

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/3475

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Limited Distribution

## CONSULTATION WITH POLAND

### Third Review under the Protocol of Accession

#### Report by the Working Party on Trade with Poland

1. The Council at its meeting on 28 April 1970, established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the third annual consultation with the Government of Poland provided for in the Protocol of Accession, to make recommendations concerning the establishment of a date for the termination of the transitional period referred to in paragraph 3(a) of the Protocol, and to report to the Council. At its meeting on 29 September 1970, the Council agreed that the Working Party should also carry out the negotiations as provided for in paragraph 2 of Schedule LXV - Poland.

2. The Working Party met on 8 July, on 17-19 November, on 26-27 November and on 15 and 16 December 1970 under the chairmanship of Mr. J.E. Larsen (Denmark).

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

L/3399: statistics on Poland's trade with GATT countries in the years 1967, 1968 and 1969

L/3399/Add.1: statistics on Poland's imports from GATT countries in January-August 1970

L/3416: notification by Poland concerning renegotiation of Schedule LXV - Poland

L/3445 and addenda: notifications by contracting parties on restrictions maintained on imports from Poland.

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

- A. Annual review of Poland's trade with contracting parties
- B. Establishment of a date for the termination of the transitional period in paragraph 3(a) of the Protocol of Accession of Poland
- C. Renegotiation of Schedule LXV - Poland.

A. Annual review of Poland's trade with contracting parties

I. Polish exports to the territories of contracting parties

- (a) The general trend and geographical distribution of Polish exports to the territories of contracting parties. Has there been an unexpected decline or increase in Polish exports?

5. The Working Party noted that, according to the trade figures reproduced in Annex I to document L/3399, the increase in Poland's exports to GATT countries from 1968 to 1969 was 9.7 per cent. In absolute terms the exports to GATT countries had increased from US\$1,183.9 million to US\$1,299.3 million. Exports to all countries had increased by 10 per cent from 1968 to 1969 and totalled US\$3,143.3 million in 1969.

6. The representative of Poland said that there had been no unexpected decline or increase in Polish exports in 1969.

- (b) Development of Polish exports of different categories of goods, e.g. agricultural goods, raw materials, semi-manufactured goods, machinery and consumer goods

7. The representative of Poland gave the following figures for the share in total exports of the four main commodity groups:

	<u>1968</u>		<u>1969</u>	
	<u>To GATT countries</u>	<u>To all countries</u>	<u>To GATT countries</u>	<u>To all countries</u>
Machinery and equipment	18.3%	37.0%	21.1%	39.2%
Raw materials, fuels and semi-finished products	43.5%	33.1%	43.9%	33.0%
Agricultural products and foodstuffs	27.6%	14.0%	23.7%	15.7%
Manufactured consumer goods	10.6%	15.9%	11.3%	12.1%

(c) Action taken by contracting parties under paragraph 3 of the Protocol to remove remaining quantitative restrictions on imports from Poland

8. The Working Party noted that the following contracting parties had notified that they did not maintain any restrictions of the kind referred to in paragraph 3 of the Protocol:

Argentina	Czechoslovakia	New Zealand
Australia	Greece	Nigeria
Brazil	Iceland	South Africa
Canada	India	United States
Ceylon	Ireland	Yugoslavia
Chile	Japan	

The representative of Turkey said that his country did not maintain any discriminatory restrictions on imports from Poland.

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

Austria	Finland	Sweden
Denmark	Malta	Switzerland
European Communities and member States	Norway	United Kingdom

10. The Working Party noted that notifications had been received from thirty-two contracting parties only; forty-three contracting parties had thus not responded to the invitation to notify whether they maintained restrictions on imports from Poland.

11. The representative of Poland recognized that the completeness and accuracy of the notifications had improved considerably since the previous consultation as a result of the adoption by the Council of guidelines for the form and content of the notifications.<sup>1</sup> He pointed out, however, that some notifications were still lacking in clarity, and he hoped that the quality of notifications would continue improving with regard to their form and content. Several representatives associated themselves with these views.

