GENERAL AGREEMENT ON TARIFFS AND TRADE

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TRADE POLICY REVIEW MECHANISM

POLAND

MINUTES OF MEETING

Chairman: Mr. A. Szepesi (Hungary)

93-0403

I. INTRODUCTORY REMARKS BY THE CHAIRMAN

1. The Chairman welcomed Council members to the first trade policy review of the Republic of Poland. He recalled that, pursuant to the CONTRACTING PARTIES' Decision of 12 April 1990 (L/6490), the Trade Policy Review Mechanism was intended to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties.

2. The Council was to base its discussion of Poland's trade policies and practices on two reports, one by the Government of Poland (C/RM/G/31) and the other by the GATT Secretariat (C/RM/S/31A and 31B). In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Poland on its trade policies and practices, as far as the factual content of the Secretariat's report was concerned.

3. Australia and Canada had given advance notice in writing of some questions that they intended to raise at the meeting. These points had been passed to the delegation of Poland in Geneva. The two discussants had also given the Polish delegation advance indication of the points that they intended to raise. In this context, the Chairman stressed the usefulness of providing questions in advance, as a means of helping the delegation under review to prepare for the meeting.

4. With respect to the procedures for the discussion, the Chairman asked participants to participate actively in the discussion. He advised members to put the emphasis in interventions on trade and trade policy related subjects. He suggested that the themes to be discussed might cover the following subjects:

(i) General objectives of Poland's economic and trade policies. This could cover questions relating to the development of the Polish economy since January 1990; the policy strategy currently implemented; expectations for the future direction of trade policies; the new legislation and institutions set up to guide the general deregulation of Poland's foreign trade; restructuring of State enterprises and privatization; price liberalization and reduction in subsidies; expected developments in the taxation system; movement towards full currency convertibility and the creation of modern, financial markets; the impact of transition on Poland's interests and involvement in the GATT and the Uruguay Round; relations with the EC, EFTA countries, former CMEA members including regional arrangements; and questions relating to market access for Polish exports in specific markets or for selected items, including agricultural

products, textiles and clothing, steel or products subject to anti-dumping action; and

(ii) Use of major trade policy and related instruments. Mechanics of trade liberalization and other trade-related changes undertaken since 1990; implementation of tariffs as the main trade policy instrument; the object and use of temporary reductions in customs duties; temporary import surcharges; the remaining export and import licensing requirements; anti-dumping, countervailing and safeguard legislation; questions of sanitary and phytosanitary regulations, and the formulation and implementation of standards in Poland; remaining clearing, countertrade and barter arrangements; and recent developments in the agricultural régime; the emerging rôle of the private sector in domestic output and foreign trade, measures undertaken to finance and promote Polish exports; and questions concerning developments in the formulation of sectoral policies in Poland.

5. The Chairman invited the representative of Poland to make his introductory remarks, to be followed by the two discussants, Ms. Anne-Marie Plate and Ambassador Jesús Seade.

II. INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF POLAND

6. Poland is pleased to have this opportunity to place the totality of its general trade-related policies and specific commercial policies under the GATT review. Ever since Poland has changed her political and economic system, this is indeed the first institutionalized, comprehensive confrontation of our experience and practices in this area with the official views of our trading partners within this institution.

7. May I express a genuine appreciation for the quality of the Secretariat's report. This professional, detailed and comprehensive document, together with the report submitted by Poland, provide an extensive factual background for the review. In the discussion we will refer to some assessments contained therein. Therefore, I confine my initial statement to only a few aspects in order to update the information provided in the reports.

8. First, some comments on the general economic conditions of Poland. As it is well known, we have taken a "shock-therapy" road in our reforms. The shocks have been very strong indeed. They manifested themselves in extremely high initial correctional inflation, in a prolonged and deep recession and in a significant level of unemployment. This is the price that must be paid if the reforms are genuine, that is when they aim at revealing all inherent weaknesses and inefficiencies of previous structures of the non-market economy in order to tackle them squarely.

9. It now appears that we are turning the corner. Since early 1992, the economy has been showing consistent signs of a gradual upturn in industrial output and in terms of all other major business indicators, particularly as regards private sectors. The volume of industrial production registered its first annual growth since 1989. Poland is the only country in the Central and East European region where industrial output rebounded in 1992. It is estimated to have increased by close to 4 per cent and is expected to continue such trend this year.

10. Industrial productivity per man-hour has grown at the rate of about 10 per cent in 1992. Inflation has declined from the average annual rate of 585 per cent in 1990 to around 50 per cent in 1992. The real value of our national currency remains remarkably stable in relation to internationally traded currencies, against which it is fully convertible in the domestic market.

11. The process of privatization is gaining momentum. Over the past two years some 2,100 large, State-owned enterprises (about 25 per cent of the total) have been covered by various stages of privatization. In 1993, this list is expected to be increased by between 1,500 and 2,000 entities. Between October 1990 and October 1992, the number of privately-owned, mainly small companies increased from 15,000 to 54,000, while the number of

other private businesses jumped from 813,000 to 1,532,000. In total, 58 per cent of the labour force is employed in the private sector, and the private economy generates over 45 per cent of GDP. At the same time, the number of firms and companies with foreign participation has grown from nearly 450 to about 8,500 in just two years.

12. Foreign trade continues to play a vital rôle in the transformation to a new system. The general policy approach to the foreign trade sector is based on three fundamental principles: the elimination of the State monopoly of foreign trade; unrestricted convertibility of the Polish zloty for current account operations; and very substantial liberalization of administrative restrictions on exports and imports. These three elements of the policy framework, fully implemented by now, have placed the foreign trade sector among the pace-setters of the overall liberalization of the economy.

13. The Secretariat's report suggests that there may be a reversal from the original thrust of such liberal trade policies. Indeed, compared to the initial phase of the reform, the Government takes a more active stand on trade policy matters. The principal reason is that one of the policy assumptions at the starting point of the reform in 1990 was that the deficiencies of the system can best be identified only when the economy is exposed to the full and unrestrained impact of external competition on a scale which even much more stable, efficient and affluent economies could hardly afford. Once such "soft spots" have been identified, the trade policy may follow a more balanced course, better adjusted to the realities of the international trading environment. The second important reason relates to the need to react to the existence of the "grey zone" in the Polish economy, by counteracting illicit trade practices which exploit existing loopholes in our liberal legal and administrative regulations and procedures. The planned labelling of cigarettes and spirits is an example of measures aimed at controlling the "grey zone".

14. The Government fully recognizes that Poland's trade framework should be based on GATT rules and disciplines. Consequently, one needs to emphasize that the collapse of the centrally planned economic régime and the effective introduction of the market system, have highlighted the irrelevance of the original terms of Poland's entry into the GATT to the new economic and political realities of the country. The GATT Working Party established in early 1990 to examine Poland's request for the renegotiation of the Protocol of Accession has conducted a thorough review of the economic and trading system of Poland and appears to be in the concluding stage of its work, which is now focused on negotiating a new schedule of commitments. May I reiterate that Poland's stated and firm objective is to base its GATT membership on such rights and obligations which are commensurate with the market-oriented nature of its economic and trading system and which would not deviate from the usual standards of membership, as applied to other GATT contracting parties. We sincerely

hope that this process will be completed early in 1993 and request full cooperation of our partners in its positive conclusion.

15. Poland's determined efforts to integrate into the mainstream of the international trading environment are also reflected in a new institutional pattern of external relations, particularly with European partners. Since March 1992, Interim Agreement on trade had become effective between Poland and the European Communities. It falls within a framework of a wider Agreement on Association which has been entered into by Poland with the ultimate objective of seeking full membership in the European Communities. The Interim Agreement has already resulted in a substantial liberalization of trade, although a number of EC restrictions still remain and are expected to be phased out only gradually and over a considerable length of time.

