

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED
Spec(75)28
26 September 1975

Working Party on Trade with Hungary

DRAFT REPORT BY THE WORKING PARTY ON TRADE WITH HUNGARY

1. The Council, at its meeting on 3 and 7 February 1975, established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the first consultation with the Government of Hungary provided for in the Protocol of Accession, and to report to the Council.
2. The Working Party met on 22 and 23 September 1975, under the chairmanship of Mr. G.L. Easterbrook-Smith (New Zealand).
3. The Working Party had before it the following documents relevant to its work:

Spec(75)13 and Corr.1	Hungarian foreign trade statistics
L/4174 and Addenda 1-5	Notifications by contracting parties on discriminatory restrictions maintained on imports from Hungary on 1 March 1975
L/4155 and Addenda 1-3	Notifications by contracting parties on discriminatory restrictions maintained on imports from Hungary on 1 January 1975
4. The following report sets down the main points of discussion in the Working Party under the following headings:
 - A. General
 - B. Hungarian exports
 - C. Hungarian imports
 - D. Developments in Hungary's trading regulations

A. GENERAL

5. In an introductory statement the representative of Hungary summed up the developments of the trade between Hungary and the contracting parties (see Spec(75)25). Between 1973 and 1974 imports of commodity groups for which tariff concessions were granted on Hungary's accession to the GATT rose by 63.8 per cent. This growth was 27.6 per cent higher than the increase of all imports from contracting parties with market economies. In the course of 1974 the increase of Hungarian imports from GATT contracting parties with market economies exceeded considerably the rate of growth of total imports on the one hand, as well as the increase of Hungarian exports to market economy countries on the other hand. The rate of growth of Hungarian exports to GATT contracting parties with market economies was lower than that of the total Hungarian exports.

6. In 1973 quantitative restrictions inconsistent with Article XIII affected 49 per cent of Hungarian exports to the European Communities. In 1973 the Communities, according to its notification, removed restrictions in respect of 1.2 per cent of Hungarian exports to the EEC. Hungarian exports subject to discriminatory restrictions accounted for less than 0.5 per cent of the total world imports of the Communities in the same commodities. The European Communities applied discriminatory quantitative restrictions in a manner inconsistent with Article XIII of the General Agreement altogether to 305 tariff items, of which no export from Hungary to the EEC took place as regards 137 items.

7. The Hungarian representative stated that the above-mentioned data did not include the Hungarian turnover in commodities which come under the scope of the Arrangement Regarding International Trade in Textiles (MFA) under the auspices of GATT. It was the position of his country that an understanding on these products should be reached in the framework of the MFA.

8. The Hungarian representative stressed that there had not been any notified case of market disruption caused by Hungarian exports in the period under review.

B. HUNGARIAN EXPORTS

(a) General trend and geographical distribution, and

(b) Development of exports of various categories of goods.

9. The representative of the European Communities expressed the view that the Working Party had not been furnished with statistical information that would permit the examination required to be carried out under the Protocol. The data contained in document Spec(75)13/Corr.1 gave only two figures, which did not allow the determination of a general tendency, and presented a distribution based upon legal rather than geographic criteria. These data were subsequently provided to the Working Party by the Hungarian delegation, but in the view of the representative of the European Communities this was too late for a proper evaluation during this meeting.

10. The representative of Hungary was of the view that his authorities had supplied all statistical information required under the Protocol. He noted that no member of the Working Party had requested further information concerning the

trade statistics, although his Government had indicated as early as June 1975 its readiness to provide additional information (Spec(75)13). In the view of his authorities, it was clearly possible to determine a general trend of Hungary's exports based on figures for 1973 and 1974, and the geographical distribution did not require a country-by-country identification.

11. One member of the Working Party noted that the statistics showed an impressive increase in the value of Hungary's foreign trade, but he would have preferred an indication as to the volume involved, since there were inflationary factors to be taken into account for the years in question. The representative of Hungary replied that in the case of certain items, such as machinery, it was difficult to arrive at meaningful data based on physical volume. The Hungarian Government did, however, publish trade statistics showing volume as well as value, although they were global, and not broken down by tariff numbers. Referring to paragraph 3 in document Spec(75)13/Corr.1, he stated that the growth of total exports in unchanged prices amounted to 4.6 per cent, whereas exports to market-economy contracting parties had decreased by 4 per cent.

(c) Measures adopted by contracting parties relating to discriminatory quantitative restrictions, and

(d) Other questions relating to Hungarian exports.

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

Argentina	India	Romania
Australia	Ivory Coast	Singapore
Austria	Japan	South Africa
Brazil	Kenya	Spain
Canada	Korea	Switzerland
Cuba	Malawi	Tunisia
Cyprus	Malta	Turkey
Czechoslovakia	New Zealand	Uganda
Egypt	Pakistan	United States
Finland	Poland	Yugoslavia
Iceland	Portugal	

13. The Working Party took note of the notifications on quantitative restrictions submitted by:

- European Communities
- Norway
- Sweden

14. The representative of Sweden stated that the trade between Hungary and Sweden had developed in a positive way between 1971 and 1974 and that this trend continued. A partly new régime had been introduced for certain goods from Hungary. As a result the majority of products would be allowed to enter the Swedish market without restrictions. In the future only a few products, mainly textiles, footwear and chinaware would remain restricted. Referring to document L/4174, pages 6 and 7, he explained that positions 87.02-87.05 had been liberalized as of 15 July 1975.

15. A number of delegations stated their governments' opposition to discriminatory quantitative restrictions and requested an explanation of the "exceptional reasons" why such measures were still considered to be necessary.