12. The representative of Austria recalled that since the entry into force of the Polish Accession Protocol Austria had liberalized many items vis-à-vis Poland. With effect from 1 January 1969, 193 items had been fully liberalized. As from the same date, for a number of items, import quotas had been established which could be overdrawn in principle. Another liberalization step had taken place on 1 January 1970. At that time Austria had fully liberalized another 157 items. With effect from the same date some of the already existing import quotas had been increased and new quotas had been opened for a number of additional items. He was also in the position to announce further liberalization measures. With effect from 1 January 1971 Austria would liberalize about 180 items vis-à-vis Poland. As a

<sup>1</sup>See document C/M/62, pages 11-12.

consequence of those very substantial liberalization measures, the Austrian imports from Poland between 1967 and 1969 had increased by 25 per cent. During the same period the Austrian exports to Poland had increased by 5 per cent only. The Austrian statistical import data from 1967 until the first half of 1970 showed already a certain change in the structure in the imports from Poland. The Austrian delegate referred to imports of certain manufactured and semi-manufactured products which had recently considerably increased. Austria had therefore fulfilled its obligation as specified in paragraph 3(a) of the Polish Protocol according to which the restrictions should be progressively relaxed.

13. In reply to questions, the representative of Denmark emphasized that while until this year all imports from Poland were subject to a licensing requirement, this requirement was now confined to the products listed in the annex to the notification. The products were subject to the same licensing requirement when imported from other socialist countries of Eastern Europe. As a provisional and experimental measure the majority of the goods mentioned in the list were imported freely being only subject to free and automatic licensing. In cases where there were no imports indicated in the list, the reason was purely commercial. Total Danish imports from Poland in 1969 had amounted to DKr 298.9 million; the imports still subject to licensing, DKr 43.4 million, represented less than 15 per cent of total imports.

14. The representative of the European Communities pointed out that the notification submitted by the European Economic Community listed all items subject to quantitative restrictions in the member States when imported from Poland. He explained, in reply to questions, that the Community notification listed as headings subject to restrictions the full Brussels Nomenclature headings even in cases where only a small part of the heading was under restriction. He mentioned as an example that the whole heading 16.02 was included in the list, although only offals and liver were actually under restriction.

15. The representative of the Communities further explained, in reply to a question whether it would not be possible for the Community to submit notifications indicating the position in each separate country, that the situation with regard to restrictions in the Community should be seen as a whole and that the liberalization movement should be regarded at the Community level. He stressed that there had been in 1970 an important liberalization movement in the Community with regard to imports from Poland.

16. The representative of Sweden stressed that only the seven items listed in the first category - "Quotas which constitute upper limits of licensing" - in L/3445 were subject to real restrictions. In three cases the quotas had not been utilized to a substantial extent. In 1969 the discriminatory element had been further relaxed through the increase of three of the four quotas which were of a restrictive nature. The development of Polish exports to Sweden was encouraging; from 1968 to 1969 they had increased from SKr 210 million to SKr 250 million.

17. The representative of the United Kingdom said that a difficulty in the preparation of his Government's notification had been that the list of restrictions in force on 30 June 1967 had not been wholly in tariff terms. The conversion of the

list into tariff terms was well under way, and such a list could probably be transmitted in a couple of months. In those circumstances, the list of restrictions in effect on 1 May 1970 had been prepared as a list of amendments to the 1967 list. The list showed that a substantial liberalization had been effected. A consolidated list of restrictions in force on 1 May 1970, expressed in tariff terms, was being prepared and would also be submitted in a few months time.

- (d) Other questions relating to the exports of Poland to the territories of contracting parties in the period under review, including any problems arising of the sort provided for by, or any action taken under, paragraph 4 of the Protocol

18. The Working Party noted that no action had been taken under paragraph 4 of the Protocol.

II. Polish imports from the territories of the contracting parties

- (a) The general trend and geographical distribution of Polish imports from the territories of other contracting parties. Did actual Polish imports reach the quantities or values provided for in the period under review? If not, what was the reason for the shortfall in Polish imports?

19. The Working Party noted that according to the trade figures reproduced in Annex II to document L/3399, the increase in Poland's imports from GATT countries from 1968 to 1969 was 9.3 per cent and thus exceeded the Polish commitment.

20. The representative of Poland pointed out that climate conditions in his country had been unusually unfavourable in 1969 with a long-lasting drought and an early and extremely severe winter, which had in particular affected agricultural production but which had also reduced the rate of expansion of the economy as a whole. Against that background, foreign trade performance had been rather better than could have been expected.

21. Several members of the Working Party expressed satisfaction at the Polish import performance in 1969, which had been well above the 7 per cent increase stipulated in the Schedule of Poland. Some members stressed that the good performance in spite of the particular difficulties encountered in 1969 showed that the 7 per cent commitment was a reasonable one.