16. In December 1992, Poland and EFTA states concluded a Free Trade Agreement which is scheduled to become effective in the spring of 1993 and which brings immediate effects in terms of trade liberalization, with further positive continuation of this trend over the next few years.

17. Also in March 1993, the Central European Free Trade Agreement will start functioning between the Czech Republic, Hungary, Slovakia and Poland. According to its provisions, approximately half of all trade between the signatories will be duty-free already this year, with complete trade liberalization expected to be achieved within less than ten years.

18. Any regional arrangements may naturally provoke questions about possible trade-diversion effects. Indeed, the Secretariat report alludes to such situations. We believe that the trade-creation effect will dominate. Traditionally, over four-fifths of our total trade has been within the European region. This includes also our partners in ex-CMEA, where intensive efforts are made to restore trade in conformity with GATT rules. About 10 per cent of imports comes from developing countries, mostly under GSP preferences, and appears to be rather unsubstitutable. The remaining trade is conducted with non-European developed partners, who are presently involved in bilateral market access negotiations with Poland on products of their particular interest.

19. Turning to selected aspects of the trade environment, I wish to stress the right of domestic economic units to engage in international commerce. Under the old system this used to be the domain of State control. Now there are about 100,000 operators active in exporting and importing goods and services. The State continues to withdraw itself from direct involvement in trade. In 1991, about 20 per cent of hard currency exports and about 50 per cent of hard currency imports were attributed to the private sector. For 1992, these figures were most certainly substantially higher.

20. As regards market access, Poland maintains restraint in its use of non-tariff administrative measures. Import quotas and licensing apply only to a relatively short list of products, as indicated in both reports.

21. The elevation of the customs tariff to the rôle of the principal trade policy measure has revealed the sensitivity of economic operators to this policy instrument when we need to control inflation, combat recession and encourage effective restructuring of the economy, all at the same time. Only now, when the market signals are more credible, the necessary corrections in economic and trade policy tools, including border measures, may be based on more objective criteria. Our experience indicates that a radical systemic change requires occasional recourse to trial-and-error procedures in formulating and fine-tuning the policy instrumentation.

22. Under such circumstances, the authorities have been confronted with a need to use the customs tariff in a flexible manner, which implies some adjustments on a limited number of tariff rates, as well as occasional recourse to partial and time-bound suspensions in the collection of customs duties.

23. Poland intends to impart greater stability and predictability to its customs tariff. Consequently, a Uruguay Round market access offer is now in the final stages of preparation for industrial products, and well advanced for agricultural goods.

24. Liberal import policies and heavy losses sustained by our agriculture under the extremely adverse conditions of 1992, caused by the most severe drought in half a century, have taken their toll in terms of a worsening balance-of-payments position. In order to respond to this contingency, while safeguarding the internal convertibility of the national currency, a surcharge is being applied since mid-December 1992 to nearly all imports on a non-discriminatory basis. The measure has been notified under Article XII of the General Agreement.[1] The surcharge is imposed at the rate of 6 per cent in 1993 and will be equal to 3 per cent in 1994. It will be terminated at the end of 1994. The only products exempted from the measure are automobiles, fuels, alcoholic beverages and tobacco, where the present tariff and tax rates are already relatively high.

25. Poland looks forward to this trade policy review exercise in the expectation that it will encourage and assist our efforts to improve the direction, quality and GATT-consistency of economic and trade policies with a view to making them more effective in promoting the spirit of free enterprise as the centrepiece of Poland's reforms.

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[1] L/7164.

III. STATEMENTS BY DISCUSSANTS

(i) Statement by the first discussant (Ambassador J. Seade)

26. The first discussant commended the Polish authorities on their decision to carry out a radical market economy reform. Substantial results had been achieved, notwithstanding the difficult economic conditions that Poland had encountered in recent years. Inflation fell considerably, product supply improved due, in part, to import liberalization; dollarization of the economy was eliminated; private enterprises expanded rapidly; and the producing sector seemed to be emerging from recession.

27. The impact of these positive effects and their timeliness in the initial phases of transition depended to a critical extent on the degree of certainty of Polish and foreign economic agents concerning the durability of the policies in force. In this context he drew attention to the wholehearted, positive participation of Poland in the Uruguay Round and the renegotiation of its Protocol of Accession to the GATT on the basis of tariff concessions.

28. A matter for some concern was, however, the recent deterioration of the budget deficit, which had moved from minus 0.4 per cent (surplus) in 1990 to 4 per cent of GDP in 1991 and had been estimated at 6.5 per cent in 1992; this could undermine the credibility of the adjustment programme and make more difficult to control inflation.

29. Improvement of the situation required substantial administrative efforts, adequate programming and control of the budget deficit and precise definition of the economic accounting system for the public sector as a whole. It was virtually impossible to stabilize an economy without an efficient tax system: the tax system needed to be modernized in order to increase revenue. The introduction of a value-added tax would undoubtedly contribute to better and more efficient allocation of resources and to improved industrial efficiency.

30. The decline in GDP was, to some extent, explicable given the profound economic imbalances existing in Poland until 1989 and the resistance to introduce changes in the functioning of State enterprises. However, this situation seemed to be reversing.

31. The unfavourable trend in the economy was also attributable to dangerous factors of another kind. State enterprises, which were responsible for 70 per cent of industrial output, were still operating largely on the basis of regulations dating from before the reforms, to the detriment of efficient production. Furthermore, these enterprises and other foreign ones were bringing considerable pressure on the Government to resort to more protectionist policies in order to deal with the recession. It was crucial for the Government to resist such pressures firmly.

32. The trade liberalization process was slower or more limited precisely in those sectors in which Poland seemed to have a comparative advantage, such as textiles and clothing, steel and agriculture. It appeared that the Polish authorities were currently drawing up various plans providing for greater State intervention in the process of restructuring industrial undertakings.

33. In the context of the reorientation of Poland's foreign trade relations, in which the European Communities had come to occupy the central rôle, while increased trade with the EC was to be welcomed, Poland ought not to disregard its trade with other central and eastern European countries. In this connection, he expressed satisfaction over the free-trade agreement recently signed between Poland, Hungary and the new Czech and Slovak Republics.

34. There had also been a change in the commodity structure of Poland's exports, since trade in heavy-industry manufactures with the former CMEA countries had been replaced by trade in foodstuffs, agricultural products and chemicals. Nevertheless, the proportion of capital-intensive exports was still high, while the share of labour-intensive products, where Poland seemed to enjoy a competitive edge because of the high quality of its workers, was only 19 per cent.

35. The availability of underutilized Polish labour resources, together with Poland's geographical location, suggested that the establishment of in-bond industries might be attractive for Poland.

36. Foreign investment, although increasing in recent years, was still at a relatively low level. The reasons seemed to be, inter alia, frequent changes in tax and other regulations; uncertainty concerning the privatization programme; and the fact that financial and telecommunications structures were not highly developed. However desirable it might be to create the optimum environment for capital inflow and strive to promote it, there was always a risk in depending excessively on foreign financing to support investment programmes and economic expansion in general. Therefore, he wondered whether the monetary authorities of Poland were drawing up or envisaging programmes to encourage increased domestic savings to support the financing of its economic programme.

37. The Polish market-opening measures, which included substantial trade liberalization and the elimination of the State monopoly of foreign trade, together with major liberalization of the domestic economy, had doubtless contributed to improving the multilateral trading system. Largely as a consequence of this broad set of measures, and despite the recession in its principal foreign markets, Poland's exports had increased significantly in 1992.

