

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/89

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Limited Distribution

Committee on Balance-of-Payments Restrictions

1985 CONSULTATION WITH TURKEY (SIMPLIFIED PROCEDURES)

Background paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee in taking the decision referred to in paragraph 8 of this Declaration.

I. Turkey's last full consultation and subsequent simplified consultations

2. The last full consultation with Turkey took place on 30 October 1979. The Committee noted at that time that severe external payments difficulties had resulted in a sharp decline in imports of about 30 per cent in real terms in 1978. The Committee expressed the view that the adoption of a comprehensive programme to restore external and internal balance would permit Turkey to work toward a liberalization of the import régime. In this connection it noted with satisfaction the introduction of a stabilization programme and a new orientation in exchange rate, monetary and budgetary policy (BOP/R/107, page 10).

3. The last full consultation was followed by two simplified consultations in 1981 (BOP/R/120) and in 1983 (BOP/R/137).

II. The main changes in Turkey's trade policy since the last consultation

Import Authorization

4. At present there is a single category of items imports of which are subject to prior authorization from the Undersecretariat for the Treasury and Foreign Trade. Items that are not included in this category are imported without restriction. All imports paid in foreign exchange require import permits which are valid for six months.

5. A list of "prohibited items" established in the 1984 Import Regulation and comprising some 207 tariff lines was reduced to some 137 tariff lines and named "items imports of which are not permitted" in the 1985 Import Regulation. On 17 May 1985, the entire list excluding narcotic products, arms, ammunitions and parts, and products imports of which are explicitly prohibited under individual laws was transferred to the list of items subject to import authorization.¹

¹Official Gazette No.18757 of 17 May 1985, page 16.

6. The list of products subject to import authorization is issued with the annual Import Regulations. The Undersecretariat for the Treasury and Foreign Trade, which delivers import permits, may also introduce amendments to the list. Prior approval of other ministries in the case of imports subject to import authorization is no longer required except for imports of medicaments and pesticides and raw materials used in their production, which are controlled by the Ministry of Health and Social Aid and the Ministry of Agriculture, Forestry and Rural Affairs, respectively. The list for 1984 which initially contained some 370 items, was expanded in early 1984 to include 420 items and subsequently reduced again to its original level. The first 1985 import authorization list contained 517 items, 68 of which were transferred from the list of prohibited items of 1984, while 31 items subject to import authorization in 1984 were liberalized. As mentioned above, a further 127 items imports of which were not permitted prior to 17 May 1985 were transferred to the list of items subject to import authorization. On the same date, 22 items subject to import authorization were liberalized.

Housing Fund charge

7. An additional list of goods has been established in the import regulations for 1984 and 1985. It covers liberalized products which may be imported subject to the payment of a charge to the Mass Housing Fund, established to finance the Government's low cost housing scheme. The fund charges are paid in TL against \$ value and deposited in the Central Bank to be transferred to the Mass Housing Account at the Real Estate and Credit Bank. This charge, paid in addition to customs duties, is specified for each item in the lists. It applied to some 80 tariff headings and sub-headings at its introduction in 1984 and to a further 89 in 1985. The Undersecretariat for Treasury and Foreign Trade added 33 new headings and sub-headings, reduced the charge on 17 and increased the levels on 4 in several revisions of the list since the issue of the 1985 Import Regulation. About one third of the items in the list of items subject to fund charges at present may be considered as consumer luxury goods. Changes in Fund charges on other items may have been used for adjusting to fluctuations in external prices of these products. In general, Housing Fund charges are levied on a specific basis per tonne or per item, and a direct comparison of their incidence with Turkey's, ad valorem, customs duties cannot readily be made. Forty-two bound items in Turkey's GATT Schedule (XXXVII) cover products subject to the Fund charge. For about half of these, the currently applied tariff rate is considerably lower than the bound rate.

Import deposit

8. A non-interest-bearing guarantee deposit is required before issuing import permits. The rates at the beginning of 1985 were 15 per cent of the value of the foreign exchange requested for commercial importers, 7.5 per cent for imports by industrialists, public institutions and departments, and export trading companies, with special rate of 1 per cent on imports of fuel, corn, sugar, coal, fertilizers, raw materials for fertilizers, electric energy, vegetable oils, pharmaceuticals and raw materials, films for x-rays, tractors, harvesting machinery, trucks, buses, inputs for car assembly industry. The above rates were reduced by 75 per cent and 50 per cent, respectively, on 1 April and 1 August of this year. A further reduction of

25 per cent is foreseen on 1 December 1985. The sums deposited are refunded after customs clearance of the goods except where goods are not imported within the given time period, in which case 10 per cent of the value is transferred to the Fund for the Promotion of Exports.

Stamp Duty

9. A Stamp Duty levied ad valorem on the declared value of imports has been in force since 1963. A waiver from obligations under Article II of the General Agreement in respect of this duty was granted to Turkey in 1963 and was extended by seven subsequent Decisions until 1983. The incidence of the Stamp Duty was reduced from 25 to 1 per cent in 1981. Upon a request by Turkey in 1983, a further extension of the waiver to permit the maintenance of the Stamp Duty at 1 per cent was granted by the CONTRACTING PARTIES until 31 December 1985 (BISD 30S/11). The Decision of 21 November 1983 took note of Turkey's assurances that fiscal reform would soon enable Turkey to eliminate the Stamp Duty and stated, inter alia, that the rate of the Stamp Duty should not exceed 1 per cent of the value of the imported goods and that the continued application of the Stamp Duty should be accompanied by commensurate efforts by the Government to replace it by alternative measures. The duty was raised from 1 per cent to 4 per cent in June 1985. (See statement by Turkey.)

