

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONSULTATION WITH HUNGARY

SECOND REVIEW UNDER THE PROTOCOL OF ACCESSION

Report by the Working Party on Trade with Hungary

Draft

1. At its meeting on 23 May 1977, the Council established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the second 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 23 November 1977 and ... 1978, under the Chairmanship of Ambassador E. Farnon (New Zealand).
3. The Working Party had before it the following documents relevant to its work:

L/4590	Hungarian foreign trade statistics
L/4549 and Addenda 1-2	Notifications by contracting parties on discriminatory restrictions maintained on imports from Hungary on 15 August 1977
4. The following report sets down the main points of discussion in the Working Party under the following headings:
 - A. Hungarian exports
 - B. Hungarian imports
 - C. Developments in Hungary's trading regulations

A. Hungarian Exports

5. The representative of Hungary stated that in 1975-1976 exports from his country had increased generally by about 3 per cent, while exports to market-economy contracting parties had risen by approximately 5 per cent and exports to contracting parties with centrally planned economies and to non-contracting parties taken together had risen by approximately 2 per cent in that period. He said that the share of market-economy contracting parties in Hungarian exports had amounted to 38 per cent and 39 per cent in 1975 and 1976 respectively. As indicated in the statistical information furnished to the Working Party, there had been no substantial changes in the composition of Hungarian exports. He compared percentage figures for exports in the energy, materials/spare parts, machinery, industrial consumer goods and agricultural/food products categories and drew attention to a number of products in the latter category where the decrease in exports had not been due entirely to market forces but rather to administrative measures affecting imports taken by the European Communities. He said that this had caused his Government to initiate consultations with the Communities under Article XXII, but that the consultations had not yet resulted in a mutually satisfactory solution to the problem.

6. The representative of the European Communities said that while Community exports to Hungary had stagnated during 1976, Hungarian exports to the Communities had risen by approximately 23.5 per cent, due principally to increases in respect of machinery and transport equipment (+ 40 per cent) and other manufactured products (+ 35 per cent).

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

Argentina	New Zealand
Australia	Poland
Austria	Portugal
Canada	Romania
Czechoslovakia	South Africa
Egypt	Spain
Japan	Switzerland
Kenya	Turkey
Malta	United States

8. It was recalled that in the course of the first consultation in 1975, it had been noted that the following countries had informed the secretariat that they did not maintain discriminatory quantitative restrictions against Hungary:

Brazil	Korea
Cuba	Malawi
Cyprus	Pakistan
Finland	Singapore
Iceland	Tunisia
India	Uganda
Ivory Coast	Yugoslavia

The Working Party noted that these countries had not communicated additional information to the secretariat for the second consultation.

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

European Communities
Norway
Sweden

10. The representative of Hungary expressed satisfaction that a great number of contracting parties, who did not maintain discriminatory quantitative restrictions on imports from Hungary, had fulfilled their obligations under paragraph 4 of the Protocol. He noted that some other contracting parties, in particular the European Communities, had notified that they still maintained such restrictions. He pointed out that the products that had been notified by the Communities as being subject to discriminatory quantitative restrictions at the time of the first consultation constituted 0.5 per cent of the Hungarian exports to the Communities. For the present consultation, the figure amounted to 2.5 per cent, textiles excluded. He noted that the notification of the Communities contained neither any reference as to when the restrictions now eliminated had been introduced, nor a precise description of the measures which had been taken for the elimination of these restrictions. He stressed that a substantial part of the products which the Communities had notified as liberalized for this consultation had already been announced as having been liberalized at the first consultation in 1975, and that another part had been liberalized even earlier. His authorities had accordingly established that only a part of the products in question had actually been liberalized in the period before this consultation. He also asked whether the liberalization notified by the Communities was of a contractual nature. If the liberalization was to be considered as autonomous, as had been indicated by the Communities, it was difficult to regard it as a fulfilment of the obligations under Article 4(a) of the Protocol. Moreover, he said that the Communities had introduced new restrictions on certain textile products imported into Ireland and the Benelux countries, a measure clearly not

allowed under the Protocol. In view of this, he requested clarification whether it was the national authorities in the member States of the Communities or the Commission which was responsible for the introduction and elimination of such restrictions, and which in consequence carried the responsibility to fulfil the contractual obligations under Article 4(a) of the Protocol to eliminate progressively discriminatory restrictions.