38. Nevertheless - and this was worrying - the level of tariff protection in Poland had increased with the introduction of the new customs tariff in 1991, and other protective measures such as a system of levies and fixed purchasing prices were under preparation. These measures suggested that trade policy was partially being reoriented to serve objectives other than purely trade ones, such as fiscal and industrial objectives. It was also a matter of concern that Poland used sanitary and phytosanitary regulations as a method of controlling imports of certain agricultural products.

39. Furthermore, while tariffs were currently the main trade policy instrument in Poland, they were not bound; it was to be hoped that this situation would be remedied in the context of the Uruguay Round and the renegotiation of the Polish Protocol of Accession to GATT.

40. Poland had taken major steps to correct the serious imbalances in its development model resulting from 40 years of central planning. It was certainly on a sound track for changing into a market economy and achieving full integration into the multilateral trading system. The social costs of the structural reforms carried out had undoubtedly been high, but they had been necessary and inevitable. Consequently, the worst thing that Poland might do was to reverse its programme now. The recent adjustments were merely adjustments; and Poland could not be expected to cover all the remaining ground in a single step. The direction was right, the pace had been admirable, and the fundamental solidity and durability of the programme seemed to be beyond question.

41. At the same time, however, Poland's capacity to continue and deepen its economic reforms clearly needed a more favourable external economic environment, the friendly support and cooperation of other nations and, in particular, a successful conclusion to the Uruguay Round.

(ii) Statement by the second discussant (Ms. A Plate)

42. The second discussant commended the Government of Poland for the radical economic reform programme aimed at the transformation of the country into a market economy. As a result of reforms, formulation and implementation of trade policies had become de jure and de facto more transparent and predictable, i.e. the Parliament was responsible for adopting trade policy legislation, while the implementation of trade policy was the responsibility of the Government. Representatives of business associations were generally consulted on economic and trade policy issues of concern to them. She asked the Polish delegation to provide more information about the system of interest representation, and the scope of bargaining between the administration and large State-owned enterprises. She asked how powerful were pressure groups demanding favours for large State enterprises, including more protection against imports, and foreign investors calling for more protection for their products. She would be

interested to know the rôle of the Polish Chamber of Commerce in surveying trade policy implementation.

43. Another issue for clarification was the use of import quotas. The Minister of Foreign Economic Relations, jointly with the Minister of Industry and Commerce, was empowered to establish import quotas, based essentially on Articles XI, XII, XIX and XXI of GATT. Import quotas had been established for certain alcoholic beverages, cigarettes and petroleum products. The distribution of these quotas was made by the Ministry of Foreign Economic Relations based on specific criteria. What were exactly the criteria for the allocation of quotas? And how did companies receive appropriate trade permits granting them the right to apply for a quota share? A similar question could be raised regarding the zero-duty tariff quotas established in October 1992 for different sorts of wheat. How were these quotas distributed between importers?

44. In October 1992 the introduction of variable import levies on some agricultural products had been announced. However, the system and its product coverage was still under consideration. The reason for this proposal was the very strong competition with subsidized import products resulting from the substantial trade liberalization introduced in agricultural trade in 1990. For this reason, Poland had increased the tariffs for these products in 1991. She asked Poland to elaborate further on this issue and explain why, in addition to tariff increases, variable levies were being considered.

45. The functioning of State trading enterprises constituted another aspect of transparency. At present, it was stated that in Poland there were no State trading enterprises in the sense of Article XVII of GATT. She asked, however, for further clarification on the character of the Agricultural Market Agency (AMA) established in 1990; this Agency had certain features of a State trading entity.

46. It was welcome that under the reform of Poland's trading system tariff had become the main trade policy instrument. However, at this moment Poland did not have any bound tariffs, but was engaged in tariff negotiations in the context of the renegotiation of its GATT Protocol of Accession. For the sake of greater stability and predictability it was essential that customs tariffs were not used in a flexible way; frequent adjustment was to be avoided. Negotiations on Poland's GATT Protocol of Accession had to be pursued vigorously, and it was hoped that the Polish offer for market access in the UR would be submitted shortly.

47. The second discussant asked Poland to provide more information on the application of the turnover tax to domestically produced and imported goods and services as well as the possible introduction of a value-added tax in 1993 to replace the present turnover tax.

IV. STATEMENTS BY MEMBERS OF THE COUNCIL

48. Council members complimented Poland and the Secretariat for the high professional quality of their reports, which included valuable information and provided a good basis for the discussion in the Council. The discussants were thanked for their introduction to the debate.

49. Council members commended Poland for the consistent and radical market economy reforms introduced in January 1990 and the substantial results achieved in the first three years of the reform process. These results included a significant reduction of inflation, the internal convertibility of the Polish currency, wide-scale price liberalization and deregulation of the economy and the elimination of most shortages in the market. Participants welcomed the wide-ranging trade liberalization, which constituted an important element of the initial reform package. The high social and economic costs of the transition to a market economy were highlighted. Council members encouraged Poland to continue with economic and trade reforms in a consistent way and to resist protectionist pressure which might come from both domestic economic units and foreign investors. The importance of a favourable, supportive trade environment for the success of Poland's reforms was stressed. A number of participants noted Poland's positive rôle in the Uruguay Round and the importance of finishing the negotiations on the Polish Protocol of Accession to the GATT.

50. The representative of the United States noted that Poland had achieved substantial results in the transition to a liberal, free-market system. One of the most significant elements of the Polish reform programme had been the implementation of a foreign trade régime which had been, as of late 1990, one of the most open in Europe. However, it seemed that Poland had now lost some of its ardour for free trade and had moved towards increasing protection of its domestic industry. Current trade policy placed increasing emphasis on protection of infant industries and industries going through restructuring, as well as protecting minimum prices in agriculture through the creation of new trade barriers. Poland seemed to have gone through the worst of the recessionary process. The United States strongly supported the reform process, encouraged Poland to resist calls for a more interventionist economic and trade policy and urged the authorities to carry out rapid privatization of State-owned enterprises.

51. The United States supported the right of Contracting Parties to enter into free trade agreements. These were allowed under Article XXIV in order to "facilitate trade between the parties and not to raise barriers to the trade of other contracting parties". Their concern with the Polish-EC Association Agreement lay not with the Agreement itself, but with the manner in which it was being implemented. At the same time as Poland had lowered its trade barriers to the EC, it had raised its barriers to trade to third parties by raising its m.f.n. tariff rates. This might well

result in a deterioration of access to the Polish market for third countries and increase Polish dependency on western European products and technology. Therefore, the United States called upon Poland to resolve this situation through negotiating tariff bindings, within the framework of its Protocol of Accession, that would lower current m.f.n. rates. Another area of concern was the possible introduction of a variable levy on agricultural products.

52. In the area of intellectual property rights, some legal holdovers from the former régime created problems for foreign businessmen and created disincentives to trade and investment. The United States believed that the dependent patent compulsory licensing provisions of the newly-passed patent law were incompatible with the draft agreement on the trade-related aspects of intellectual property rights and Poland's obligations under existing international and bilateral agreements. Another area of concern was that the copyright law now under consideration by the Polish Government would not fully address the serious and growing problem of piracy in Poland.

53. The turnover tax was another instrument which did not lend itself to transparency. Although Poland had promised to replace this with a form of VAT, the turnover tax was still in place and created difficulties for importers. In December 1992, Poland had introduced a differential in the turnover tax, imposing higher rates on imports than on domestic goods. This made the turnover tax in effect a new duty, but it was not part of Poland's tariff schedule. He asked Poland to clarify how the turnover tax was implemented and to provide a copy of the turnover tax schedule.

54. The United States looked forward to working with Poland, on a bilateral and multilateral basis, to resolve some of the problems raised.

