

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## AGREEMENT BETWEEN FINLAND AND THE GERMAN DEMOCRATIC REPUBLIC

### Questions and Replies

1. The contracting parties were invited (documents C/M/110 and GATT/AIR/1246) to communicate to the secretariat any questions they might wish to put concerning the Agreement between Finland and the German Democratic Republic.<sup>1</sup>
2. In response to that request, a number of questions were received and were transmitted to the Delegation of Finland, which has subsequently transmitted to the secretariat the replies reproduced below:

#### I. GENERAL CONSIDERATIONS

1. Is the Agreement intended to form a free-trade area under Article XXIV of the General Agreement?

#### Reply:

Yes. It is the objective of the Parties to the Agreement, to establish a free-trade area as defined in GATT Article XXIV. The Agreement includes the methods and the time-table for the elimination of tariffs and other restrictions on substantially all trade.

2. The Preamble states that this Agreement shall not exempt "the Contracting Parties from the rights and obligations devolving upon them from other international agreements". What other international agreements are each of the parties subject to which might affect the direction, volume and value of their international trade? If any of these other international agreements obligate either party to export or import certain quantities of any commodity, either by value or by volume, would the parties provide specific information regarding these obligations?

#### Reply:

Finland. The Agreement does not exempt Finland from her rights and obligations under the General Agreement. The other international agreements to which the questions refer

<sup>1</sup>Copies of the text of the Agreement were sent to each contracting party with document L/4211.

would in the Finnish view be e.g. the free-trade agreements concluded by so far under Article XXIV of GATT. Finland has concluded no agreements that would oblige her to import or export specific quantities of any commodity, either by value or by volume.

German Democratic Republic is not a GATT contracting party.

3. Article XXIV:4 speaks of the "desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements". Would the parties explain how and to what extent this Agreement will bring about "closer integration between the economies" of Finland and the German Democratic Republic (GDR)?

Reply:

By the creation of a free-trade area, in accordance with the provision of Article XXIV of GATT, between the Parties to the Agreement, a closer integration between their economies will be brought about. The agreement will contribute to the increase of trade by intensifying international division of labour.

4. Have the parties to the Agreement taken into consideration the extent to which the mutual extensions of preferential treatment in the Finnish and GDR markets will affect third-country trade? What measures have been taken to minimize any adverse effect of the Agreement on third-country trade?

Reply:

The parties to the Agreement consider that the Agreement, by facilitating trade between two contracting parties of GATT, has a trade-creative effect from which also the third-countries will benefit.

5. By what means do the parties intend to ensure that mutual trade develops in a "satisfactorily balanced manner" as provided in Article 1(a)? How will this Agreement affect the current bilateral clearing arrangement?

Reply:

As implied in Article 1 the agreement as a whole is intended to contribute to a satisfactorily balanced development of trade. It is not the objective of the parties to the Agreement to develop their trade in a strict balance. The Agreement does not affect the existing bilateral payments arrangement, which is applied in a flexible manner to avoid restrictive effects to trade.

II. TRADE COVERAGE

6. The Agreement does not reduce barriers to trade for products falling in BTN Chapters 1-24 (agricultural products). What do the parties estimate would have been the impact on their respective agricultural sectors and barriers to trade in agricultural products been reduced to the same extent, and at the same pace, as were barriers to products falling in BTN Chapters 25-99, as provided by Article 3, paragraph 2?

Reply:

The average share of agricultural products in the trade between the parties to the Agreement was 0.004 per cent in 1973-75. This very low figure does not depend on the existence or non-existence of barriers to trade for agricultural products in the two countries.

7. In view of the fact that the Agreement covers only the products falling under BTN Chapters 25-99 and that Finland is allowed to maintain some quantitative restrictions on imports from the GDR under Protocol No. 4, what is the opinion of the parties to the Agreement on the compatibility of the Agreement with Article XXIV:8(b) of the General Agreement?

Reply:

The trade falling under BTN Chapters 1-24 and imports to Finland from the GDR under Protocol 4 of the Agreement are small enough not to affect the trade coverage of the Agreement.