11. The representative of the European Communities wanted first and foremost to emphasize that the Communities had fulfilled its obligations under the Protocol. Decisions taken by his authorities concerning the elimination of quantitative restrictions were published in the Official Journal. For technical reasons it took some time before a decision that had been formally taken, and perhaps implemented immediately afterwards, could be officially promulgated. This could, in his view, explain why part of the liberalization measures recently notified might be considered by the Hungarian authorities as having been made earlier. He was prepared to explore this matter further on a bilateral basis with the Hungarian delegation. He stressed, however, that new import restrictions had not been introduced by the Communities. The restrictions in question referred to by the representative of Hungary had been in existence before but had not been subject to specific quotas hitherto. New quotas had been opened for the products in question, which was in itself of interest to the Hungarian exporters. As regards the procedure under which decisions concerning the elimination of restrictions were taken, he stated that liberalization measures envisaged were always discussed within the Communities, and that it was in the light of such a co-ordination that a common policy was established. He added, however, that the

Commission could take the initiative concerning the elimination of restrictions in cases where negotiations were held on a bilateral basis. It was in view of this fact that his authorities had proposed that a commercial agreement should be concluded between the Communities and Hungary. He agreed with the Hungarian representative that a contractual obligation existed under Article 4(a) of the Protocol to eliminate progressively discriminatory restrictions. The way to accomplish this task, however, was entirely the concern of the Communities. Therefore, liberalization measures notified under the Protocol were autonomous in nature. While admitting that such measures recently notified had been limited in scope which was mainly due to the present difficult economic situation in the Communities, he stressed that some progress nevertheless had been made as required under the Protocol. The fact that Community imports from Hungary had increased substantially, i.e. approximately 23.5 per cent, during the previous year demonstrated clearly that the remaining restrictions had not prevented a favourable development of the Hungarian exports to the Communities. It was in this context noteworthy that Hungarian exports to the Communities were mainly in the area of manufactured products.

12. The representative of Hungary stated that the central point was to obtain knowledge about the duration and the character of the restrictions and the economic zone or zones in which they were applied before the Communities had liberalized them. Without a full clarification on these points, the Hungarian delegation reserved its judgement as to whether and to what extent the Communities had fulfilled their contractual obligations under Article 4(a) of the Protocol.

In order to make such an assessment, it was also necessary that the Communities specify in their notification the type of restrictions still applied (import quotas, embargoes, etc.) and the kind of measures adopted, with a view to their elimination as prescribed in Article 4(c) of the Protocol. Under the prevailing circumstances his authorities could not even consider the possibility of concluding a bilateral agreement with the Communities, which in his view seemed to duplicate the obligations under the Protocol. He added that under the Protocol the Communities had only the autonomous right to select the products they wanted to liberalize. He pointed out, however, that the liberalization was in itself a contractual obligation and could by no means be regarded as autonomous. He stressed in this connexion that most products now liberalized by the Communities had never been and could never be exported by Hungary, e.g. coffee, bananas, pineapples. Liberalization measures on such products could in no way be regarded as a step to fulfil the obligations under Article 4(a) of the Protocol.

13. The representative of the Communities replied that a bilateral agreement could complement the Hungarian Protocol of Accession and grant Hungary additional advantages. He explained that the process of elimination of quantitative restrictions introduced immediately after the war had started in the early 1960's which made it extremely difficult to trace the precise moment in each of the member States when a certain product might have been liberalized. Although the Protocol did not oblige the Communities to provide such detailed information

he was prepared to try to clarify this matter bilaterally. He added that a further number of products had recently been liberalized, the list of which had, however, not yet been published. In addition, quotas related to existing quantitative restrictions were being increased constantly and in several cases limited to apply to fewer economic zones within the Communities. Furthermore, the restrictions maintained temporarily by the United Kingdom and Ireland under the protocol concerning their accession to the Communities had now been abolished. He also recalled that the restrictions on textiles were presently subject to negotiation, which he hoped would succeed. Consequently, progress as regards the elimination of restrictions was being made continuously in accordance with the obligations under the Protocol.