16. In reply the representative of Sweden said that social, economic and emergency planning considerations compelled the use of the restrictive measures in question. He agreed with the representative of Hungary that quantitative restrictions on textiles should be dealt with in the context of the MFA.

17. The representative of the European Communities, referring to the introductory statement of the Hungarian representative concerning quantitative restrictions maintained by the Communities, stressed that the restrictions in question had been progressively eliminated. Whereas in September 1973, 141 full and 115 partial tariff headings were affected, these had been reduced to 116 full and 92 partial tariff headings by March 1975. He furthermore stated that in October 1975 processed fruits and vegetables would be liberalized. He added that the quotas had been increased by at least 15 per cent per year depending on the sector involved. He also said that the restrictions still being applied were necessary during the present economic situation in the European Communities which was characterized by recession, increasing unemployment rates and reduced exports. He added furthermore that the European Communities had formally proposed to Hungary a bilateral trade agreement which would have provided a framework for discussion and possible solutions of the problems as regards these restrictions. No official answer to this proposal had, however, yet been received from Hungary.

18. The representative of the European Communities went on to explain that all aspects of the development of the Hungarian trade had to be considered in this context. Referring to official Hungarian sources, as well as published articles, he requested information as to the formation of Hungarian export prices, and in particular the operation of special multipliers and the rates of tax abatement. He called attention to the Hungarian system of subsidies, which, in the view of his

authorities, constituted a permanent threat, which would increase once the Communities had eliminated their quantitative restrictions. He also requested information as to the total amount of Hungarian governmental subsidies and their distribution as to sectors and branches, noting that Law No. 6 of 1972 had provided that 27 per cent of the 1973 budget was allocated for aid to industry and that this had been expected to be doubled in 1974. He underlined that these subsidies should have been notified in accordance with Article XVI of the General Agreement, as provided for by paragraph 13 of the Report of the Working Party on the Accession of Hungary (L/3889).

19. The representative of Hungary reiterated that progressive elimination of discriminatory quantitative restrictions referred to by the representative of the European Communities had affected only 1.2 per cent of Hungarian exports to the European Communities and, at that rate, another 50 or 60 years would be required to arrive at a definitive removal. He noted that the restrictions covered 305 items, some of which Hungary would never export, whereas other items were of considerable export interest to his country. No case of market disruption or threat thereof had been notified to his authorities. He stressed that adequate remedies were provided for such cases under Articles VI and XIX of the General Agreement, as well as under paragraph 5 of the Protocol of Accession. His authorities were fully prepared to discuss any such cases with a view to reaching adequate solutions. With regard to the reference made by the representative of the European Communities to a proposed bilateral trade agreement, the representative of Hungary stated that this Working Party was not the proper forum to discuss this question. Furthermore, the Protocol already

stipulated the obligation to eliminate discriminatory quantitative restrictions and therefore there was no need for any additional agreement in this regard.

20. The Hungarian representative stated that a full description of the Hungarian system of State refund and on tax allowances relating to export had been notified to the contracting parties during the negotiations for accession (Spec(72)52).

Since this system had remained unchanged there was no need now for a renewed extensive discussion of the system itself. It had been Hungary's understanding upon accession to the GATT that this system did not involve subsidies and that, accordingly, Hungary was under no obligation to make notifications under Article XVI. Nevertheless his authorities were prepared to give all relevant information as to the possible subsidy effect of the State-refund system on a case-by-case basis under the procedures of paragraph 5 of the Protocol, where a contracting party could show that imports from Hungary had caused serious injury to its industry. He explained that the Hungarian State refunds amounted to 11 billion forints in 1974, representing a decrease of 15 per cent from the previous year. The only effect that he could impute to this was an increase in the Hungarian imports by more than 50 per cent while exports had risen by only 12 per cent.

C. HUNGARIAN IMPORTS

- (a) General trend and geographical distribution, and
- (b) Development of imports of various categories of goods.

21. The representative of the European Communities found the import situation in Hungary satisfactory. He maintained, however, the same observations as regards the deficiency of the statistics furnished by the Hungarian authorities that he had expressed previously during the review of the Hungarian exports.

22. Upon request by one member of the Working Party the representative of Hungary supplied information about the development of Hungarian foreign trade in unchanged prices. Referring to document Spec(75)13/Corr.1, paragraph 1, he stated that total imports in these terms had increased by 23.8 per cent, while the imports from market-economy contracting parties increased by 15 per cent. One delegation pointed out that the Hungarian imports from non-contracting parties had evidently increased more than the imports from contracting parties.

(c) Other questions relating to Hungarian imports.

23. The representative of the European Communities reiterated his opinions about the Hungarian system of subsidies. He stressed that subsidized imports in Hungary as well as subsidized exports constituted a permanent threat of market disruption, as subsidized foreign goods used in production in Hungary could substantially increase the competitive power of Hungarian industries in export markets.

24. The representative of Hungary reiterated for his part the points of view that he had expressed earlier as regards the Hungarian system of State refunds and the remedies available in case of market disruption or threat thereof.

25. One member of the Working Party referred to a declaration made by a high Hungarian governmental official, according to which Hungarian imports of consumer goods from Western countries were to be cut in favour of imports from the CMEA countries. The representative of Hungary replied that his country applied a global quota on imports of consumer goods from the dollar area. This quota had been increased during the previous years, and no change had taken place in this respect during 1975. Before giving any further comments the representative of Hungary wanted to make a detailed study of the declaration in its entirety.

D. DEVELOPMENT IN HUNGARY'S TRADING REGULATIONS

26. No major point was raised under this item of the agenda.