22. One member, who had in the previous consultation expressed the view that Poland should increase its imports in 1969 above the commitment in order to compensate for the shortfall in 1968<sup>1</sup>, said that it was gratifying to note that the 1969 imports had more than compensated for the shortfall in 1968.

23. Some members pointed out that Poland's imports from their countries in 1969 had increased considerably less than Polish exports to their countries.

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<sup>1</sup>See paragraph 46 of the report on the Second Review (BISD, Seventeenth Supplement, page 107).

24. It was noted by some members that there were certain discrepancies between some Polish import figures and the corresponding export figures in the statistics of her trading partners. The Polish representative stressed that the Polish import figures represented f.o.b. values, while some of the figures used for comparisons were based on c.i.f. prices. He said that in other cases time lags or the fact that country of origin in the Polish statistics meant the country with which the purchase was concluded could explain the discrepancies. The Chairman suggested that the countries concerned should try to obtain clarifications in such cases through bilateral contacts.

(b) Development of Polish imports of various categories of goods (e.g. agricultural goods, raw materials, semi-manufactured goods, machinery and consumer goods) from the territories of contracting parties in relation to development of Polish imports from other countries

25. The representative of Poland recalled that the trade statistics reproduced in document L/3399 showed that the total foreign trade turnover of his country had risen in 1969 by 11.3 per cent, attaining the sum of \$6,353.4 million. The corresponding figures for trade with GATT countries were 9.5 per cent and \$2,656.9 million. Total imports increased in 1969 by 12.5 per cent, attaining the sum of \$3,210.1 million, while imports from GATT countries increased by 9.3 per cent to a sum of \$1,357 million.

26. With regard to the development of imports in the four main categories of goods, the Working Party noted that the share of total imports in 1968 and 1969 had been:

	<u>1968</u>		<u>1969</u>	
	<u>From GATT countries</u>	<u>From all countries</u>	<u>From GATT countries</u>	<u>From all countries</u>
Machinery and equipment	34.5%	35.9%	35.6%	36.9%
Raw materials, fuels and semi-finished products	48.7%	47.1%	49.9%	47.0%
Agricultural products and foodstuffs	13.2%	11.3%	10.4%	10.4%
Manufactured consumer goods	4.0%	5.7%	4.0%	5.7%

27. A member of the Working Party pointed out that the share of agricultural imports had decreased in 1969. He asked whether this should be interpreted as a normal trend or whether it was due to special circumstances in 1969. The representative of Poland replied that certain shifts between product categories were

likely to take place. Grain imports would thus probably decrease as Poland's own production increased. He stressed, however, that in spite of the somewhat diminished share of agricultural imports in 1969, imports of such products, both from all countries and from GATT countries, had nevertheless increased in absolute terms and the long-term plans foresaw a continued increase.

(c) Development of Polish imports from the territories of contracting parties in relation to development of the Polish market

28. The representative of Poland said that the exceptional climate conditions in 1969, referred to in paragraph 20, had in the first place affected agricultural production which had fallen by 4.7 per cent. Industrial production had risen by 8.9 per cent, but this figure would have been higher if the food processing industry could have kept pace with other industry branches and had not been hampered by the fall in agricultural production.

29. As a result of the lower than foreseen expansion in production, national income in constant prices had only increased by 3.5 per cent in 1969 against the forecast of 6 per cent; the increase in 1968 had been almost 10 per cent. Overall investments and volume of retail trade had both risen by 7 per cent in 1969, while disposable income of the population increased by 8 per cent and the wage per employee by slightly more than 3 per cent. Against the background of those figures, the representative of Poland stressed, the performance of foreign trade - the total increase of which was 11.9 per cent in 1969 - was rather better than could have been expected. The same was true with regard to the trade with GATT countries which had increased by 9.5 per cent. The share of the GATT countries in Poland's total trade had remained almost at the same level as in 1968: 41.8 per cent in 1969 as against 42.3 per cent in 1968.

30. The representative of Poland said that foreign trade had been gradually increasing its importance in the Polish economy, and the long-term planning foresaw a continued development in that direction. Uneconomic branches of production would be discarded and replaced by imports.

31. A member of the Working Party noted that imports from GATT countries had increased by 9.3 per cent in 1969 while total imports had increased by 12.5 per cent. He stressed that, although Poland had fulfilled its GATT commitments, the decreasing share of GATT countries in Poland's total foreign trade gave rise to some concern.

