

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONSULTATION WITH POLAND

Seventh Review under the Protocol of Accession

Report by the Working Party on Trade with Poland

1. The Council, at its meeting on 21 June 1974, established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the seventh annual consultation with the Government of Poland provided for in the Protocol of Accession, to re-examine the question of 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.
2. The Working Party met on 10 and 14 October 1974, under the chairmanship of Mr. I.S. Chadha (India).
3. The Working Party had before it the following documents containing information relevant to its work:

L/4073 and Addenda 1-5	Notifications by contracting parties on discriminatory restrictions maintained on imports from Poland;
L/4078	Data on Poland's trade with GATT countries in 1971, 1972 and 1973, and imports from GATT countries for the first half of 1974.
4. The following report sets down the main points of the discussion in the Working Party under the two headings:
 - A. Annual review of Poland's trade with contracting parties.
 - B. Establishment of a date for the termination of the transitional period referred to in paragraph 3(a) of the Protocol of Accession.

A. ANNUAL REVIEW OF POLAND'S TRADE WITH CONTRACTING PARTIES1. 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 the statistics furnished by the Polish delegation showed that the increase in Poland's exports to GATT countries from 1972 to 1973 had been 38.7 per cent. In absolute terms, exports to GATT countries had increased from \$2,337.7 million to \$3,243.2 million. Exports to all countries had increased from 1972 to 1973 by 30.5 per cent, from \$4,927.4 to \$6,432.2 million.

6. The representative of Poland recalled that exports to developed market economy countries had increased by 29.7 per cent in 1972; in 1973 exports to these countries had increased by 40.2 per cent. This considerable increase in exports resulted from intensified foreign trade efforts within the framework of the Polish Government's open economic policy, which inter alia was based on setting up export oriented industries in particular basic sectors of the economy. He also underlined that much of the growth in export capacity that had taken place, was due, inter alia, to substantial imports of, for example, machinery and equipment from GATT countries.

- (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 Working Party noted the following figures for total exports of the four main commodity groups:

	<u>1972</u>		<u>1973</u>	
	to GATT countries	to all countries	to GATT countries	to all countries
Machinery and equipment	27.7	39.1	26.2	38.8
Raw materials and semi- manufactures	41.3	31.5	40.0	30.7
Food products	20.8	13.4	22.8	14.2
Consumer goods	10.2	16.0	11.0	16.3

8. The representative of Poland said that although the high growth of exports was expected to continue, there was reason to be concerned that conditions might worsen for exports of industrial products to the Western European markets and the development of industrial co-operation with those countries as a result of the free-trade agreements concluded between the European Communities and the EFTA countries. The parties to those agreements did not share that concern because in the past, events had belied such apprehensions. The representative of Poland also stressed the concern of his authorities with the increasing imbalance between Polish exports to GATT countries and imports from these countries.

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

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

Argentina	Hungary	Portugal
Australia	Iceland	Romania
Brazil	India	South Africa
Canada	Japan	Spain
Cuba	Malawi	United States
Czechoslovakia	Malta	

It was recalled that in the course of previous consultations, it had been noted that the following countries had informed the secretariat that they did not maintain discriminatory restrictions against Poland:

Burundi	Ivory Coast	Rwanda
Cameroon	Kenya	Sierra Leone
Chad	Korea, Rep. of	Turkey
Chile	Kuwait	Upper Volta
Cyprus	New Zealand	Uruguay
Gabon	Nigeria	Yugoslavia
Indonesia	Pakistan	

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

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

Austria	Finland	Sweden
European Communities	Norway	Switzerland

11. The representative of Poland, supported by several other members of the Working Party, noted with regret that several notifications had been submitted much too late, in spite of the Working Party's recommendation at the previous consultation that notifications be made available at least six weeks before the consultation. The Working Party therefore agreed to reiterate its recommendation and appealed to contracting parties to strictly observe this time-limit in the future.

12. The representative of Poland stated that certain contracting parties had made some progress in eliminating discriminatory quantitative restrictions in the period under review. He especially welcomed the decision by the Government of Austria to eliminate all remaining discriminatory restrictions with effect from 1 January 1975. This decision showed that in his opinion it was clearly possible to end discrimination without problems resulting for the importing country; on the contrary, this would mean better prospects and a better environment for future economic relations between the countries concerned. He also noted that some countries had made very slow progress while several countries had made no progress at all. Deploring this fact, he could only hope that full liberalization of imports from Poland would be achieved in compliance with paragraph 3(a) of the Protocol of Accession, and reiterated the wish that such liberalization be achieved by the end of 1974. Several members of the Working Party shared the wish expressed by the Polish delegation.

13. The representative of Austria confirmed that all remaining quantitative and currency restrictions would be abolished with effect from 1 January 1975, except those which also applied to other contracting parties. He added that a further 117 items had been liberalized on 1 January 1974, leaving at that time restrictions on products which counted for only 7 per cent of total imports from Poland and that the discriminatory element in the remaining restrictions had not been increased; therefore his Government had clearly fulfilled its obligations under the Protocol of Accession.

