

GENERAL AGREEMENT ON

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NOTIFICATION UNDER PARAGRAPH 3 OF THE DECLARATION ON TRADE MEASURES TAKEN FOR BALANCE-OF-PAYMENTS PURPOSES¹

Poland - Introduction of an Import Surcharge

The following communication, dated 30 December 1992, has been received from the Permanent Mission of the Republic of Poland.

The Government of Poland, acting in conformity with the notification provisions of Article XII:4 of the General Agreement and pursuant to the relevant provisions of the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance of 1979, hereby wishes to notify contracting parties to the GATT, that on 17 December 1992 it instituted a surcharge on most of imports for the period until the end of December 1994.

Factual background

Poland is facing the threat of a significant deterioration in its balance-of-payments position in 1993, with potentially very serious adverse effects for the stabilization programme at the macro-economic level. As it has been recently determined by the International Monetary Fund, the balance-of-payments position remains substantially weaker than foreseen under the Extended Fund Facility (EFF) arrangement, an arrangement that sought a regularization of Poland's relationship with external creditors. Although developments in the trade balance position have been broadly in line with those anticipated in the EFF, this was achieved under conditions of a markedly weaker pace of economic activity relative to that foreseen in the EFF and in the absence of an agreement with commercial banks concerning debt servicing. The Government expects to reach an agreement on debt reduction with the London Club of Commercial Banks during 1993. The agreement will be financed in part by drawings from Poland's own international reserves. Insofar as international reserves are concerned, while the gains so far this year are satisfactory, they do not make up for the shortfall from the targeted path set out in the EFF.

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The imminent threat to the balance-of-payments position is substantially exacerbated by the present and projected effects of an unusually severe drought this year. It has had a large impact on crops, and is expected to have similarly serious consequences for animal production and net agricultural exports in years 1993-94. The output of grain is estimated to have dropped in 1992 by about 8 million tons or 28 per cent, and the output of potatoes by about 6.4 million tons, or 23 per cent. The output losses of these two commodities alone are presently valued at international market prices at US\$1.6 billion and will have to be made up by increased imports of grains and animal feeds. The output of meat and meat products is expected to fall in 1993 by about 0.5 million tons or 15 per cent, and by another 5 per cent in 1994. Consequently, the sales of meat and meat products are likely to decline, in the next two years, by about US\$1.4 billion at current international prices. Moreover, the output of milk and milk products is expected to drop by 8 per cent in 1993 and again by 5 per cent in 1994.

The value of Polish exports of food products was, in 1991, US\$2.4 billion, exceeding the value of imports of such commodities by about US\$0.5 billion. We expect net yearly exports in this category to fall by about US\$0.5 billion this year and by US\$0.5 billion in the years 1993 and 1994.

All these developments are thus expected to exert a strongly negative impact on the trade balance, through a combined effect of increased agriculture-related imports and diminished export revenues. The cumulative impact of the drought on the balance of payments is estimated to be about US\$2.5 billion for the period 1992-1994 (US\$0.5 billion in 1992, and US\$1 billion annually in 1993 and 1994).

Therefore, in order to forestall the imminent threat of a serious decline in Poland's foreign exchange reserves, the Government decided to respond to this contingency by introducing a comprehensive package of measures by the end of 1992 and during the next years.

One of the measures is a temporary surcharge to cover all imports except alcoholic beverages, tobacco products, fuels and automobiles, effective as of 17 December 1992. The exclusions listed above are due to the fact that the products concerned are already subject to relatively high border charges. The instrument used will be a turnover tax applied until the Value Added Tax comes into force in the second half of 1993. The surcharge will continue thereafter as a separate tax. The surcharge will be 6 per cent until the end of 1993 and 3 per cent in 1994. It will be discontinued from the beginning of 1995.

In taking this action Poland recognizes that no viable alternative options are available under the present circumstances, for the following reasons:

First, the high level of existing external debt calls for restraint in seeking new credit facilities which could be used to support the balance of payments.

Second, a severe depletion of foreign exchange reserves has to be avoided in order to maintain the debt-servicing schedule and safeguard the internal convertibility of the national currency which is crucial for the continuing liberalization of external trade and foreign investment in Poland.

Third, in any assessment of the underlying balance-of-payments position of the country, proper consideration must be given to the lingering effects of a severe and prolonged recession and to the need for Poland to build up its international reserves as it faces very substantial payments to its international public and private creditors over the next few years.

Fourth, in carrying out its domestic economic policies, the Government of Poland has already employed a wide range of generally recognized instruments aimed at securing the balance-of-payments equilibrium by alternative means. In particular, Poland had strongly devalued its national currency at the start of the present reform process as well as in its subsequent stages, and has been continuing to adjust the exchange rate to domestic price developments through the mechanism of "crawling" devaluation. While taking such measures, the Government of Poland wishes to maintain its policy of open access to convertible currency resources for all business sectors, so as to encourage their activities and promote the spirit of free enterprise.

GATT justification of the measures taken

The surcharge will be administered consistently with the procedures established under Article XII of the General Agreement and according to the Declaration on Trade Measures taken for Balance-of-Payments Purposes adopted by CONTRACTING PARTIES in November 1979, including the procedures for examination.

Poland's firm view that the surcharge described above meets the essential standards of consistency with the relevant GATT provisions and practices is based, inter alia, on the following features of this measure:

- (a) The restrictive impact on trade will be confined to what is considered necessary for meeting the stated objective of the measure, as provided for in Article XII:2(a).
- (b) The surcharge is to be applied to all imports covered by the measure, without preference or discrimination in respect of the type of goods or the source of imports, as required by Article XIII:1 of the General Agreement.
- (c) Consequently, the surcharge will not be used for the purpose of protecting a particular industry or sector, consistently with the forementioned 1979 Declaration.
- (d) The surcharge will be progressively relaxed and eliminated according to the schedule indicated above, in conformity with Article XII:2(b).

- (e) The measure is regarded by the Government of Poland as being potentially less trade disruptive than quantitative restrictions on imports or other similar measures, since it will not interfere with the policies aimed at giving all traders equal opportunity to engage in international commerce.
- (f) Poland is ready to abide by the obligations to consult under Article XII:4 and in accordance within the relevant GATT procedures.