32. The representative of Poland replied that imports from various categories of countries could obviously vary from year to year depending on market conditions. The fact that Poland's export potential was greater in so far as non-GATT countries were concerned tended to encourage imports from the same countries. He underlined, however, that the share of the GATT countries in Poland's total imports had remained stable over several years.

- (d) Provision made by Poland pursuant to paragraph 1 of the Schedule of Concessions of Poland to ensure an annual increase in the total value of its imports from the territories of contracting parties

33. The representative of Poland recalled that the increase in Poland's imports from GATT countries had been 16 per cent in the period January-August 1970, as could be seen from document L/3399/Add.1. He said that - contrary to what had been the case in the past years - imports were expected to slow down in the course of the fourth quarter of 1970. The increase in imports for the whole of 1970 was estimated at about 10 per cent.

34. With regard to 1971, the representative of Poland stressed that this year would fall within the next five-year plan (1971-75), which had not yet been approved. Very tentative and unofficial figures for 1971 based on estimated imports in 1970 from GATT countries of \$1,480 million - which represented a 9 per cent increase over 1969 - gave the following comparison (figures in \$ million):

	<u>1970</u>	<u>1971</u>	<u>Increase</u>
Machinery and equipment	490	525	7%
Raw materials and semi-manufactures	750	800	6%
Food products	180	200	10%
Consumer goods	60/65	70	8%
	<u>1,480/1,485</u>	<u>1,595</u>	<u>7%</u>

The average increase from 1970 to 1971 was thus estimated at not less than 7 per cent.

- (e) Other questions relating to imports of Poland from the territories of contracting parties

35. There was no discussion under this heading.

### III. Polish balance of payments with contracting parties

36. The Working Party heard an explanation by the representative of Poland concerning the balance-of-payments situation with regard to its relations with the contracting parties. The Working Party noted with satisfaction that it did not seem likely that the present balance-of-payments situation would interfere with the fulfilment of Poland's commitments for 1970 or 1971 under the Protocol of Accession.

- B. Establishment of a date for the termination of the transitional period in paragraph 3(a) of the Protocol of Accession of Poland

37. The representative of Poland recalled that his Government, at the time of its accession to GATT was governed by a desire to expand its trade with the contracting parties and attain a treatment in conformity with the principles of the General Agreement. He further stated that in particular Poland wanted that all the



quantitative restrictions applied to imports from Poland inconsistently with Article XIII be eliminated. He added that it was well-known why this desire could not materialize fully at the time when Poland's Protocol of Accession was negotiated. At the same time Poland had expected that this problem would be definitively settled in a reasonably short period. He felt, therefore, that after three years the time had come to fix a date, as foreseen in paragraph 3(c) of the Accession Protocol, for the termination of the transitional period during which contracting parties might maintain discriminatory restrictions on imports from Poland. In the view of the Polish Government 31 December 1974 would be a reasonable date which would give the contracting parties concerned sufficient time - four further years - to remove remaining discriminatory restrictions.

38. Several members of the Working Party strongly supported the foregoing Polish proposal, although they would have preferred an earlier date.

39. The representatives of the majority of the countries still maintaining quantitative restrictions also expressed the wish that the transitional period should be terminated, on certain conditions, on 31 December 1974. They were prepared to remove substantially all their quantitative restrictions by that date, but they stressed that any formula containing a fixed date must open a possibility to maintain exceptionally beyond that date a limited number of restrictions. Such hard core cases could, however, be subject, after 31 December 1974, to an examination with a view of seeking the possibilities of their elimination in connexion with the annual consultations provided for in paragraph 5 of the Protocol for the Accession of Poland.

40. Some of the members of the Working Party who had supported the proposal in paragraph 37 pointed out that paragraph 3(a) of the Protocol stipulated that at the end of the transitional period any inconsistency with the provisions of Article XIII of the General Agreement should be eliminated. It would therefore not be in conformity with the Protocol to establish a terminal date but at the same time permit contracting parties to maintain certain restrictions beyond that date. Such a decision would in fact mean that the transitional period would be extended indefinitely. They considered that the concerns expressed at the possibility of market disruption caused by imports from Poland would be met by the safeguard clause in paragraph 4 of the Polish Accession Protocol, particularly in light of the length of the transitional period that was envisaged. However, in view of the statements of several of the countries maintaining discriminatory restrictions that they expected some of these to remain after 1974, these countries were prepared to accept a text acknowledging this situation provided that any such remaining restrictions would be dealt with under the relevant provisions of the GATT, notably Article XXV.