55. At the meeting the representative of the United States handed over the Polish delegation a number of written questions. Replies by Poland to these and other questions raised by other delegations are set out in C/RM/M/31/Add.1.

56. The representative of Hungary, while noting the important progress made by Poland towards a market economy, referred to the traditionally close ties between Poland and Hungary and the similarity of challenges both countries faced at present.

57. Hungary did not question the need for further liberalization and market opening in the longer term. However, she believed that in countries in transition, like Poland, transformation of the ownership structure and production pattern, as well as adjustment to the requirements of international markets, was necessarily a gradual process. During a transitional period, certain sectors of the economy or particular producers might need appropriate, though not undue, protection against imports, otherwise potentially viable sectors of the economy might be subject to

serious damages. A radical transition to a market economy might require substantial adjustments in trade policy instruments, including tariffs, before they reached their optimum shape. Poland maintained relatively few non-tariff trade barriers and the Polish authorities should be encouraged to refrain from having recourse to new restrictive measures of this nature.

58. The representative of Hungary drew attention to the unprecedented magnitude of the task ahead of the Polish Government in the field of privatization. This had to be carried out quickly in circumstances characterized by relative scarcity of domestic capital. Therefore, the pace of privatization did not depend exclusively on the willingness of the authorities or on the appropriateness of the relevant regulations. In the context of attracting foreign investments, she emphasized that granting favourable conditions of a non-trade distorting nature might be justified to attract potential foreign investors.

59. The major part of Poland's trade had traditionally been conducted within Europe. Thus, the fact that Poland had entered into Article XXIV agreements with the EC and EFTA countries, as well as with some central European partners, was more than understandable. It was Hungary's belief that this process would assist Poland in implementing its reforms. Some of the comments of the Secretariat's report with respect to the likely longer term impact of the EC Association Agreement appeared to be speculative and could not, in Hungary's view, be supported by facts. Poland's share in the Hungarian foreign trade turnover had reached an historically low level. Hungary took the view that implementation of the Central European Free Trade Agreement could help in restoring the traditionally intensive trading relations between the two countries.

60. She encouraged the Polish authorities to submit their market access offer in the framework of the Uruguay Round. This could help in the finalization of the bilateral tariff negotiations on the new schedule of Polish tariff commitments, as part of Poland's renegotiation of the terms of its Protocol of Accession.

61. The representative of Hungary stated that the future of such measures as the introduction of variable import levies on some agricultural products should be assessed in the context of the agricultural market access commitments of the Draft Final Act of the Uruguay Round. As to the import surcharge recently introduced by Poland, she requested more information about those developments which made the introduction of this measure necessary.

62. In conclusion, the representative of Hungary referred to Poland's unchanged status as a "State-trading country" under national anti-dumping legislations of some developed trading partners, despite the radical market economy reforms implemented by Poland. She asked what more should be done

by a contracting party to be discharged from this qualification and of its prejudicial consequences.

63. The representative of the Czech Republic noted that Poland's present Protocol of Accession to the GATT was obsolete. It reflected neither the real status quo nor Poland's contribution to the multilateral trading system.

64. It was, therefore, in the interest of all contracting parties to reshape the present wording of the Protocol by removing all the references to a non-existing political, economic and trade policy régime. In respect of the ongoing tariff negotiations between Poland and a number of contracting parties, he drew attention to the need for a spirit of compromise. The present "tariff credit" granted to a gradually restructured Polish economy would be paid back by medium and long-term benefits from healthier industries and agriculture. In some areas his country was strongly interested in seeing greater liberalization in the Polish import régime. In the context of the transition to a market economy, he stressed the importance of better market access for traditional Polish exports.

65. The new free trade area between Poland, Hungary and the two new successor states of the former CSFR was clearly a positive project. It would not be a step towards constituting additional barriers for the third countries but it would have a strong trade creative effect for all signatories involved, as well as for all GATT contracting parties.

66. The representative of Canada stated that despite the obvious problems, there were many positive signs of economic recovery in Poland which resulted from an aggressive commitment to market oriented reforms. In respect of specific Polish trade measures and instruments, Canada had a number of questions and comments, indicating concern that Poland might be backsliding from the bold initiatives of 1990 and that some recently agreed regional agreements undertaken by Poland would have trade-diverting effects.

67. The withdrawal of most tariff suspensions in August 1991, combined with the July 1991 amendment of the Polish Customs Law, shifting from f.o.b. to c.i.f. customs valuation, as well as the escalating nature of Poland's tariff structure all indicated a substantially increased level of protection and away from a commitment to trade liberalization. The shift to a c.i.f. customs valuation, in addition to raising the level of protection, also served to discriminate in favour of suppliers that were close at hand. He asked the Polish delegation to explain the rationale for these measures, and whether they were of a temporary or permanent nature. He also asked the Polish delegation to provide an update on the status of its negotiations with the various countries involved in the new Protocol of Accession being sought by Poland.

68. Other questions asked by the Canadian representative included the following: What steps had the Polish Government taken to ensure that measures taken to protect the Polish market against subsidized imports would not be seen by the Polish agricultural community as a mechanism to support artificially higher prices and avoid foreign competition? Why had recourse to anti-dumping and countervailing actions not been considered as the more GATT-consistent approach to dealing with subsidized imports? Could the Polish delegation outline further steps which were planned to encourage privatization in the Polish economy? What steps were Polish authorities taking to redress problems in their country's financial sector? Could the Polish delegation indicate what kinds of industrial policy approaches were being considered and what, if any, steps could be taken over the next year in this direction? Could Poland indicate what proportion of total trade was projected for barter/countertrade in the years ahead? Could Poland confirm that the value added tax had been put in place and that it would not discriminate against imports? Could the Polish delegation reassure delegations that special claims from foreign investors calling for discrimination against other producers would be rejected by Poland as GATT inconsistent? Could the Polish delegation explain the purpose of the recently announced import surcharges, and assure delegations that these surcharges would indeed be temporary?

69. Certain non-tariff barriers in Poland were a source of continuing frustration for Canadian exporters. These included phytosanitary standards which did not permit the import of goods containing food additives, including preservatives. In Canada's case, this rule had been taken to extreme limits, resulting in the banning, for instance, of antifreeze from Canada, though it was clearly not for animal or human consumption. Non-tariff barriers to trade with Poland were also frustrating in their lack of transparency. Canadian exporters often complained about difficulties with the Polish Customs Service and in understanding the reasons for decisions.

70. Canada had always supported regional trading arrangements, provided they were GATT consistent, were trade creating and that they covered substantially all trade. Canada's concern was that the Poland/EC agreement might result in a significant trade diversion from third countries, and that it did not cover substantially all trade. In particular, Poland's escalating tariff structure as of August 1991 for m.f.n. tariffs put third countries at a distinct disadvantage and was likely to result in trade diversion. At the same time, there is a whole range of products, including textiles, clothing, steel, and agriculture, which were not covered by the agreement. Could the Polish delegation explain how this arrangement could be considered as covering substantially all trade?

71. The representative of India stressed the importance of the Association Agreement between the EC and Poland and the entry into force of an Interim Agreement. While India was sympathetic to Poland's desire to establish

closer economic and trade relations with its major trading partners, he wished to reiterate the concern over a proliferation of arrangements, which might lead to a contraction of trade conducted on an m.f.n. basis. Apart from this general concern, because of Poland's relatively high and escalating m.f.n. tariffs, the free trade agreement was expected to result in trade diversion. Under the Interim Agreement, Poland established a duty free quota of 30,000 passenger cars, with a provision for annual increase in the size of the quota. The duty-free access provided to EC manufacturers, coupled with the increase in tariffs applicable to passenger cars and the introduction specific duties, would render supplies from third countries uncompetitive in the Polish market and would obviously result in trade diversion.

