

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## CONSULTATION WITH HUNGARY FIRST REVIEW UNDER THE PROTOCOL OF ACCESSION

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

1. The Council, at its meeting on 3 and 7 February 1975, established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the first consultation with the Government of Hungary provided for in the Protocol of Accession, and to report to the Council.
2. The Working Party met on 22-26 September 1975, under the chairmanship of Ambassador G.L. Easterbrook-Smith (New Zealand).
3. The Working Party had before it the following documents relevant to its work:

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

A. GENERAL

5. In an introductory statement the representative of Hungary summed up the developments of the trade between Hungary and the contracting parties (see Spec(75)25). Between 1973 and 1974 imports of commodity groups for which tariff concessions were granted on Hungary's accession to the GATT rose by 63.8 per cent. This growth was 27.6 per cent higher than the increase of all imports from contracting parties with market economies. In the course of 1974 the increase of Hungarian imports from GATT contracting parties with market economies exceeded considerably the rate of growth of total imports on the one hand, as well as the increase of Hungarian exports to market economy countries on the other hand. The rate of growth of Hungarian exports to GATT contracting parties with market economies was lower than that of the total Hungarian exports.
6. Moreover, in 1973 quantitative restrictions inconsistent with Article XIII affected 49 per cent of Hungarian exports to the European Communities. In 1973 the Communities, according to its notification, removed restrictions in respect of 1.2 per cent of Hungarian exports to the EEC under quantitative restrictions not consistent with Article XIII. Hungarian exports subject to discriminatory restrictions accounted for less than 0.5 per cent of the total world imports of the Communities in the same commodities. The European Communities applied discriminatory quantitative restrictions in a manner inconsistent with Article XIII of the General Agreement altogether to 305 tariff items (headings and sub-headings), of which no export from Hungary to the EEC took place as regards 137 items.
7. The Hungarian representative stated that the above-mentioned data did not include the Hungarian turnover in commodities which come under the scope of the Arrangement Regarding International Trade in Textiles (MFA) under the auspices of GATT. It was the position of his country that an understanding on these products should be reached in the framework of the MFA.
8. The Hungarian representative stressed that there had not been any notified case of market disruption caused by Hungarian exports in the period under review.
9. In this connexion, the representative of the European Communities, referring to the notifications submitted, which concerned quantitative restrictions specifically applied to Hungary (difference between Regulation EEC 1. 439/74 and EEC 109/70) stated that the number of quantitative restrictions to be examined by the Working Party amounted to 116 full headings and 92 sub-headings.
10. The representative of Hungary recalled that the terms of reference of the Working Party were to examine all quantitative restrictions inconsistent with Article XIII applied to Hungary.
11. The representative of the European Communities was not in a position to share this view since paragraph 4(c) referred to "discriminatory" quantitative restrictions.

12. In addition, the representative of the European Communities pointed out, for his part, that the Federation of Industries had recently voiced their concern to the Community authorities concerning the price conditions applied by Hungarian exporters and requested not only the maintenance but also the intensification of safeguards. In addition, in the course of bilateral discussions, the Community delegation had provided a number of indications concerning abnormally low prices applied by Hungarian exporters and mentioned a very recent case of prima facie evidence of dumping.

13. In this connexion the Hungarian representative reiterated that no notification had reached his authorities according to the existing contractual obligations between Hungary and the Contracting Parties. Should any market disruption case be notified according to the proper rules, the competent Hungarian authorities would comply with the procedures envisaged in the relevant provision for such cases.

#### B. HUNGARIAN EXPORTS

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

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

15. The representative of Hungary was of the view that his authorities had supplied all statistical information required under the Protocol. He noted that no member of the Working Party had requested further information concerning the trade statistics, although his Government had indicated as early as June 1975 its readiness to provide additional information (Spec(75)13). In the view of his authorities, it was clearly possible to determine a general trend of Hungary's exports based on figures for 1973 and 1974, and the geographical distribution did not require a country-by-country identification.

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

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

(d) Other questions relating to Hungarian exports.

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

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

18. The Working Party noted the notifications on quantitative restrictions submitted by:

European Communities  
Norway  
Sweden

19. The Hungarian representative expressed his satisfaction that a number of contracting parties, important trading partners to Hungary, had fulfilled their obligations under the Protocol as regards the elimination of quantitative restrictions not consistent with Article XIII and expressed his regrets that other contracting parties, important trading partners to Hungary, had not yet eliminated all the quantitative restrictions not compatible with Article XIII.

The representative of Hungary stated furthermore that contracting parties still maintaining discriminatory quantitative restrictions had in paragraph 4(c) of the Protocol undertaken the obligation to notify "measures adopted with a view to eliminating these prohibitions and restrictions". He noted that the European Communities had not fulfilled their obligation because only the elimination of restrictions had been notified. The elimination of restrictions was not identical with measures with a view to eliminate restrictions.