41. The representative of Poland stated that a solution as set out in the preceding paragraph would satisfy completely the Polish Government's desire but taking into consideration the existing divergencies of view in the Working Party, Poland was open for a compromise solution.

42. After discussion of various alternative formulae, the representative of Poland submitted the following text as a result of the desire to reach a compromise:

"Contracting parties still maintaining quantitative restrictions not consistent with Article XIII of the General Agreement shall not increase the discriminatory element in these restrictions, undertake to relax them progressively and shall have as their objective to eliminate them before the end of 1974, that is before the end of the transitional period.

"Exceptionally, if at the end of such period, certain of those quantitative restrictions were still maintained for particular reasons of certain countries, they would be the subject of an examination by the Working Party with a view of seeking the possibilities of their elimination."

The members of the Working Party whose views are set out in paragraph 39 above agreed to this text.

43. One member of the Working Party, supported by some others, proposed that the text reproduced in paragraph 42 should be amended by the deletion of the words "that is before the end of the transitional period" in the first sentence. In the second sentence the words "if at the end of such period" should read "if after that date".

44. Another member of the Working Party, commenting on this proposal, stressed that the transitional period could in his opinion not be considered as terminated until all discriminatory restrictions had been removed. Against that background he suggested that it be made clear that in submitting the proposal set out in paragraph 43 the Working Party should agree that in the annual consultations until the end of 1974, the question of fixing a date in accordance with paragraph 3(c) of the Protocol would be regarded as having been dealt with until that date. This suggestion received some support in the Working Party.

45. In view of the divergencies of opinion set out above, the Working Party was not in a position to agree on a recommendation to the Council.

#### C. Renegotiation of Schedule LXV - Poland

46. The representative of Poland explained that the aim of his Government, when notifying its intention to renegotiate the Polish import commitment contained in paragraph 1 of Schedule LXV, was to transform the annual 7 per cent commitment into a 7 per cent compounded commitment over a longer period. Contracting parties would thus get the assurance of greater stability in their trade with Poland, and at the same time Poland would obtain some flexibility in the carrying out of her commitment. It was suggested that the first period would be of four years and the following of three years each.

47. The Working Party accepted the idea of converting the annual 7 per cent commitment into a compounded commitment over a longer period. It was pointed out, however, that if the first period would be of two years - instead of four years as suggested by Poland - the following periods would coincide with the periods specified in paragraph 1 of Article XXVIII. The representative of Poland said that the proposal was acceptable to his Government.

48. One member of the Working Party said that in his opinion it would be reasonable to increase the annual compound increase rate from 7 to 8 per cent as compensation for the increased flexibility that Poland would obtain if the commitment was established for a longer period. He also pointed out, that the Polish import increases since the entry into force of the Protocol - 6 per cent in 1968, 9.3 per cent in 1969 and 16 per cent in January-August 1970 - seemed to indicate that a percentage somewhat higher than seven would not be difficult for Poland to undertake. He also recalled that the initial selection of 7 per cent had been rather arbitrary. Another member supported the thrust of this proposal in order to avoid a decrease in the Polish commitment, since it would be easier for Poland to have to meet only one overall target rather than three. These members would however, accept a 7 per cent compound rate for the first two-year period, if the subsequent multiple period year rates were set at 8 per cent compounded. The representative of Poland said that an increase in the base percentage was not acceptable to his Government.

49. A member of the Working Party said that, although he was prepared to accept a longer term commitment, he felt that there should also be an annual minimum commitment which should be fixed at a lower level than the average annual increase. He suggested that the annual minimum commitment should be 5 per cent. The representative of Poland said that such a minimum commitment would seriously jeopardize the flexibility that was the main aim of his Government; it was thus not acceptable. He suggested that, if it became apparent in the course of a period that the import increases were below the average, the matter could be taken up in the annual consultations. After further discussion, however, agreement was reached on an annual minimum figure of 103.5 per cent.

50. The same member of the Working Party suggested that the Polish commitment should contain an undertaking to make up, in the next following period, any shortfall that might occur in one period. The Polish representative indicated that this proposal would be acceptable to his Government.

51. Some members of the Working Party said that - although the renegotiation of the import commitment was not directly related to the question of discriminatory restrictions - there was a certain connexion between them which made it difficult to agree to any modification of the commitment until a decision had been taken with regard to the question of such restrictions. In view, however, of the compromise reached between them and Poland as reflected in paragraph 42 above, they could accept a modification of the commitment along the lines suggested by Poland. Other members considered it inappropriate in any case to link the renegotiation of the import commitment with the question of discriminatory restrictions.