72. The representative of the European Communities stated that the Association Agreement between Poland and the EC was of fundamental importance for Poland. It reflected the close ties between Poland and the EC and their geographical proximity. The Agreement covered substantially all the trade between Poland and the EC. However, total elimination of trade restrictions would take more time in case of some sensitive products. The objective of the EC under the Association Agreement was to create a favourable external economic and trade environment for Poland. Even if the margin of preference envisaged by the Agreement was relatively high, this did not mean that access to Polish markets would be reduced for third countries. Rising living standards and the development of the Polish economy would benefit all trade partners of Poland. Statistical data for 1992 indicated that exports by the EC to Poland had dropped by 3.2 per cent while EC imports from Poland had increased by 12 per cent. These data demonstrated that the Agreement had beneficial effects on Poland's trade even at short term.

73. As a result of political and economic reforms undertaken by Poland, formation and implementation of trade policies had become much more transparent both de jure and de facto. However, it was to be regretted that, in the State enterprise and banking sectors, old pressure groups and decision-making structures had survived to the detriment of efficiency.

74. He drew attention to the importance of technology transfer to Poland and in this context expressed satisfaction over the liberal policy followed by Poland regarding the treatment of foreign investment. He noted, however, that in the last months of 1992 an upswing in protective measures had taken place in Poland. Frequent changes could lead to economic instability. In respect of the import surcharge introduced by Poland under Article XII of the GATT, he expressed understanding and believed that the consultation in the Balance-of-Payments Committee would prove the justification of this measure.

75. The representative of Japan expressed support for the Polish reform process. These efforts should be welcomed in the context of maintaining

and strengthening the multilateral trading system. However, some measures taken by Poland seemed contradictory to GATT provisions and principles. In the context of the Association Agreement with the EC, Poland had set an annual duty free quota of 30,000 passenger cars only for the EC. At the same time, it had raised customs duties on these products from 15 per cent to 35 per cent. These measures were considered to be inconsistent with paragraph 4 of Article XXIV of the GATT, prohibiting FTA members from raising barriers to trade of non-member countries, as well as with paragraph 5(b) of the Article. Moreover, the quota was expected to cover most of Polish demand for new imported cars; the introduction of this quota would initially exclude imports from countries other than member States of the EC. Japan believed that this measure discriminated against non-members of the agreement. Poland had no bound tariffs because it had acceded to the GATT without negotiating schedule of concessions. However, it was a matter of serious concern that Poland had raised the tariff rate on passenger cars just before the conclusion of the Association Agreement and treated third countries in a discriminatory manner.

76. Japan understood that Poland was pursuing economic integration with the EC in order to assist its economic reform. However, free trade agreements ought to be fully consistent with the GATT, open, and should not lead to the formulation of regional economic blocks and trade interests of third countries were to be fully taken into account. Japan strongly hoped that the Polish Government would quickly meet this concern and take necessary measures to rectify this situation. Until Poland brought its car-import régime into full conformity with the GATT, Japan reserved its GATT rights.

77. Since 1991, Poland had raised customs duties on a number of items and introduced import surcharges. In Poland, not only tariff rates but also trade-related procedures had been changed very frequently. Moreover, in many cases, sufficient prior notifications had not been made. Japan was concerned that these actions directly distorted trade with Poland and that lack of transparency, stability and predictability would cause unnecessary confusion among trading companies. In particular, Japan requested Poland to notify changes in the tariff rates sufficiently before their implementation.

78. The representative of Hong Kong expressed concern that, as from August 1991, the coverage of import licensing had been increased and new duties had been introduced in Poland. He asked whether these measures were temporary adjustments necessary for a transitional period or whether they were intended for the long term. Under the EC-Poland Association Agreement, there were tariff reductions on Poland's imports of certain products, including textiles and clothing, from the EC. Hong Kong, as a major exporter of textiles and clothing, was concerned about the possible trade diversion effect of the high tariff differentials. Hong Kong's trade

with Poland was still small at the moment but there was a lot of potential in further bilateral trade.

79. The representative of Australia expressed the hope that Poland, in spite of the difficulties faced in the transition process to a market economy, would continue with the reform process on which it had embarked. Originally, Poland's economic reforms had been based on the principle of a reduced State rôle in the economy, but recently there was a trend towards greater reliance on active State intervention in the economy. He hoped that Poland would soon return to reliance on automatic mechanisms. In this regard, Australia was concerned that Poland intended to introduce a system of variable import levies to protect domestic agriculture.

80. In the context of the EC-Polish Association Agreement, Australia would be concerned if increased assistance to Polish agricultural producers and increased pressure on global export markets due to subsidized Polish products or preferential access arrangements for Polish products led to trade being diverted from other sources, including Australia.

81. There seemed to be some inconsistency between Poland's actions regarding tariff concessions to the EC through the Association Agreement and its intention to raise tariff and some other barriers to the trade of third parties through its renegotiation of its Protocol of Accession to the GATT. He welcomed Poland's intention "to bind practically all tariff rates in the industrial sector", but noted that these negotiations could not be finalized until Poland had submitted offers regarding access to its market for agricultural products.

82. The representative of Argentina asked Poland to provide information on the coverage of its GSP system. He expressed concern about the variable import levy system on agricultural products, the introduction of which was under consideration by the Polish authorities. He asked Poland to provide more details about the elements of the system. He also asked Poland to give additional information on the state of its tariff negotiations with other contracting parties; the functioning of the Agricultural Market Agency, especially the range of products which were covered by its activities; the progress of privatization and the use of alternative privatization methods; and the implementation of Polish standards and other regulations regarding sanitary and phytosanitary measures in general and in particular in respect of high-quality processed meat.

83. The representative of the Republic of Korea noted that around 70 per cent of Poland's industrial production remained in the hands of State-owned enterprises and asked Poland what progress could be expected in privatization in the next couple of years. He also asked Poland to provide more information on the details of the import levy system to be introduced. Commenting on the high tariff differentials which had resulted from the Polish-EC Association Agreement, he asked whether the Polish Government had

any plans to reduce them. He expressed concern about the import surcharges introduced by Poland in December 1992 for balance-of-payments reasons and urged Poland to eliminate the surcharge as soon as possible.

84. The representative of Mexico urged Poland to join the Tokyo Round Code on Technical Barriers to Trade, to ensure that sanitary and phytosanitary measures were not used for protective purposes. He welcomed Poland's intention to sign the Government Procurement Code. In commenting on the law which gave right to the Polish Government to introduce import restrictions for reasons of trade policy or national interest, he asked how this provision could be justified in the light of Article XI of the GATT and how this provision was applied.

85. The representative of Switzerland urged Poland to bind its customs tariffs and asked the Polish representative to provide information on the country's intentions in this respect. Regarding the recently introduced import restrictive measures taken for the protection of the balance of payments, he asked Poland why certain consumer goods had been exempted from the measure. In the context of a slow down in the speed of the Polish reform process and the increase of border protection, he expressed the hope that Poland would not bow to protectionist pressures and slow down its economic integration in the international system. Therefore, Switzerland wanted to know whether Poland intended to maintain the original timetable of its reforms.

86. He asked about the views of Poland regarding the relationship between Article XIX of the GATT and the possibility of having recourse to voluntary export restraints. The homologation procedure for pharmaceuticals took 2-3 years in Poland; would it be possible to improve the procedure in order to reduce its protectionist effects? What did Poland do in order to prevent countertrade practices violating the m.f.n. clause and Article XIII of the GATT? He asked Poland to give information on the recently signed free trade agreements with the Visegrad countries.