14. A number of delegations stated their governments' opposition to discriminatory restrictions and urged those contracting parties still maintaining such restrictions to phase them out. Some of these delegations stressed that adequate remedies for market disruption were provided for in Articles VI and XIX of the General Agreement as well as in paragraph 5 of the Protocol. One of these delegations took exception to the contention of the Communities that the elimination of discriminatory quantitative restrictions could be facilitated by the conclusion of a bilateral agreement.

15. A member of the Working Party noted that the trade between Hungary and contracting parties had increased by about 100 per cent since Hungary acceded to the GATT. While expressing the hope that this favourable trend would continue, he asked the Hungarian representative to supply figures in unchanged prices for

this development in trade. Noting, however, that Hungary's imports from contracting parties had decreased in 1976 while the exports had continued to develop favourably, he asked whether this resulted from a definite Hungarian policy to balance its national trade account. If this were the case, he requested information as to which trade policy instruments had been used to this effect. He referred to policy statements made by Hungarian officials in connexion with the changes in the economic regulators introduced by the Hungarian Government in January 1976, and said that one of the stated objectives for these changes was that foreign trade enterprises should operate with prices closer to those prevailing in the world market. He enquired as to how this policy had been implemented and as to the results thus far achieved. His authorities had learned that one of the changes in the economic regulators involved an alteration of the foreign exchange multiplier, which could have led to an increase in Hungarian export prices. He said that in order to offset a possible decrease in exports, the Hungarian authorities had allocated additional credits to exporting firms and had altered the tax system in favour of such enterprises. He asked for an exact explanation of how such incentives were granted in Hungary and whether they replaced or supplemented the information contained in document Spec(72)52.

16. The representative of Hungary agreed to make available at a later stage figures in constant prices for the development of Hungary's trade with contracting parties since its accession to the GATT. He stated that the reduction of Hungary's imports in 1976 was not due to any trade policy measures but rather to the general economic situation in Hungary and in other countries. The high price

increases in the market-economy countries and the slowdown in the growth of the Hungarian gross national product were to a large extent decisive for this development. He added that the negative development in 1976 had now reversed and that imports in 1977 seemed to be substantially higher than in the previous year. Exports, however, did not develop in a satisfactory way, which in his view was due to the fact that as much as 60 per cent of the Hungarian exports to the European Communities were subject to import restrictive measures under the common agricultural policy. With regard to the Hungarian system of State refund and tax allowances relating to export, no new measures had been introduced in addition to those described in document Spec(72)52. The change in the foreign exchange multiplier was designed to counteract inflationary pressures from abroad through a revaluation of the Hungarian currency. In this connexion, Ft 45 billion, borrowed from banks in the United States, had been allocated as credits to be given by the National Bank to individual firms on normal private business conditions in order to boost exports.

17. One member of the Working Party referred to a number of press articles published in Hungary by Government officials citing specific regulations which in his view indicated that the export incentives were directed by the Government rather than being based on private business conditions. He requested further information as to the Government rôle in this financial export incentive system.

18. Another member of the Working Party asked for a clarification as to the possibilities for the Hungarian Government to stimulate the exports directly or indirectly.

19. The representative of Hungary urged the other members of the Working Party to base their observations and questions on existing legal instruments rather than on press articles. He explained that Ft 45 billion had been allocated to the National Bank by governmental decision to be used for credits to individual enterprises in order to improve their export performance. The Government had also issued guidelines as regards the terms for these credits. In all other respects the credits were a private matter between the National Bank and the individual enterprises requesting such loans. He said that under another incentive system financial assistance could be given to individual enterprises covering up to 20 per cent of their investment costs. This system had been established in order to obtain an improved production structure in Hungary and thereby, indirectly, an increased export capacity.