52. The representative of Poland submitted the following text of an import commitment to replace the first paragraph of Schedule LXV - Poland:

"Subject to paragraph 2 below, Poland shall, with effect from 1 January 1971 through 31 December 1972, undertake to increase the total value of its imports from the territories of contracting parties by 7 per cent per annum, compounded over the two-year period, i.e. by 14.5 per cent. After that period the compound annual increase rate of 7 per cent would cover the periods as envisaged by Article XXVIII."

Most members of the Working Party indicated that they could accept the text proposed by the representative of Poland.

53. A member of the Working Party proposed the following text for the Polish import commitment:

"1. Subject to paragraph 2 below, Poland undertakes:

(a) For calendar years 1971 and 1972, to increase the total value of its imports from the territories of contracting parties by not less than 7 per cent per annum, compounded over the two-year period and by not less than 5 per cent during 1971;

(b) For calendar years 1973 through 1975, to increase the total value of its imports from the territories of contracting parties by not less than 8 per cent per annum compounded over the three-year period, and by not less than 5 per cent per annum in 1973 and 1974;

(c) In the event the multi-year compounded commitments referred to in paragraphs (a) and (b) above are not met, Poland undertakes to increase its imports from the territories of contracting parties during the next following period, i.e. 1973-75 in the event of a shortfall under paragraph (a) and 1976-1978 in the event of a shortfall under paragraph (b), by the amount of such shortfall in addition to the increase that would have been required had there been no shortfall.

"2. The reference to 'paragraph 1 above' in the first sentence of paragraph 2 of Schedule LXV - Poland is hereby changed to read 'paragraph 1(b) above'."

54. After further discussion the Working Party reached agreement on the following text of a Polish import commitment to replace the present text of Schedule LXV - Poland:

"1. Subject to paragraph 4 below, Poland shall undertake to increase the total value of its imports from the territories of contracting parties by 7 per cent per annum aggregated and compounded over multi-year commitment periods, that is:

(a) in the two-year period 1971-1972, Poland shall undertake to import a total of not less than 221.5 per cent of the value of its total imports from those sources in the year 1970;

(b) in the three-year period 1973-1975 and in each succeeding three-year period, Poland shall undertake to import a total of not less than 344 per cent of a base defined as the hypothetical value of imports in the last year of the preceding period that

would have resulted had the actual increase of imports over the preceding period's base been distributed among the individual years at a constant compound rate of growth. Should the rate thus obtained be lower than 7 per cent, however, the rate used for this calculation shall be 7 per cent.

"2. Should Poland's imports in any period fall short of its commitment, the import commitment in the succeeding period shall be increased by the amount of the shortfall.

"3. The value of imports in any but the last year of a commitment period shall be not less than 103.5 per cent of the base for that period.

"4. On 1 January 1973 and thereafter on the date specified in paragraph 1 of Article XXVIII of the General Agreement Poland may, by negotiation and agreement with the CONTRACTING PARTIES, modify its commitments under paragraph 1-3 above. Should this negotiation not lead to agreement between Poland and the CONTRACTING PARTIES, Poland shall, nevertheless, be free to modify these commitments. Contracting parties shall then be free to modify equivalent commitments."

55. A formula for the calculation of the commitment is set out in the Annex to this report.

56. One representative expressed concern over the consequences that a continued inflation would have on the value of the Polish import commitment. He suggested that one way of dealing with the problem would be to express the commitment in terms of constant prices. After it had been pointed out, however, that there was no agreed international index of constant prices and in view of the definition of the base for the calculation of the commitment in further periods as set out in paragraph 1(b) of the Schedule, he was prepared to accept that the risk of erosion due to inflation was mitigated to a considerable extent.

Annex

CALCULATION OF COMPOUNDED COMMITMENT

To calculate the base for 1973-1975

Let  $a$  = actual imports in 1970

$b$  = total actual imports in 1971 and 1972

$$b = a(1+r) + a(1+r)^2$$

Then Poland's base for 1973-1975 will equal  $a(1+r)^2$  where  $r$  is defined by the above equation.

To calculate the base for subsequent three-year periods

Let  $a$  = the base for the previous period

$b$  = total actual imports for the previous period

$$b = a(1+r) + a(1+r)^2 + a(1+r)^3$$

Then Poland's base for the period will equal  $a(1+r)^3$  where  $r$  is defined by the above equation.