87. The representative of Romania asked for information on the ranking of the legal order of laws, regulations and decrees in Poland; and the ministries and agencies responsible for drafting, adoption and implementation of trade laws and regulations. He asked whether any tradable product was still subject to State monopoly. He sought information on the tasks of the Trade Promotion Centre and the specific instruments at its disposal. He was also interested in the functioning of controls maintained with regard to capital transactions and fields in which foreign investment needed prior licensing.

88. The representative of Norway, speaking on behalf of the Nordic countries, said that through the signing of a FTA between the EFTA countries and Poland in December 1992, the Nordic countries intended to encourage and facilitate the integration of Poland into the European and

the world economy. There were indications that the trend to liberalize Poland's foreign trade régime had been halted or reversed. The introduction of a 6 per cent import surcharge last December, increased State intervention instead of automatic mechanisms, and seemingly reduced efforts to regulate State enterprises all indicated a move towards more protection. The Nordic countries were concerned about this new turn of events, especially if such a development were prolonged. Regarding the import surcharge introduced in December 1992 for balance-of-payments reasons, he sought further information from the Polish delegation.

89. The Nordic countries welcomed the fact that Poland was a party to the Anti-Dumping, Customs Valuation, and Import Licensing Codes, had signed the Subsidies Code, had stated its intention to sign the Government Procurement Code and asked Poland to indicate when this would be done. He asked Poland about its views and concrete plans regarding countertrade. In certain cases the manner in which the granting of a licence was decided might cause concern as to the principle of non-discrimination. Did Poland intend to maintain its present system with regard to oil products? If a further liberalization could be expected, what was the tentative timetable?

90. In respect of the still dominant rôle played by State trading enterprises in Poland's foreign trade, he asked the following questions: Would Polish authorities seek to regulate the rôle of State trading enterprises more explicitly in the future? What measure were foreseen in order to make the system more transparent? To what extent was a foreign exporter free to choose his partner in Poland?

91. Bureaucracy and time-consuming decision-making processes were still cited by many of Poland's trading partners as the main obstacles to trading with Poland. For example, slow decisions about tax reductions available to foreign investors were detrimental to the interest of foreign investors. He asked the Polish delegation to comment on measures foreseen to reduce the bureaucratic burden and facilitate important decisions.

92. The representative of Egypt sought information on the rationale for increasing tariff rates in 1991 and the policies intended in this regard for the future. He asked whether Poland's GSP scheme had changed; if so, yes, was it more or less favourable than before? What exactly was the product coverage and the level of tariff cuts or preferences? To what extent was it possible to reconsider items deleted from the scheme which were of special importance for developing countries?

93. The representative of New Zealand stated that an early binding of Poland's tariff lines under the GATT should remain a priority. It was to be hoped that the recent conclusion of an Association Agreement between Poland and the European Community, Poland's current negotiations on the conclusion of a similar agreement with EFTA countries, and its bilateral Treaty on Business and Economic Relations with the United States would help

further facilitate Poland's integration in the international trading environment. The intention of the Polish Government substantially to reduce m.f.n. tariffs from 1995 would be an important factor in counteracting the emergence of distortions which existed in terms of high tariff differentials.

94. The absence of a supportive external environment could slow down or even lead to a regression of Poland's liberalization programme, particularly in sectors such as agriculture. Externally, Polish exports faced subsidized competition and internally the domestic market was under severe pressure from subsidized imports. In the longer term, however, the economic arguments in favour of improving industry efficiency and hence long-term survival through exposure to competition applied equally to agriculture as in other industries.

95. It was in the best interest of the Polish Government to carefully review the implementation of border instruments and relief measures and for its trading partners to support Poland's reform efforts through market access and a limit to subsidized competition both externally and internally. New Zealand hoped that Poland would continue to liberalize its agricultural sector by removing import licences and other restrictions by Poland on imports of dairy products and lowering tariff duties on agricultural products from the current average of close to 30 per cent.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF POLAND

96. The representative of Poland, introducing the written replies given by his delegation to questions raised by discussants and members of the Council[2], summarized the main groups of questions identified in the discussion as follows: Readjustment of Poland's status within the GATT; observance of GATT disciplines, predictability, non-discrimination and transparency; trade policy and practices - liberalism versus protectionism; and Poland's participation in regional trade agreements.

97. As a result of the systemic political and economic transformations brought about in Poland since 1989, Poland's status within GATT had become obsolete. The decision of the Polish Government to renegotiate its status in the GATT reflected Poland's will to solicit the support of the contracting parties for the market-oriented reforms being undertaken. Poland's intention to accept the remaining Tokyo Round Codes would serve the same purpose.

98. The transformation of Poland's economy had highlighted the importance of observing such major GATT principles as predictability, transparency and non-discrimination in trade policies. This was, and would be an evolutionary process, though there was a definite and strong commitment by the Polish Government to pursue these principles. The introduction of new customs tariffs in 1991, Poland's involvement in regional trading arrangements and the beginning of the renegotiation of the Protocol of Accession had already visibly increased the predictability, transparency and non-discriminatory nature of Poland's policy.

99. Participants had highlighted an apparent revival of protectionist tendencies in the formulation of external and domestic trade policies, as contrasted to their liberal character at the beginning of the transformation process in 1990. In fact, such an impression might have resulted from the minor readjustments of the Polish customs tariff made after 1991 as a result of its relation to the international environment, and bearing in mind the absence of any non-tariff barriers. Poland's border measures were still, however, very liberal as a whole. Renegotiation of Poland's GATT status was expected to help stabilize trade policy and set it firmly on the road towards further liberalization.

100. Deeper involvement in the global system of free-trade nations was also a driving force behind Poland's participation in regional free trade areas such as the EC, EFTA and CEFTA, established in line with GATT provisions.

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[2] Issued as document C/RM/M/31/Add.1; the document was circulated within the Council meeting.

Trade creation under these agreements would surely offset any incidental trade diversion effects which might appear. Poland's participation in these FTAs with their clearly stated schedules of tariff reductions would again increase the predictability, stability and transparency of Poland's trade policies, thus creating a better environment for all GATT members trading with Poland within the multilateral system.

VI. OTHER STATEMENTS

101. Reacting to interventions made by members of the Council, the first discussant stated that recent protective measures introduced or reintroduced by Poland had to be viewed in a broader perspective. Poland had, within a very short period, made fundamental changes in its macro- and microeconomic policies, opened its economy and started a large-scale privatization programme. The main direction of Poland's reforms was clear, and the reintroduction of some protective measures had to be considered as temporary adjustments to quickly changing circumstances. Therefore, in that light, the measures themselves did not create a problem.

102. The representative of Egypt asked Poland to provide more detailed information on its GSP system.

103. The representative of Canada asked whether Poland had considered any changes in its legislation, or introduction of some incentives, to make privatization of State-owned enterprises easier and more attractive for enterprises. As to homologation procedures applied by Poland in the telecommunication sector, she stated that only a small number of products or systems had been approved for homologation. Recently, homologation procedures had been slowed down because an assessment on the Polish content of equipment had to be obtained. In other cases, homologation had been denied. She asked why Poland used homologation to limit the range of products to be used in the telecommunication sector.

104. In response, the representative of Poland stated that they were ready to provide more detailed information on Poland's GSP system directly to the representative of Egypt. Regarding homologation, he stated that the Polish telecommunications company was independent from the State, and decided itself which products it would use. Poland agreed that homologation should not be applied for the selection of products to be used in the telecommunications sector. State-owned enterprises were under an obligation to prepare their own plan of privatization for this year. Poland's tax on excessive wage increase constituted a negative incentive against State-owned enterprises.