8. Do the parties consider that they have fulfilled the requirement of Article XXIV that the Agreement eliminate barriers to trade in "substantially all the trade between the constituent territories in products originating in such territories" when both parties produce and export substantial quantities of agricultural products?

Reply:

Yes. See reply to question 6.

9. Does Protocol No. 1 obligate either party to take any action it is not now taking with regard to agricultural trade in general?

Reply:

No. An enlargement, if deemed necessary in the light of future developments, towards the agricultural sector, may be discussed between the parties to the Agreement at a later stage.

10. Article 1 of Protocol No. 1 states as its objective an expansion of trade in agricultural products on a mutually beneficial basis between the parties to the Agreement. What kind of concrete measures are envisaged?

Reply:

See reply to question 9.

11. Article 4 of Protocol No. 1 refers to "possibilities to enlarge the product coverage of the Agreement". What are these possibilities? Do the parties foresee the eventual inclusion of agricultural products among products for which customs duties and other barriers to trade will be eliminated?

Reply:

See reply to question 9.

12. Protocol No. 2 refers only to products exported by the GDR to Finland. Why was it not felt necessary to also specify certain products flowing from Finland to the GDR for special treatment? Does this not add an element of imbalance to the Agreement?

Reply:

The time-table for abolition of tariffs, set out in Protocol No. 2 concerns products which were considered sensitive and for which taking into account the very short duration of the general transitional period, a longer transitory period was considered necessary by the Finnish Party. The sensitivity of these products was determined mainly on the basis of such factors as the previous level of protection, expected increase in imports as a result of the abolition of restrictions to trade, etc. The German Democratic Republic considered that a transitional period ending on 1 July 1977 was sufficient.

13. Why was a more lengthy time-table for the implementation of tariff cuts and their eventual elimination of products in List 1 of Protocol No. 2 considered necessary? What distinguished these products from others which will enjoy duty-free treatment under the Agreement more than seven years sooner?

Reply:

See reply to question 12.

14. List 1 of Protocol No. 4 specifies a number of mineral and petroleum products on which Finland may retain quantitative restrictions. How will a "reasonable share" of the Finnish market for GDR exports of these products be determined? Over the past three years, what quantities of each of these products were imported into Finland, and from what supplier?

Reply:

As to the quantities traded see Annex 1.

The concept "a reasonable share" will have to be determined in the light of past import figures.

15. Could the parties to the Agreement indicate the total value of imports by the GDR from Finland for each of the three most recent years for which trade statistics are available? What are the corresponding figures for imports by Finland from the GDR? What percentage do they represent in total imports by the GDR and by Finland?

Reply:

See Annex 1.

16. In Finland's total imports from the GDR and in total imports by the GDR from Finland for the years mentioned above, what are the value and percentage of:

- (a) industrial products
- (b) agricultural products?

Reply:

See Annex 1.

17. With respect to the three most recent years for which statistics are available, what were the total imports by Finland of the products listed in List 1 of Protocol No. 2 and the imports of the same products from the GDR?

Reply:

See Annex 1.

18. What value and percentage of total Finnish industrial imports from the GDR fall under the extended duty reduction provisions of Protocol No. 2?

Reply:

See Annex 1.

19. With respect to the three most recent years for which statistics are available, what were the total imports by Finland of the products listed in List 1 of Protocol No. 4 and the imports of the same products from the GDR?

Reply:

See Annex 1.

### III. CUSTOMS DUTIES

20. Does the GDR apply a customs import tariff? If so, to what geographical area and what commodity category is it applied?

Reply:

GDR does not apply a customs import tariff.

21. Would the parties to the Agreement describe the "charges having an effect equivalent to customs duties on imports" which will be eliminated upon entry into force of the Agreement as provided in Article 5? Have they effectively been eliminated? Would the parties provide a list of those nations (or areas) whose imports will remain subject to such "charges" after this Agreement enters into force?

Reply:

No such charges exist in Finland nor in GDR.

22. Does the GDR apply import charges, or has it entered into any commitment under the Agreement that would favour imports from Finland?