20. The representative of the European Communities was not in a position to share the views of the Hungarian representative as the liberalization measures are precisely aimed at the elimination of the prohibitions and restrictions referred to in paragraph 4(c). Furthermore, as regards the contention concerning the obligation to notify proposed measures which had been mentioned during the discussion, he stressed that, under the present legal system of the European Communities, only decisions made by the competent bodies could be notified as "measures" in the sense of paragraph 4(c) of the Protocol. Therefore, the European Communities had fully complied with the obligation to notify under the Protocol.

21. The representative of Hungary explained that he failed to understand the preceding statement made by the representative of the European Communities.

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

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

24. In reply the representative of Sweden said that social, economic and emergency planning considerations compelled the use of the restrictive measures in question. He also thought that quantitative restrictions on textiles should preferably not be dealt with in this context.

25. The representative of the European Communities, referring to the introductory statement of the Hungarian representative concerning quantitative restrictions maintained by the Communities, stressed that the restrictions in question had been progressively eliminated. Whereas in September 1973, 141 full and 115 partial tariff headings were affected, these had been reduced to 116 full and 92 partial tariff headings by March 1975. He furthermore stated that on 1 October 1975 processed fruits and vegetables would be liberalized. He added that the quotas had been increased by at least 15 per cent per year depending on the sector involved. He also said that the restrictions still being applied were necessary during the present economic situation in the European Communities which was characterized by recession, increasing unemployment rates and reduced exports. He added furthermore that the European Communities had formally proposed to Hungary a bilateral trade agreement which would have provided a framework for discussion and possible solutions of the problems as regards these restrictions. No official answer to this proposal had, however, yet been received from Hungary. The representative of the European Communities went on to explain that all aspects of the development of the Hungarian trade had to be considered in this context. Referring to official Hungarian sources, as well as published articles, he requested information as to the formation of Hungarian export prices, and in particular the operation of special multipliers and the rates of tax abatement. He called attention to the Hungarian system of subsidies, which, in the view of his authorities, constituted a permanent threat, which would increase once the Communities had eliminated their quantitative restrictions. He also requested information as to the total amount of Hungarian governmental subsidies and their distribution as to sectors and branches, noting that Law No. 6 of 1972 had provided that 27 per cent of the 1973 budget was allocated for aid to industry and that this had been expected to be doubled in 1974. He underlined that these subsidies should have been notified in accordance with Article XVI of the General Agreement, as provided for by paragraph 13 of the Report of the Working Party on the Accession of Hungary (L/3889).

26. One member of the Working Party which did not directly link its question to any specific section of the Protocol invited comment on a report attributed to a high Hungarian official that the dollar multiplier applied to exports and the rouble exports multiplier would be changed and that tax rebates and other schemes would soon be introduced to encourage exports.

27. The representative of Hungary reiterated that the progressive elimination of discriminatory quantitative restrictions referred to by the representative of the European Communities had affected only 1.2 per cent of Hungarian exports to the European Communities, which had been under quantitative restrictions not consistent with Article XIII on the date of the Hungarian Accession and, at that rate, another fifty or sixty years would be required to arrive at a definitive removal. He noted that the restrictions covered 305 items, out of which under

137 items no Hungarian export had taken place and some of which Hungary would never export, whereas other items were of considerable export interest to his country. The Hungarian delegation pointed to the fact that owing to the economic circumstances within the European Communities referred to earlier, the competent authorities of the Communities had not introduced any general import restrictions. Furthermore, the Hungarian representative pointed out that such economic difficulties as referred to by the representative of the European Communities conferred no right to any contracting party to take or maintain measures not consistent with Article XIII. No case of market disruption or threat thereof had been notified to his authorities. He stressed that adequate remedies were provided for such cases under Articles VI and XIX of the General Agreement, as well as under paragraph 5 of the Protocol. His authorities were fully prepared to discuss any such cases with a view to reaching adequate solutions. With regard to the reference made by the representative of the European Communities to a proposed bilateral trade agreement, the representative of Hungary stated that the European Communities and its member States had undertaken to take the necessary measures within the framework of the Protocol. Thus the offer of a new framework did not constitute the implementation of the obligations contained in the Protocol. Furthermore, the Protocol already stipulated the obligation to eliminate discriminatory quantitative restrictions and therefore there was no need for any additional agreement in this regard.

28. The representative of the European Communities stated that, of course, the offer to negotiate a bilateral agreement - which covers inter alia the problem of trade liberalization - was not explicitly provided under the Protocol. However, such an agreement drawn up in full compliance with all international obligations and, hence also with those deriving from the Protocol, far from being substituted for the latter, would, on the contrary, afford an additional means to further trade, thereby achieving one of the specific objectives outlined in the Preamble to the General Agreement.