105. The representative of the United States sought clarification on the extent to which Polish agricultural trade was dominated by State-trading enterprises. He also asked Poland to provide information on the intended time-span of the application of the variable import levy system on some agricultural products and explain the motivation behind the decision to introduce a levy system, which was more difficult to operate than certain other measures like special surcharges or tariffs. He also asked whether Poland intended to use direct agricultural subsidies in the future.

106. In reply, the representative of Poland stated that at present about 60 per cent of total imports were conducted by private enterprises, while

the rest was handled by State-owned enterprises. Within this 40 per cent, the share of agricultural products was about one-fourth. In exports, the share of State-owned enterprises was about 60 per cent. In the next two years, the trade share of State-owned enterprises would decline sharply. State-owned enterprises were independent entities and could not be regarded as State-trading organizations. The share of private enterprises in trade with the successor States of the Soviet Union was already higher than 50 per cent.

107. The representative of the European Communities stated that, according to their estimation, the proportion of State-owned enterprises in Polish industrial production was only 52-53 per cent, and not 70 per cent as indicated in the report of the Secretariat. He asked Poland to provide information on the expected share of State-owned enterprises in industrial production and trade in the next two to three years. He also sought information on Polish measures for the support of small and medium-sized enterprises.

108. In reply, the representative of Poland confirmed that, at present, according to official Polish statistics, the share of State-owned enterprises in industrial production was 70 per cent. This proportion was expected to decline to about 50 per cent by the end of 1993. In two to three years' time, about 80 per cent of industrial production would be in the hands of the private sector. The share of the private sector in exports of manufactured goods was expected to exceed 50 per cent by mid-1994.

109. The number of small undertakings had increased from 800,000 to 1.5 million. For the further development of such enterprises, there was need, inter alia, for a decline in real interest rates.

110. The representative of Japan requested further information relating to the compatibility of the new Polish car import régime, introduced under the Polish/EC Association Agreement, with Article XXIV of the GATT.

111. The representative of Canada asked why Poland did not use anti-dumping and countervailing duty measures against subsidized imports. He requested Poland to provide more detailed information on industrial policy and on links between foreign investments and the increasing level of import protection.

112. The representative of Poland stated that an industrial policy was being prepared. To this end, a number of sectoral studies had already been finished and others were under preparation. Based on a study on the steel sector, production capacities would be reduced. Polish industrial policy was based on the principles of competitiveness, market-orientation and a sectoral approach. There was an interdependence between industrial policy and trade policy.

113. Attitudes of foreign investors towards import protection were diversified. Some investors pressed for more import protection, while others aimed at abolition of tariffs and not at raising them. In the context of foreign investment, he noted that at the end - after a learning process - the Polish car quota under the Polish/EC Association Agreement was distributed on a non-discriminatory basis. Anti-dumping and countervailing duty measures on agriculture could not achieve the desired results; variable import levies were more effective, as demonstrated by the experience of a major trading partner of Poland.

114. In respect of establishing representative offices, the representative of the United States asked what Poland understood in the context of paragraph 144 of the report by the Secretariat under "insignificant companies" or "activities which are deemed disadvantageous for Poland". He also asked what imports were prohibited for phytosanitary reasons.

115. In reply, the representative of Poland stated that the legislation relating to trade representations, which was a remnant of the old trading régime, was under review. Under the new legislation, representative offices would require simple registration. Phytosanitary regulations were compatible with rules applied in other countries. In the last year, Poland had prohibited about 5 per cent of imports of seeds, because the products did not conform with the relevant Polish requirements.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

116. The reviews undertaken by the Council in the framework of the Trade Policy Review Mechanism aim to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. My closing remarks are intended to summarize, on my own responsibility, the salient points emerging from this review of the Republic of Poland. These remarks are not a substitute for the full discussion and assessment by the Council. This, including Poland's responses to points raised by participants, will be reflected in the minutes of the meeting.

117. In his introductory statement, the representative of Poland recalled that Poland had taken a "shock-therapy" road to reform. This had resulted in significant social costs, with initial high, correctional inflation, a deep recession and high unemployment. But it appeared that the corner was being turned, with industrial growth resuming in 1992 and other business indicators showing signs of improvement.

118. Foreign trade was vital in Poland's transformation to a market economy. Policies pursued from the outset, based on the elimination of the State monopoly of foreign trade, convertibility of the zloty for current payments and liberalization of administrative barriers to trade, recognized that deficiencies in the system could be best identified if the economy was exposed to the full and unrestrained impact of external competition. The Government now took a more active approach, particularly to counter illicit practices exploiting loopholes in the generally liberal structure of trade laws and regulations.

119. Poland believed that its trade framework should be firmly based in the GATT. It therefore sought a renegotiation of its Protocol of Accession which would be fully commensurate with GATT rules. Poland's international integration efforts were also reflected in the conclusion of bilateral agreements with European partners. The Association Agreement with the European Communities recognized Poland's aim to become a member of the EC; free-trade agreements concluded with the EFTA countries and with the Czech Republic, Hungary and Slovakia would soon come into effect. In this context, Poland was convinced that the trade creation effects of such agreements would dominate.

120. The establishment of the tariff as the main trade policy instrument had reflected the greater sensitivity of economic actors to market signals. During the transformation period, Poland sought to use the tariff flexibly, implying some adjustments on a limited number of rates as well as occasional use of partial, time-bound suspensions. However, Poland's aim was to institute a stable, predictable tariff structure in the longer term. For balance-of-payments reasons, a surcharge of 6 per cent on nearly all goods was imposed in December 1992, on a non-discriminatory basis. The

rate was to decline to 3 per cent in 1994, for elimination by the end of that year.

121. All participants stated their appreciation for the radical economic reforms undertaken by Poland. Many of the basic institutions of a market economy had been established and a substantial part of the economy was already functioning according to market principles. Basically sound macroeconomic policies were being complemented by deregulation, market opening and the first steps in implementation of a potentially far-reaching privatization programme. These measures had been undertaken despite an unfavourable international economic environment, including the virtual collapse of trade with the countries of the former CMEA. The resolute implementation of policies was beginning to bear fruit. Inflation had declined from 600 per cent to some 50 per cent in 1992; product supply had improved appreciably, due in part to import liberalization; dollarization of the economy had been eliminated; and, following a deep recession, industrial output had risen in 1992 and positive real growth of GDP was expected in 1993.

122. Council members strongly commended the trade liberalization that had taken place in Poland. The State monopoly and direct regulation of trade had been eliminated, and the private sector already accounted for some 60 per cent of imports. The tariff was now the main trade policy instrument; little use was made of import licensing, quotas or other measures.

123. Several members expressed, however, concern about the move towards greater protection shown in the tariff changes made in August 1991 and February 1992; the import surcharge introduced in December 1992; increased coverage of import licensing; and the planned introduction of variable levies in agriculture. Poland was encouraged to conclude the renegotiation of its Protocol of Accession based on bound tariffs, which would increase the stability of its trade régime and confirm its intention to found its trade system firmly on the rules and principles of the GATT. In this connection, Poland was urged to submit its Uruguay Round market access offer, which would provide further evidence of its increasing integration into the world economy.

124. Participants generally regarded Poland's recent conclusion of an Association Agreement with the EC, and free-trade agreements with the EFTA countries and the Czech Republic, Hungary and Slovakia, as positive developments; some members felt that the agreements could assist in the transformation of Poland's economy. However, there was concern that the agreements might lead to trade diversion. Some doubt was also raised as to whether, given the exclusion of most agricultural trade, the Association Agreement with the EC covered "substantially all trade" as required by GATT rules.

