

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

Spec(80)1

14 January 1980

CONSULTATION WITH HUNGARY

THIRD REVIEW UNDER THE PROTOCOL OF ACCESSION

Draft 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 Accession¹, 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) to carry out the consultations, and met on 21 January 1980 to adopt the report.
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

¹BISD 20S/3.

A. General Considerations

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 import restrictions not consistent with Article XIII of the General Agreement 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. The impact of these measures was 2 per cent in the Federal Republic of Germany and 1 per cent in Italy on the trade coverage of all existing quantitative restrictions not consistent with Article XIII maintained by these countries. He further stressed that according to the notification of the Communities no measures had been taken as provided for in the Protocol of Accession of Hungary, paragraph 4(a) by Denmark, Benelux, United Kingdom, France and Ireland. The latter country had even increased the number of discriminatory restrictions since Hungary's accession to GATT. In connexion with the notification of the Communities which listed under measures provided for in paragraph 4(a) the suspension of the quantitative restrictions not consistent with Article XIII in accordance with the Textile Agreement concluded by Hungary and the Communities, he observed that the quantitative restrictions have been only suspended and not eliminated. Furthermore, he observed that a limited number of items had been removed from

the list of quantitative restrictions not consistent with Article XIII but the impact of this was 0.1 per cent on the trade coverage of all existing quantitative restrictions not consistent with Article XIII. The representative of Hungary considered that the Communities had not supplied information on liberalization measures as foreseen in paragraph 4(c) of the Protocol.

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 in their trading relations.

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	Malta
Austria	New Zealand
Canada	Niger
Chile	Nigeria
Czechoslovakia	Poland
Egypt	Portugal
Finland	Romania
Japan	South Africa
Malawi	Spain
	Switzerland

Togo

United States

Turkey

Uruguay

United Kingdom on behalf of
Hong Kong

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

Korea

Cuba

Pakistan

Cyprus

Singapore

Iceland

Tunisia

India

Uganda

Ivory Coast

Second consultation (1977-1978)

Argentina

Kenya

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 asked for an explanation of the "exceptional reasons" as indicated in paragraph 4(b) of the Protocol for the maintenance of these restraints.

13. The representative of Hungary said that those safeguard provisions had been invoked with respect to imports of Hungarian electric lamps and small 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 regretted that this more expeditive and selective safeguard mechanism as contained in paragraph 5 of the Protocol of

Accession, which provides additional guarantees against market disruption, has not been brought to the attention of interested business circles of contracting parties still maintaining quantitative restrictions not consistent with Article XIII.

14. The representative of the European Communities underlined the improvement in the form of notification which afforded a more accurate idea of the real situation. The notification reflected the wish expressed by the earlier Working Party and furthermore corresponded to the European Communities' general policy of furnishing precise indications as to its legislation and trade. In his opinion many countries could take as an example the European Communities' information policy.

With respect to the substantive problems that had been mentioned, as in earlier years the European Communities had fully carried out its commitments under the Protocol for the Accession of Hungary to GATT, in particular those of Article 4(a). The European Communities had introduced no new discriminatory elements and had eliminated existing ones progressively. With respect to the particular case of Ireland that had been mentioned, no new quantitative restrictions had been introduced.

It should be underlined that products covered by Article 4 accounted for only EUA 43.8 million, i.e. less than 4 per cent of Hungary's exports to the European Communities. The eliminations introduced in the past two years affected a total export value of EUA 24.6 million, i.e. 36 per cent of the products concerned, constituting a truly remarkable effort having regard to the exceptional economic situation prevailing, particularly in sensitive sectors. Furthermore, the European Communities' authorities had received

numerous complaints about low prices quoted by certain Hungarian exporters. The European Communities had tried to apply the safeguard procedures provided under the Protocol of Accession. The result had not been entirely satisfactory and that also accounted for the fact that certain restrictions had been maintained.

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 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 representative of the European Communities reiterated that the European Communities' notification¹ clearly reflected progress under paragraph 4(a) of the Protocol of Accession. On the reference date, imports of textile products from Hungary had not been subject to quantitative restrictions under the agreement between the European Communities and Hungary. Furthermore, for evaluating new import possibilities offered by the European Communities, one should take into account not only new liberalizations but also quota increases during the reference period. In response to a question from the Hungarian representative and from another member of the Working Party, recorded in paragraph 11, he expressed the view that a notification of possible future action would not be useful. What mattered for the development of trade was action taken, as notified by 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.

In that connexion, his authorities still considered that the conclusion of a trade agreement between the European Communities and Hungary could facilitate the search for ways and means of finding a solution to the problems that had been mentioned by the Hungarian representative.