29. The Hungarian representative stated that a full description of the Hungarian system of state refund and on tax allowances relating to export had been notified to the contracting parties during the negotiations for accession (Spec(72)52). Since this system had remained unchanged there was no need now for a renewed extensive discussion of the system itself. Referring to the statement of the European Communities linking the maintenance of quantitative restrictions not consistent with Article XIII against Hungarian exports with the system of Hungarian state refunds, the Hungarian representative reminded the Working Party that this system of state refunds was thoroughly examined by the contracting parties on the occasion of accession of Hungary to the GATT and that contracting parties still maintaining quantitative restrictions not consistent with Article XIII had undertaken to eliminate them in knowledge of this state refund system. It had been Hungary's understanding upon accession to the GATT that this system did not involve

subsidies falling under Article XVI of the General Agreement and that, accordingly, Hungary was under no obligation to make notifications under Article XVI. Nevertheless his authorities were prepared to give all relevant information as to the possible subsidy effect of the state refund system on a case-by-case basis under the procedures of paragraph 5 of the Protocol, where a contracting party could show that imports from Hungary had caused serious injury to its industry. He explained that the Hungarian state refunds amounted to Ft 11 billion in 1974, representing a decrease of 15 per cent from the previous year. The only effect that he could impute to this was an increase in the Hungarian imports by more than 50 per cent while exports had risen by only 12 per cent.

30. The representative of Hungary stated furthermore that his authorities had received several notifications according to which the elimination of quantitative restrictions not consistent with Article XIII of the General Agreement was an autonomous measure. The representative of Hungary stressed that the elimination of quantitative restrictions not consistent with Article XIII of the General Agreement was an obligation under the Protocol and therefore not a revocable autonomous measure.

31. The representative of the European Communities took note of this statement which he could not share. In fact, the only relevant point, should measures of safeguard be imposed, would be their consistency or otherwise with existing international obligations. Now, Community law expressly provides that such provisions must be complied with. Furthermore, the representative of the European Communities felt that knowledge of the economic system of Hungary at the time of accession did not result in reducing the effects of this system or, more specifically, those of the price subsidies at present applied by Hungarian exporters. In addition some new modalities had been introduced and the amount of subsidization had varied. It was therefore normal that information be provided regularly and as announced, so that the examination of measures of trade defence, hence also the problem of quantitative restrictions, could be examined in the light of such information.

32. The Working Party was informed of the following:

"Following a suggestion by the Chair which was met with unanimous agreement in the Working Party, the delegations of Hungary and the Communities have had a useful exchange of information.

"After recalling their basic positions already mentioned during the meeting of the Working Party and set forth above the delegations concerned felt that they had to focus attention on paragraphs 4(b) and 4(c) of the Protocol of accession of Hungary.

"While the notifications submitted by the Communities demonstrated that since Hungary's accession to GATT there has been a process of elimination of quantitative restrictions inconsistent with Article XIII of the General Agreement, it has been found jointly that the rate of elimination remained slow.



"In this connexion, the notifications submitted by the Communities have been examined in the light of the provisions of Article 4(b) by main sectors and as regards certain products. This examination has allowed an exchange of information concerning not only comparisons between prices for imports from Hungary or other third countries and Community prices, the social situation existing in certain particularly depressed sectors, production figures, etc. ... but also the various aspects of the liberalization problem.

"While agreeing that this exchange of information had cleared up many points, the Hungarian delegation regretted that it had been unable to obtain specific indications as to what measures should be taken in the future with a view to the elimination of quantitative restrictions.

"The Community delegation for its part felt that this bilateral exchange of views had enabled it to present the economic motivations justifying the exceptional reasons provided for in paragraph 4(b) and to give information concerning the question of the elimination of quantitative restrictions.

"Having noted the usefulness of such exchanges of view, the two parties felt that this could be a useful contribution towards the implementation of the Protocol of Accession of Hungary."

33. The representative of Sweden was of the opinion that the consultation had enabled him to present the motivations justifying the exceptional reasons provided for in paragraph 4(b) and to give information concerning the question of the elimination of the quantitative restrictions.

#### C. HUNGARIAN IMPORTS

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

34. The representative of the European Communities found that the Hungarian imports to the European Communities had evolved in a satisfactory manner. He maintained, however, the same observations as regards the deficiency of the statistics furnished by the Hungarian authorities that he had expressed previously during the review of the Hungarian exports.

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

(c) Other questions relating to Hungarian imports.

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

37. The representative of Hungary reiterated for his part the points of view that he had expressed earlier as regards the Hungarian system of State refunds and the legal remedies available in case of market disruption or threat thereof, and said that legal remedies were provided for in the Protocol, in the General Agreement, in the Multifibre Agreement and in the Anti-Dumping Code. He informed the Working Party that a specific tax was provided in Hungary to neutralize uneconomic effects on Hungarian export prices resulting from the import subsidies temporarily applied.

38. One member of the Working Party referred to a declaration made by a high Hungarian governmental official according to which Hungarian imports of consumer goods from Western countries were to be cut in favour of imports from the CMEA countries. The representative of Hungary reminded the Working Party that his country applied a global quota on imports of consumer goods from the dollar area. This quota had been increased during the previous years, and no change had taken place in this respect during 1975. In replying to the question put by one member of the Working Party as regards information gathered from a non-Hungarian publication, the Hungarian representative was not able to check the accuracy of the quotations, found some factual errors in the said article and undertook to communicate its findings on the subject to interested delegations. He reminded furthermore, that within the framework of the global quota on consumer goods, the consumer made their choice by commercial considerations only, where the price element in view of a steep rise in prices of goods coming from market economy countries could have played a rôle.

D. DEVELOPMENT IN HUNGARY'S TRADING REGULATIONS

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