that high internal demand was a common feature of developing countries. It was the intention of the new Turkish Government to control the level of internal consumption demand in 1975; however, no rules or



regulations had been elaborated yet. He added that when measures would be introduced they would be internal and would not affect the level of imports as these were essential, particularly investment goods, for Turkey's development. Internal measures would include, inter alia, the reduction of the cost of fertilizers to the agricultural sector.

11. Commenting on the decrease in the rate of growth of exports in 1974, members of the Committee asked whether the Turkish authorities envisaged taking measures to promote exports and diversify the export sector. It was pointed out that Turkish receipts from tourism, while increasing, were still very low compared to that of other Mediterranean countries. It seemed to them that there was scope in this field for improving receipts. The representative of Turkey said that 1974 exports receipts had not been sufficient to cover import requirements. Although export income from industrial goods had risen from \$443 million in 1973 to \$460 million in 1974, this had been due to increased prices and not to any increase of volume. It was the Government's intention to increase both export volume and revenue. To this end, export diversification was needed; traditional export products were mainly agricultural products such as cotton and tobacco. Cotton exports had lagged in 1974 but it was hoped that they would pick up in 1975. There was a pricing difficulty involved but new measures would now be taken to encourage exports. With regard to tourism, the representative of Turkey agreed that there was potential for increased receipts; however, Turkey's touristic infrastructure was lacking and could not meet demand. The potential was there as

the figures showed: 1969, \$23 million receipts from tourism; 1973, \$140 million from tourism. Improvement in this field could not be achieved without the structural investment. A tourism investment programme to attract foreign capital was in preparation. So far, such measures to attract foreign capital had only been taken in the industrial sector. Various measures such as tax incentives taken with a view to promoting export diversification were expected to yield results fairly rapidly, especially in the course of the fourth Five-Year Development Plan.

12. Members of the Committee stressed that, while import restrictions were authorized under the GATT provisions for balance of payments, these restrictions were to be of a temporary nature and applicable only during the time needed to take the basic and fundamental measures to restore equilibrium. The representative of Turkey stated that the Turkish import régime was moving gradually but surely away from restrictions; at this stage, Turkey no longer applied sucharges or quantitative restrictions and the remaining measures which were temporary would be ended when harmonization with the European Economic Community was achieved.

System and methods of restrictions and effects of the restrictions

13. Some members of the Committee, while welcoming the degree of liberalization which had taken place in the past two years, noted that Turkey's import régime remained very restrictive. Average tariffs were high; import documentation was complex; quantitative restrictions and licensing as well as prior import deposits still existed. There was need to fully liberalize all these measures. In this context, they took good note of the statement that it was the Turkish authorities' goal to arrive at full liberalization at an early date.

14. Several questions were asked as to the criteria used to determine which goods received import licenses. The representative of Turkey replied that import licenses were given in the first place for imports of goods which were not domestically produced but needed for the Turkish economy and, in the second place, when there was insufficient domestic production of a particular good. Import licenses for luxury goods were only granted insofar as Turkey was able to export luxury goods. In allocating import licenses the Government tried to meet the totality of import demand. Before 1970 when reserves were very low, allocations were made on a very restrictive basis. Today, allocations were much larger and covered practically every field of import demand. The full quotas were always allocated and no demand remained unsatisfied. Within the possibilities of the level of reserves, all demand was met.

15. Members of the Committee noted with satisfaction that less than 6 per cent of total imports were now subject to bilateral trade agreements. It was hoped that Turkey would continue to reduce its dependence on bilateral trade.

#### Stamp Duty

16. Members of the Committee took note that the reasons for which the Stamp Duty was applied were mainly revenue reasons rather than balance-of-payments reasons. They noted the statement by the International Monetary Fund to the effect that the Stamp Duty should be replaced by other fiscal measures at an early date. Members of the Committee asked what plans the Turkish Government has to phase out the Stamp Duty by the end of 1977. The representative of

Turkey recalled the lengthy discussion of this matter in the previous consultation (BOP/R/65) when it had been explained that the termination of the Stamp Duty depended on the introduction of the value-added tax system. The different political developments in Turkey had not provided a suitable occasion for Parliament to enact such a far reaching reform. It is the Government's intention to put the value added tax reform to Parliament as soon as possible. He added that once the Act passed some considerable time would still be needed to implement the reform; this could in no case be done before the end of 1977.