Other charges on imports

10. There has been no change in the application of the municipal tax, equivalent to 15 per cent of the applicable customs duty (see BOP/R/99, paragraph 14). The coverage of the wharf duty of 5 per cent (levied on the sum of c.i.f. value, customs duty, municipal tax and customs clearance expense) has been reduced in mid-1985. Whereas the production tax has been abolished in 1985, a special duty of 2 per cent of the c.i.f. value has been applied on imports, excluding investment goods, for price support and stabilization since 1984. Since December 1982, Turkey has levied an additional tax, presently at 5 per cent, on imports of a series of products, mainly iron and steel, from the EEC.

III. Recent trends in Turkey's economy and foreign trade

11. Turkey's real GDP grew by about 4 and 6 per cent, respectively, in 1983 and 1984. This growth was spurred by a rapid increase in the volume of both exports and domestic demand. The volume of final domestic demand increased by about $4\frac{1}{2}$ per cent in both 1983 and 1984. While consumption rose by about $4\frac{1}{2}$ per cent in 1983 and 5 per cent in 1984, the corresponding growth rates for total fixed capital formation were only 3 and 2 per cent respectively, mainly due to a decrease in the growth of public fixed capital investment from 2.2 per cent in 1982 to 1.8 per cent in 1983 and -0.3 per cent in 1984. Private fixed capital investment maintained its resurgence since 1982, growing by between 5 and $5\frac{1}{2}$ per cent in 1982, 1983 and 1984.

12. Agricultural output recovered by about 4 per cent in 1984 after having marginally declined in 1983. Manufacturing grew by 9 per cent in 1983 and 10 per cent in 1984. The services sector, which comprises almost half of

GDP, also expanded rapidly, at about $4\frac{1}{2}$ and 6 per cent respectively in 1983 and 1984. Despite these developments, unemployment increased in both years.

13. Inflation, measured by the wholesale price index, rose to 30.5 per cent in 1983 from 27.4 per cent in 1982, but then increased to about 50 per cent in 1984. The exchange rate of the Turkish lira with respect to the dollar fell by 28 per cent in 1983 and $38\frac{1}{2}$ per cent in 1984. This trend continued during the first six months of 1985 also, and by June the lira had depreciated against the dollar by $18\frac{1}{2}$ per cent compared to December 1984.

14. A $14\frac{1}{2}$ per cent increase in the volume of exports in 1983 was followed by an even stronger expansion ($23\frac{1}{2}$ per cent) in 1984. The volume of imports also increased rapidly (12 and $15\frac{1}{2}$ per cent respectively) in these two years. However, prices decreased for both exports and imports in 1983. As a result of lower prices, the dollar value of exports was virtually stationary in 1983 while that of imports increased only by $4\frac{1}{2}$ per cent. Prices of traded goods increased moderately in 1984, and the large increase in volume resulted in growth rates of 25 and 16 per cent respectively for the dollar values of exports and imports.

15. In 1983, significant volume increases were recorded for exports of several agricultural products, of manufactured foodstuffs, textiles and clothing, and ores, whereas exports of petroleum products declined and most industrial goods showed little or no increase. In contrast, in 1984 the volume of exports of manufactured products, excluding those of agricultural origin and refined oil products, are estimated to have increased by about 20 per cent. A substantial increase in 1984 was also registered for exports of refined oil products, wheat flour and oilseeds. Deliveries of several traditional Turkish exports either stagnated (fresh and dried fruits, hazelnuts, tobacco) or declined (wool, cotton, and especially wheat). Regarding the volume of imports, purchases of refined petroleum products, machinery and transport equipment increased significantly in 1983; for 1984, substantial increases were registered in the volume of imports of oilseeds and vegetable oils, chemicals, iron and steel, machinery and transport equipment, while imports of petroleum products fell by nearly 40 per cent.

16. Turkey's terms of trade marginally improved in 1984, following a 6 per cent fall in 1983. Despite this, and a stronger growth of exports in 1984, the deficit on the trade balance (f.o.b.-c.i.f.) increased slightly to \$3.6 billion from \$3.5 billion in 1983. The trade deficit for the first three months of 1985 has been reported to be \$655 million. According to balance of payments estimates, a surplus on the invisibles account resulted in a lower deficit on the current account of about \$1.8 billion in 1983 and \$1.4 billion in 1984. In the context of the current account, it is worth noting that a large portion of the invisible earnings are due to workers' remittances from abroad, which depend largely on the conditions in the labour market in West Europe and the construction sector in the Middle East. Turkey's total reserves, minus gold, were about \$1.3 billion in both 1983 and 1984, and were on average in the range of \$1 billion to \$1.2 billion in the first six months of 1985. The external debt service (after debt relief) was about \$2.6 billion and \$2.8 billion in 1983 and 1984 respectively, or $27\frac{1}{2}$ and 24 per cent of foreign-exchange earnings in these years. Similar amounts are also expected to be required for debt servicing in 1985 and 1986.