14. The representative of Poland also referred to the form of the notifications, which had been discussed at all previous consultations. The form of some notifications still made it impossible to judge the extent of the liberalization, if any, that had taken place. He welcomed the fact that this year's notification by the European Communities did in fact indicate the number of zones in which a particular restriction was applied. Nevertheless, it would be necessary to know which country, or which zone, applied the restrictions, in order to see whether the individual member States had fulfilled their obligations under paragraph 3(a) of the Protocol. Several other members of the Working Party shared the Polish views on this point, adding that the restrictions maintained by some countries obviously served to reduce Polish exports. The representative of Poland also noted that the volume of trade under newly liberalized items in the Communities was rather unimpressive, accounting for only \$1.4 million. Nor did this figure

take any account of rising prices, so that the progress made was substantially less than in earlier periods. Additional products had even been subjected to discriminatory quantitative restrictions in violation of the commitment not to increase the discriminatory element of the restrictions. His Government would take this matter up with the Governments concerned under the relevant provisions of the GATT and the Protocol of Accession.

15. The representative of the European Communities expressed his satisfaction concerning the favourable development of trade between Poland and the Community. As in earlier years, the Community had carried out in full its obligations under paragraph 3(a) of the Protocol. He noted that it was inevitable that progress became slower as the number of remaining restrictions fell each year. As a majority of products were only restricted in a few zones, the real situation was even more favourable than indicated in the notification; in fact only six products were restricted in five or six zones. Some important zones had made very significant liberalization efforts in the last year, but this fact could not be seen from the notification as long as one other - perhaps small - zone retained a restriction on the same product. In any event, there would be a more common movement in the reduction of restrictions in the course of 1974 (for which statistics were not yet available), when Community policy had become more integrated. He stressed, however, that what was most important in this context was the actual levels of trade involved; the Community imported 47 per cent of total Polish exports to GATT countries, and actual Polish exports to the Community were increasing more rapidly than to most other GATT countries. The Community - which as a Community had signed the Protocol of Accession - had eliminated restrictions and/or reduced the discriminatory element in full conformity with its obligations under the Protocol, which did not require any qualitative evaluation of the progress made. Furthermore, detailed information on quota sizes would be published in the Official Journal of the Community; quotas had been, on average, increased by 20 per cent. The fact that a few minor items had been liberalized in relation to market economy countries without at the same time being liberalized in relation to socialist countries could not be contrary to paragraph 3(a) of the Protocol of Accession as long as overall discrimination was reduced. Another member of the Working Party pointed out that this constituted an increase in the discriminatory element of the import restrictions and was contrary to the Protocol of Accession.

16. Following questions put by Poland and other members of the Working Party, the representative of the Communities explained certain features of the notification, e.g. that when the number of zones was indicated as (-), it meant that the item was liberalized on the national level in all zones and was waiting to be placed on the Community list. Where no import figure was given, this meant that there

had been no transactions but not that there was an embargo on the product in question. Some members of the Working Party asked what was the rationale for maintaining quotas if the absence of imports was not a result of embargoes. The representative of the Community cited some situations that might account for the absence of any imports of products under quota even though there was no embargo. Most of the items listed separately for the United Kingdom would be aligned to the Community list and disappear by the end of the year.

17. One member of the Working Party, supported by some other members, stated that there were two ways, one primary and the other supplementary, to "progressively relax" the restrictive elements of the quantitative restrictions, i.e. the primary way was to abolish the quantitative restrictions, and the supplementary way was to enlarge the quotas. In this connexion, he suggested that the size of the quotas should be reported annually.

18. The representative of Finland stated that his Government had liberalized many headings since the previous consultation. The remaining restrictions were all of a hard-core nature, but further progress should nevertheless be possible. The representative of Norway said that only twelve items - all of a hard-core nature - remained restricted vis-à-vis Poland. However, quotas had been substantially increased and one restriction had been abolished, so his country had fulfilled its obligations. The representative of Sweden said that the quantitative restrictions still maintained by his country were very few and for the most part of a hard-core nature. Additional liberalization measures had been introduced, and the remaining restrictions were continuously being studied by his authorities with a view to their elimination. His country had therefore fulfilled its obligations under the Protocol.

(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

19. The representative of the European Communities was interested in clarification on some points relating to the formation of Polish export prices. In particular he wanted to know whether different conversion coefficients were applied according to origin, destination and time of sale when calculating transaction prices. He sought, among other matters, explanations of the relationship between the "internal" and the "external" zloty and as to indications that non-profitable exports received different types of support. These were important questions which had a direct relationship to the reason why some contracting parties still maintained quantitative restrictions on imports from Poland.

20. The Polish delegation stated that an examination of the Polish economic system was not warranted by the provisions of the Protocol of Accession or the Plan contained in Annex A; there was no link between the elimination of restrictions inconsistent with Article XIII of the General Agreement and the economic system of Polish foreign trade. The trade figures clearly showed that Poland had fulfilled, and indeed exceeded her obligations. There had been no changes in the Polish economic system - which had been examined in the GATT - that were not in conformity with the General Agreement or the Protocol of Accession, nor had paragraph 4 of the Protocol, which was the only reference contained in paragraph (i)(d) of the Plan for consultations, ever been invoked against Poland.