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 Articles VI and XIX of the General Agreement, as well as in the provisions of paragraph 5 of the Protocol of Accession.

¹L/4836/Add.2

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 promptly.

19. The representative of Hungary added concerning the aforesaid statements that no contracting party had accepted as strict and stringent procedures against possible market disruptions caused by it as Hungary did. As to the measures provided for in paragraph 4(c) of the Protocol of Accession of Hungary mentioned by the delegation of the Communities, he observed that it was up to the contracting parties maintaining quantitative restrictions not consistent with Article XIII to devise such measures in view of the elimination of the said restrictions. He added, furthermore, that, for example, a programme of elimination of the above-mentioned quantitative restrictions as it was planned by the Communities in the sixties could constitute such a measure.

If economic difficulties could be used by the contracting parties as an automatic waiver from contractual obligations, the General Agreement would be in question. He recognized, however, that such measures could be justified, provided that exceptional reasons were specified and clearly related to Hungarian exports.

In this connexion he observed that any measure taken by contracting parties against Hungarian exports, because of alleged market disruption or dumping was not objectionable, provided it was in conformity with the agreed procedures. Having these measures at their disposal, he considered that contracting parties still maintaining quantitative restrictions not

consistent with Article XIII of the General Agreement could eliminate them without endangering their legitimate interests.

20. 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 result in changes in these incentives.

21. 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 similarly to the practice of other contracting parties, 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

22. One member of the Working Party asked about the current status of the Hungarian global quota 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.¹ He also asked about the

¹BISD 20S/34 (L/3889)

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.

23. The representative of Hungary replied that in accordance with his country's undertaking to that member of the Working Party, his authorities' intention was to eliminate the global quota in question. Since this undertaking is a part of the MTN the most-favoured-nation clause would apply, 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 a licensing system, as described in documents L/3889 and L/4633. 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.

24. One member of the Working Party asked whether the Hungarian Ministry of Internal 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 payments arrangements. Finally, he asked whether Hungary intended to accede to the Agreement on Import Licensing Procedures.

25. The representative of Hungary replied that there existed no import priorities or allocation of hard currencies and no retained profit system. 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.

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

27. The representative of Hungary said that the global quota referred to earlier was administered on the basis of economic criteria, although views might differ with respect to whether certain luxury articles should be considered to be non-necessities. He stressed that Hungary has not applied any restrictive measures yet, in spite of her persisting unfavourable balance of trade, and that some contracting parties persist to maintain quantitative restrictions not consistent with Article XIII. He cannot give any guarantee that this situation will be maintained in the future.

28. 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 to 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.

29. The representative of Hungary replied that the official report 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, as it was explained in the reply given to question 13, document L/3426, Replies to Questionnaire, 1 September 1970, the lists themselves resulted from private negotiations among enterprises in Hungary and in the other countries in question. In view of the latter circumstance, in accordance with the relevant provisions of Article X of the General Agreement,

the Hungarian authorities cannot be required to disclose confidential information which would prejudice the legitimate commercial interests of particular enterprises.

30. One member of the Working Party said that exporters should obtain information in good time. Accordingly, statistics published on the basis of actual trade were not of the same value as information on trade prospects in pursuance of agreements signed at government level. Such governmental agreements, which covered some 25 per cent of Hungary's external trade, should be published in full under Article X of the General Agreement.

31. 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 quota. He sought further information on that quota, including the criteria used in setting it.

32. The representative of Hungary said that the criteria had remained unchanged from those announced during the Hungarian accession to GATT. In addition to his previous statement in paragraph 23, he referred to the undertaking of his country towards the United States within the framework of the MTNs according to which, it was the intention of the Hungarian authorities to eliminate the global quota in question, in the course of the next 1981-85 Five-Year Plan.

33. One member of the Working Party noted that one of the causes of Hungary's balance-of-payments deficit was the application of discriminatory trade restrictions in respect of Hungarian exports. In his view, the maintenance of those restrictions was not justified, for the reasons mentioned during the discussion, and he called for the elimination of discriminatory trade restrictions vis-à-vis Hungary.

D. Developments in Hungary's Trading Regulations

34. 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.

35. 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, the scope of which would be considerably reduced under the new regulations.

36. 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.

37. The representative of Hungary said that while there were no targeted trade balances, 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.

38. 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.

39. 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 of the transferable rouble. He added that the "price principle" called for export prices based on an average of world prices over a five-year period, normally the previous five years.

40. 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. In particular, he wished to know whether there were any provisions under which Hungary did not apply its customs tariff to imports from the countries listed in Annex A.

41. 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.