Reply:

In accordance with Article 9 the GDR shall use the means provided by its economic system, which have a bearing on the access of Finnish goods to the market of the GDR in a manner which will provide for the Finnish exports advantages corresponding to those enjoyed by the exports of the GDR on the Finnish market as a result of the liberalization measures taken by Finland under this Agreement.

23. In reference to Article 6 of the Agreement, could the parties specify what is meant by "other internal charges on goods"?

Reply:

The wording "other internal charges on goods" is used with the view to guarantee that all charges similar to fiscal charges and other internal charges are covered by the Article, (e.g. excise taxes and taxes on passenger cars).

IV. FOREIGN EXCHANGE RATE MEASURES

24. In its external trade, the GDR applies "conversion coefficients" for converting national currency into the various convertible currencies. Is there one coefficient only, or different coefficients according to the commodity category? Does the coefficient (or coefficients) vary with time?

Reply:

According to information received from the GDR, no conversion coefficients are applied.

V. QUANTITATIVE RESTRICTIONS

25. What are the quantitative restrictions currently imposed by each of the parties that will be eliminated in accordance with Article 8? Which are bilateral?

Reply:

Finland. Pursuant to Article 8, the quantitative restrictions that existed in Finland against imports from the GDR were eliminated at the entry into force of the Agreement, except from those listed in List 1 of Protocol No. 4. All these quantitative restrictions were bilateral.

German Democratic Republic: GDR does not apply quantitative restrictions.

26. Have the parties to the Agreement eliminated quantitative restrictions in their trade, as provided in Article 8:2 of the Agreement? Are any other restrictive regulations of commerce in terms of Article XXIV:8 of the General Agreement, applied in trade between the parties to the Agreement?

Reply:

See reply to question 25. No other restrictive regulations of commerce are applied.

VI. SAFEGUARDS AND BALANCE-OF-PAYMENTS MEASURES

27. Article 10 refers to safeguard measures which the parties may use under certain circumstances. Besides withdrawal of tariff concessions, what other types of safeguard measures do the parties envisage would be used should safeguard

action be necessary? Would any of the safeguard provisions of the Agreement be applicable to "ensure the development of their mutual trade in satisfactorily balanced manner"? (Article 1.) What types of safeguards would each party consider appropriate under such circumstances?

Reply:

Besides withdrawal of tariff concessions, all measures, not inconsistent with the provisions of GATT, taken on the basis of the Agreement, may come into question. The circumstances which would justify the use of such measures are specified in Articles 10 and 12 of the Agreement.

28. Article 10 paragraph 1 refers to "disruption to the domestic market or production" in one contracting party caused by increased imports from the other. Could the parties explain the difference between disruption of the domestic market and disruption of production, with reference to both the GDR and Finland?

Reply:

Article 10 paragraph 1 shall be understood to be related to a process, which through increased imports from one contracting party into the other contracting party results or is likely to result in disruptions, either in the domestic market or in the production of a specific product.

29. Article 10 paragraph 2 of the Agreement states that safeguard measures may be taken by a contracting party if "serious disturbances arise in any sector of the economy or if difficulties arise which could cause deterioration in the economic situation of a region". Does this mean that safeguards could be introduced whether or not the disturbances or difficulties were attributable to imports from the other contracting party? What sort of safeguards are here envisioned, and would they be bilateral or non-discriminatory?

Reply:

No measures taken under Article 10 paragraph 2 may be applied to third-countries without a strict observance to Article XIX of GATT.

Disturbances that may result from the implementation of the Agreement will be settled within the confines of the Agreement.

30. To what situations could the safeguards authority under Article 12 paragraph 3 apply that would not also be covered by Article 10 paragraph 1 or 2?

Reply:

The provisions of Article 10 paragraph 1 of the Agreement are justified by the necessity to correct serious difficulties due to market disruptions, sectoral or regional disturbances, which might occur. Article 12 in turn may be

characterized as a frustration clause in relation to the aims of the Agreement. The provision of Article 12 paragraph 3 may only be implemented in accordance with the principles set out in Article 10.

31. What measures will the parties utilize to ensure that any safeguard actions taken, as provided for in the Agreement will not have the effect of discriminating against third-country exporters?

Reply:

See reply to question 29.