B. Hungarian imports

20. A member of the Working Party requested information on the Hungarian Government's policy as regards "planned" and "unplanned" imports as well as figures for such imports. Referring to a new licensing regulation promulgated in Hungary on 1 October 1977, he asked for information on the criteria on which licence applications were appraised and for clarification as to how the new licensing system would facilitate imports from contracting parties. Noting that the counter-trade requirements in Hungary had increased substantially during the past few years, he pointed out that such requirements were 100 per cent higher in terms of contract value for "unplanned" imports than for "planned" imports. He understood that the reason for this was the inability of importers to get licences and foreign currency for "unplanned" imports. He stressed, however, that it was often

difficult for small exporting firms without major distribution networks or the need for certain products to meet such countertrade requirements. In his view, these requirements did not necessarily improve the efficiency of the Hungarian export enterprises, and in some cases they even forced exporters to Hungary to build margins therefor into their prices. He asked for an explanation of the Hungarian Government's policy in this respect.

21. The representative of Hungary answered the last question by quoting an official statement published in the Official Foreign Trade Journal¹, according to which it was up to the individual enterprises to decide whether or not to conduct countertrade. The kind of countertrade described by the previous speaker was, however, clearly against the Hungarian policy guidelines and was thus discouraged by the Government. He added that the concepts of "planned" and "unplanned" imports were non-existent in Hungary. There was no central allocation for foreign currency in his country. Each enterprise could buy foreign currency freely from the National Bank at the current rate, provided it had an import licence. The new licensing regulation, introduced on 1 October 1977 and published in the Official Foreign Trade Journal, did not introduce any changes in the existing licensing system. In this regulation, all relevant rules previously contained in various laws and decrees had been brought together in one legal instrument. At the same time the opportunity had been used to simplify the procedures for obtaining licences. The Hungarian licensing system as revised was in full conformity with Hungary's international obligations. He added that for all practical purposes licences were granted automatically.

¹The text of the statement, as translated by the Hungarian delegation, is reproduced in the Annex.

22. A member of the Working Party asked whether measures had been introduced with a view to control access to foreign exchange at the same time as the Hungarian forint was revalued in order to combat inflation. He added that the industry and the authorities of his country were disappointed with the lack of success to increase and diversify exports to Hungary.

23. One member of the Working Party stated that the bilateral trade between his country and Hungary had in general developed satisfactorily. He regretted, however, that his country's exports of consumer goods were still insignificant. In view of this he asked whether any modification had been made recently or were being planned as regards the Hungarian global import quota for consumer goods.

24. The representative of Hungary replied that no restrictions had been imposed concerning the availability of foreign currency in connexion with the Hungarian revaluation. As regards the global import quota for consumer goods he stated that it had successively been increased, namely from \$30 million at the time for Hungary's accession to GATT to \$60 million in 1976, \$73 million in 1977 and \$83 million in 1978. He expressed the hope that, conditions permitting, this quota would be abolished in the near future. There were no other quantitative limitations of a global nature in force in Hungary.

C. Developments in Hungary's trading regulations

25. In reply to a question the representative of Hungary explained that the system of State refund as it had been described in connexion with Hungary's accession to the GATT was still in force. The decree implementing this system had been changed a number of times, and most recently on 22 November 1975. Contracting parties had been informed of this change at the annual session of the GATT that year (see SR.31/2, page 20).

ANNEX

Statement

The following is intended to give information about the position of the Hungarian Ministry of Foreign Trade on countertrade transactions, in view of the interest which various quarters have shown in this subject.

1. Those forms of countertrade transactions - linkage of exports and imports - should be eliminated, where such products are imposed on the partners, which the enterprise itself is unable to sell, or it has no marketing organization for its proper distribution.
2. Countertrade deals are considered useful, if the foreign supplier is the user of the counteritem offered, or if it has an established commercial organization for its distribution.
3. Uneconomical, obsolete, not competitive products of inferior quality should not be offered as counteritems, because it is not desirable to conserve outdated production through countertrade.
4. In the case of purchase of capital goods, the offer as counteritems of goods produced with the equipment bought should serve the purposes of improvement of quality, guarantee or the introduction of the goods on the market.
5. When entering into countertrade transactions, enterprises should rely to a greater extent on the assistance of the Hungarian trade representation in the country concerned.

Budapest, 8 November, 1977.

Department for Exchange, Financial
and Price Matters