125. Participants raised a number of specific comments and concerns:

- Frequent changes in tariffs and other trade-related policy instruments, together with the absence of bound tariffs, a lack of transparency in distributing import quotas and granting import licences, and the existence of a substantial trade bureaucracy were negatively affecting the stability, transparency and predictability of the trade régime;

- Some members expressed the view that the process of transition to a market economy could imply the need for occasional temporary adjustments to the trade régime. However, other members expressed caution that the lack of stability implied by such adjustments could have a negative impact on both domestic and foreign investment. Poland was also urged to resist requests by pressure groups, including foreign investors, for trade protection on their output;

- It was noted that the introduction of a minimum price system covering some agricultural products and the proposal to create a variable import levy system in agriculture - whose appropriateness could be questioned - could harm the interests of Poland's trade partners;

- Poland was urged to make determined efforts to speed up the implementation of its privatization programme;

- Stress was laid on the need to strengthen the banking sector and other financial institutions;

- Poland was urged to introduce the proposed VAT system as soon as possible and eliminate the present turnover tax system, which lacked transparency;

- Some delegations expressed concern about the zero-duty tariff quota established under the EC-Poland Interim Agreement for imports of cars, which they regarded as discriminatory and restrictive; and

- Poland was encouraged to increase the number of standards based on internationally accepted norms; to liberalize restrictive aspects of its type approval procedures in the pharmaceuticals and telecommunications sectors; and to join the Tokyo Round TBT and Government Procurement Codes.

126. Information was also sought on the evolution of the budgetary and balance-of-payments situation; the nature of any possible industrial policies that might be under consideration; the consistency of Poland's safeguards legislation, particularly in relation to voluntary export restraints, with Article XIX of GATT; Poland's approach to anti-dumping and countervailing measures; the scope and content of the agreements concluded with the Czech Republic, Hungary and Slovakia; the coverage of

Poland's GSP scheme; the range of trade promotion activities operated by Poland; the functioning of the Agricultural Marketing Agency; the rôle of State-owned enterprises in international agricultural trade; the use of sanitary and phytosanitary regulations to restrict imports of certain farm products; the rôle and share of countertrade in Poland's foreign merchandise trade; the operation of bankruptcy law, particularly in relation to State-owned enterprises; and the level of foreign direct investment, measures taken to encourage it, and areas still subject to prior licensing requirements or other restrictions. One delegation raised the question of the compatibility of certain new laws with international obligations on intellectual property and expressed concern that a proposed copyright law would not fully address the problem of piracy.

127. In response, the representative of Poland said that Poland intended to conclude the renegotiation of its terms of accession to the GATT, and accept the remaining Tokyo Round agreements, in order to support the market-oriented evolution of its trade policies. Poland attached importance to the major GATT principles of predictability, transparency and non-discrimination in trade policies. The renegotiation of Poland's GATT Protocol of Accession, and the country's involvement in regional trading arrangements, contributed to its observance of these principles.

128. Readjustments in Poland's tariff in August 1991, and subsequent modest changes, should be seen in relation to the radical liberalization of trade policies undertaken in 1990 and the virtual non-existence of non-tariff barriers in Poland.

129. Participation in regional agreements should also be gauged in the context of Poland's greater integration in the world economy. Poland believed that the trade creation resulting from such agreements would greatly outweigh any trade diversion effects and contribute to the predictability, stability and transparency of Poland's trade policies.

130. Detailed written answers were provided by Poland to questions asked in the meeting, and will be attached as an Annex to the Minutes. These covered trade policies and practices in relation to the GATT system; agriculture; and general economic considerations, including financial questions.

131. Import licensing was mainly transitional in nature. Further tariff reductions for industrial goods would generally follow the market access commitments of the Uruguay Round; tariff concessions would be bound and hence subject to GATT disciplines. All trade in industrial products with the EC, EFTA and Central European countries would eventually be free under the respective agreements, while trade in agricultural products would be substantially liberalized. The text of the agreement with the EC had been circulated; those of the other agreements would be circulated after their ratification. Poland's bilateral market access negotiations in the context

of the renegotiation of its Protocol of Accession should alleviate third party concerns. The duty-free tariff quota for motor vehicles imported from the European Communities was available to all EC suppliers, and the issue could be taken up in the Working Party on the Association Agreement. Approximately two-thirds of State-owned trading enterprises had been privatized or were in the process of privatization, which was expected to be completed in 1994. More generally, Poland expected to privatize half of its previously State-owned sector by 1994; in this context, Poland was in the process of rethinking its industrial policy stance, linked, inter alia, to the privatization process. Countertrade was estimated at about one-fifth of total trade with former CMEA countries; mainly small companies were now engaged in countertrade with the former republics of the Soviet Union. Poland did not officially encourage such trade, but did not restrict the freedom of companies to operate in this way. Poland had ratified the Anti-Dumping Code and intended to ratify the Customs Valuation Code, whose principal provisions had been incorporated into Polish law; the shift from f.o.b. to c.i.f. valuation was consistent with the Code. However, there were no immediate plans to sign the Government Procurement Code, for lack of adequate domestic legislation; new legislation was in preparation. Detailed answers were given regarding import and tariff quotas on fuels, tobacco products, wheat and barley. Poland's telecommunications homologation system was non-discriminatory and non-restrictive; the choice of products was the responsibility of the telecommunications company. Type-testing of pharmaceuticals was handicapped by technical constraints.

132. The plan to introduce variable levies in agriculture was still under discussion. Questions such as the threshold price and domestic reference prices were yet to be determined. The product coverage of such levies would be much smaller than in other countries applying similar measures and the planned effective rate of protection was expected to be low. The Agricultural Market Agency had been successful in stabilizing prices for grains, milk, meat and sugar; however, expansion of its activities was not envisaged. To offset the effects of the drought, zero tariffs or tariff quotas were introduced for a number of items and temporary export bans or restrictions were introduced for others. Poland's sanitary and phytosanitary regulations were applied on a non-discriminatory basis.

133. Poland was committed to the introduction of a full-fledged market economy. At the same time, the reform process had to take into account internal and external constraints, such as high unemployment, the effects of recession, and unfavourable external economic conditions. Internal convertibility of the zloty and trade policy liberalization were key elements in macroeconomic stabilization. The temporary import surcharge was necessary to forestall the imminent threat of a substantial deterioration in the balance of payments, and had been notified to GATT. Major tax reforms were underway; corporate income tax was applied to legal persons from 1990 and personal income tax to individuals from 1992.

Turnover tax would be replaced by VAT in July 1993 at rates of 7 and 22 per cent, while the system of taxation for tobacco and excised products would also be reformed. Details were given of reforms envisaged for the banking sector, provisions for bankruptcy in the State-owned enterprise sector and for the privatization of such enterprises. Foreign investment licensing was required in only four areas: seaports and airports, wholesale trade, real estate and legal services. No direct controls were applied to wage rates. All decisions by State-owned enterprises were taken independently, and such enterprises enjoyed no special privileges.

134. Members of the Council expressed their admiration for the scope and pace of the fundamental economic reforms undertaken to date by Poland, and its achievements so far in progress towards a market economy. Poland's sacrifice and determination appeared to be showing initial results in terms of resumption of economic growth and development. Members encouraged Poland to continue a consistent policy of macro- and microeconomic reform, to pursue open, stable non-discriminatory trade policies and to resist all protectionist pressures. The agreements concluded by Poland with European trading partners were welcomed; at the same time, many felt that steps should be taken to minimize any trade-diverting effects vis-à-vis third parties. It was emphasized that Poland's Uruguay Round market access offer could make an important contribution to the predictability, stability and non-discriminatory nature of Poland's trade policy. It was also stressed that, for a successful transition to a market economy, a more supportive external trade environment was crucial; in this respect, a successful conclusion to the Uruguay Round would play a major rôle.