21. The representative of the European Communities supported by another member of the Working Party, reiterated his view that these questions were extremely relevant to the examination and pointed out that one of the main reasons underlying the maintenance of quantitative restrictions concerned export price formation and fears arising in connexion with that system. It was therefore all the more regrettable that the Polish representative had not felt able to give the explanations requested. The representative of the United States, supported by some other members of the Working Party, expressed the view that the questions raised by the representative of the European Communities were pertinent to the annual review, but only because of their relevance to Poland's obligations under the Protocol.

II. Polish imports from the territories of 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?

22. The Working Party noted with satisfaction that according to the trade figures reproduced in Annex II of document L/4078, the increase in Poland's imports from GATT countries from 1972 to 1973 had been 65.3 per cent, thus considerably exceeding Poland's commitment. Total imports had increased by 43.5 per cent to \$7,860.5 million; for GATT countries the latter figure was \$4,839.8 million.

- (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

23. Concerning the development of imports in the four main categories of goods, the Working Party noted that the share of total imports in 1972 and 1973 had been:

	<u>1972</u>		<u>1973</u>	
	from GATT countries %	from all countries %	from GATT countries %	from all countries %
Machinery and equipment	38.9	38.9	39.3	41.1
Raw materials, fuel and semi-finished products	42.4	44.2	44.6	44.2
Agricultural products and foodstuffs	10.0	9.1	9.7	8.5
Manufactured consumer goods	8.7	7.8	6.3	6.2

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

24. The representative of Poland said that the share of imports from GATT countries as a percentage of total imports had reached 61.6 in 1973 as compared to 53.5 in 1972.

(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

25. The Working Party noted with satisfaction that Poland had fulfilled its import commitment under the Protocol of Accession. In the first half of 1974, imports from GATT countries had increased by 55.3 per cent, maintaining the trend for imports considerably to exceed the commitment.

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

26. Some members of the Working Party referred to press reports according to which the Polish Government had, for balance-of-payments reasons, introduced import restrictions, especially on consumer goods. The representative of Poland, quoting annual average growth rates, said that the gap between Polish exports and imports had widened considerably, a fact which posed certain dangers for the Polish economy. A set of guidelines had therefore been established with a view to rationalizing the import policies of the enterprises.

27. Replying to questions from a member of the Working Party, the representative of Poland explained that the possibility of Poland introducing a customs tariff was still under consideration and that a decision to introduce it on an experimental basis might be taken in the course of 1975. If so, the CONTRACTING PARTIES would be appropriately informed. Several members of the Working Party expressed the view that in that case the appropriate procedures would have to be followed.

III. Polish balance of payments with contracting parties

28. The Working Party heard additional clarifications and explanations by the Polish delegation regarding the data submitted to the Working Party on Poland's balance of payments with contracting parties, and noted that Poland's trade deficit with contracting parties had increased further in comparison with the preceding year. A substantial increase in loans and credits granted to Poland was also noted.

B. ESTABLISHMENT OF A DATE FOR THE TERMINATION OF THE TRANSITIONAL PERIOD
REFERRED TO IN PARAGRAPH 3(a) OF THE PROTOCOL OF ACCESSION

29. The representative of Poland renewed his proposal from earlier consultations that the transitional period be terminated on 31 December 1974 according to the letter and spirit of the Protocol, which provided for unconditional elimination of discrimination inconsistent with Article XIII of the General Agreement. Poland had exceeded her commitments, and the reluctance of some countries to agree to a date was distorting the balance of mutual rights and obligations of the parties to the Protocol and to the General Agreement. Many other members of the Working Party supported this view.

30. Representatives of some countries still maintaining restrictions inconsistent with Article XIII said that they too supported the determination of a terminal date for the transitional period. However, as there had been no change in the economic circumstances - inter alia the formation of Polish export prices - that were the justification for the restrictions, they were not in a position to fix a definite date for the total abolition of these restrictions. In any event, these restrictions would disappear over time as conditions permitted. For the same reason, i.e. that there were no new elements to be considered, they did not see any reason for a continuation of the consultation early in 1975; a meeting could always be convened at short notice if the situation should change. One of these countries reiterated its willingness to accept a solution along the lines suggested at the fourth review (paragraph 41 of the Report of the Fourth Review, BISD, 18th Supplement, page 209). Some other members of the Working Party indicated that they could not agree to a procedure which would involve the continuation of discriminatory quantitative restrictions after the end of the transitional period.

31. 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. In this connexion, the representative of Poland proposed that the seventh annual consultation continue early in 1975 to review the situation after the elimination of restrictions by the end of 1974 under some bilateral agreements which Poland

had concluded. Some other members of the Working Party supported the idea of a continuation of the consultation early in 1975. In accordance with paragraph 3(a) of the Protocol of Accession the question would have to be re-examined at the eighth annual review. The Working Party agreed that the eighth annual review could be held at an earlier date in 1975 after appropriate consultations.