17. Asked to comment on the non-inflationary nature of the Stamp Duty the representative of Turkey said that while the Duty was not anti-inflationary as such it did contribute to the economy's stability by avoiding deficit financing by borrowing from the Central Bank.

18. In reply to questions on the impact of the Stamp Duty on the price or level of imports the representative of Turkey said that the Stamp Duty had no effect on the level of imports. If the rate of Duty were reduced, this would not be reflected in lower prices to the consumer but simply in a larger profit margin for the importer.

19. Members of the Committee, noting that there was no clear balance-of-payments motive for the Stamp Duty, asked whether the value-added tax system when introduced would provide the alternative source of revenue now supplied by the Duty. The representative of Turkey confirmed that the income now provided by the Duty would eventually come from the value-added tax system. He added that until the fiscal reform was implemented it was not possible for Turkey to tax any new source and, therefore, not possible to abolish the Stamp Duty.

He emphasized the importance of the introduction of the value added tax system in the context of the programme of harmonization with the European Economic Communities. At present the authority to apply the Duty was contained in the Third Five-Year Plan which ended in December 1977; until that date it was essential for Turkey to dispose of this source of revenue. He recalled that before the 1970 devaluation of the Turkish lira the Stamp Duty had stood at 25 per cent of the value of imports. The rates had progressively been lowered and stood today at 9 and 9.5 per cent which represented an incidence on imports of only 6 per cent. The rates would be lowered once again in 1976 to some 8 and 9 per cent.

#### Conclusions

20. The Committee welcomed the liberalization of the Turkish trade régime which had taken place since the previous consultation in 1973. While noting the statement that it was the Turkish Government's objective to achieve complete trade liberalization, the Committee emphasized that import restrictions authorized under the balance-of-payments provisions of GATT were to be temporary, and applied only for the time needed for fundamental measures to be taken to restore equilibrium. Taking into account the view of the IMF that the level of reserves was comfortable at the end of 1974, but noting that a further decline of reserves had taken place in the first quarter of 1975, the Committee urged the Turkish Government to pursue its efforts to achieve full liberalization as soon as possible.

21. Stamp Duty. The Committee noted and fully agreed with the view of the IMF that there appeared to be no clear balance-of-payments grounds for maintenance of the Stamp Duty, and concluded that the Stamp Duty was applied for revenue purposes. Noting the statement by the Fund that the measure should be replaced by other fiscal measures at an early date, and taking into account the assurances given by the Turkish Authorities that internal procedures were under way to apply a new fiscal system which would eliminate the need for the Stamp Duty, 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 II.

ANNEX II

Draft Decision

TURKEY - STAMP DUTY

Considering that the CONTRACTING PARTIES, by decisions dated 20 July 1963<sup>1</sup>, 11 November 1967<sup>2</sup>, 24 August 1969<sup>3</sup>, 30 January 1973<sup>4</sup>, and 3 July 1973<sup>5</sup> 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 30 June 1975;

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 Third Five-Year Development Plan on 31 December 1977;

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 IMF that the Stamp Duty constitutes an important source of revenue, and the need to reduce the Government's reliance on Central Bank borrowing, a temporary maintenance of the Stamp Duty could be warranted, pending its replacement by other fiscal measures;

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 at the end of its Third Five-Year Development Plan;

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<sup>1</sup>BISD 12S/55

<sup>2</sup>BISD 15S/90

<sup>3</sup>BISD 17S/28

<sup>4</sup>BISD 20S/31

<sup>5</sup>BISD 20S/32



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 10 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 on the progress made toward substituting other fiscal measures for the Stamp Duty in the context of the 1977 balance-of-payments consultation with Turkey.
4. The Decision shall be valid until the removal of the Stamp Duty or until 31 December 1977, 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.