32. In case quantitative restrictions on imports are introduced by the Finnish Government for balance-of-payments reasons under Article XII of the General Agreement, are they also applied to imports from the GDR?

Reply:

Yes. All measures taken by Finland on balance-of-payments grounds will be applied in full conformity with the provisions of GATT.

#### VII. EXPORT MEASURES

33. Does the GDR apply export subsidies? Are there any special subsidies in cases where the foreign trade enterprises could not be profitable otherwise?

Reply:

According to information received from the GDR no subsidies are applied.

34. Does the GDR grant export premiums?

Reply:

According to information received from the GDR no export premiums are granted.

#### VIII. OTHER QUESTIONS

35. The plans of the GDR's foreign trade enterprises provide for centralized indicators of trade in goods (import and export) according to the principal countries, in quantity and value, for all products considered either "essential"

or "important" for the national economy. In the view of the parties to the Agreement can this system be deemed consistent with the principle of freedom of decision of the foreign trade enterprises which is the basis of a free-trade area under Article XXIV of the General Agreement?

Reply:

Finland cannot subscribe to the concept behind the question which seems to pre-suppose that countries with centrally planned economies are unable to conclude with countries with market economies free-trade agreements under Article XXIV of the General Agreement.

36. Article 9 of the Agreement calls on the GDR to use "the means provided by its economic system .... to provide for the Finnish exports advantages corresponding to those enjoyed by the exports of the German Democratic Republic on the Finnish market..." for goods covered by the Agreement. GDR goods on the Finnish market will be treated as equivalent to domestically produced goods after the transition period. What means will be used by the GDR to produce the same result?

Reply:

Such means provided by the GDR economic system which have a bearing on the access of Finnish goods to the GDR market may come into question.

The choice of these means and their application is left at the discretion of the GDR authorities.

37. In the view of Finland, which are the advantages under Article 9 of the Agreement what would not accrue to other countries?

Reply:

The Agreement creates a free-trade area in conformity with Article XXIV of the General Agreement. The consequential advantages under Article 9 will accrue only to Finland.

38. Given that Article 1 of the Agreement states that the objective is "to create better prerequisites for trade on the markets of the Contracting Parties in order to ensure the development of their mutual trade in a satisfactorily balanced manner", could it be explained why it was considered necessary to add Article 9?

Reply:

Article 1 of the Agreement states the objective of Agreement. Article 9 in turn explains how the German Democratic Republic will contribute to the achievement of this objective.

39. If a product exported from the GDR to Finland under the Agreement is in heavy demand by consumers, the volume of exports and/or the price will increase. Will the same thing happen in the case of a Finnish product exported to the GDR? If so, through what mechanism?

Reply:

In the view of the parties to the Agreement questions related to the internal price mechanism of the German Democratic Republic do not fall within the scope of an examination of a free-trade area based on Article XXIV of GATT.

ANNEX 1

Question No. 14

	1973	1974	1975
Total imports (tons)	18,536,573	19,681,575	18,488,605
Imports from GDR (tons)	55,046	59,370	76,635

Question No. 15

	1973		1974		1975	
	'000 Fmk	%	'000 Fmk	%	'000 Fmk	%
Imports from GDR	87,668	0.5	145,439	0.6	205,572	0.7
Exports (f.o.b.)	(92,061)		(106,896)		(161,004)	

Question No. 16

Imports from the GDR		1973		1974		1975	
		'000 Fmk	%	'000 Fmk	%	'000 Fmk	%
(a)	25-99	87,129	0.5	144,734	0.6	205,122	0.7
(b)	1-24	539	0.0	707	0.0	450	0.3

Question No. 17

Imports listed in List 1 of Protocol No. 2

	1973	1974	1975
Total imports ('000 Fmk)	3,074,470	4,602,316	5,078,509
Imports from GDR ('000 Fmk)	24,347	34,038	41,771
<u>Question No. 18</u>	27.9%	23.5%	20.4%

Question No. 19

	1973	1974	1975
Total imports ('000 Fmk)	2,080,820	5,519,652	5,337,384
Imports from GDR ('000 Fmk)	9,307	14,321	26,134