

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

L/7186/Add.2

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FREE TRADE AGREEMENT BETWEEN THE EFTA STATES AND TURKEY

Questions and Replies

Addendum

Documents L/7186 and L/7186/Add.1 contain joint replies of the Parties to the questions they received following the invitation in GATT/AIR/3339 of 20 July 1992. The replies set out below were prepared by the Parties to the Agreement in response to a number of additional questions that were addressed to them during or after the second meeting of the Working Party on 4 June 1993.

1. GENERAL

1.1 Question

What percentage of the total trade of each Party to this Agreement is presently covered by all the preferential trading arrangements it is a party to? That is to say, in the case of Sweden, for example, what percentage of the total trade of Sweden is covered by all the preferential trading arrangements that Sweden is a member of, such as EFTA, the FTA between the EFTA States and the Czech Republic and the Slovak Republic, and the free trade agreements between Sweden and the Baltic States?

1.1 Answer

The question is out of the scope of the mandate of this Working Party. However, the information, being publicly available in e.g. U.N. Comtrade, can be made available by the EFTA countries to interested delegations on a reciprocity basis, or such information could be provided by the GATT secretariat concerning all contracting parties.

1.2 Question

A free trade agreement, once implemented, provides a level of tariff preference to and among the Parties to the Agreement if there are still tariffs applied to third parties.

As a result of other agreements with other trading partners, one or some parties to an FTA may extend margins of preference to third parties. With the recent entry into force of the EEA and the possibility that some

or all current EFTA members will join the European Community, a number of questions arise concerning this FTA, the EEA, and the EC:

- Could the Parties to the Agreement discuss how the overlapping tariff preferences granted by EFTA and Turkey to the EC as well as to each other will mesh? How do these FTA agreements provide or allow for margins of preference granted to third parties, e.g. the EC? How do the rules of origin work and interlock?
- What benefits will EC trade with certain EFTA countries receive under this FTA as a result of the establishment of the EEA?
- How will tariff reductions by the Parties to the Agreement in connection with the Uruguay Round affect the level of preference granted to the Parties? Will the level of preference decline, or will an absolute percentage margin of preference be maintained?
- Does the Agreement require that a margin of preference vis-à-vis third countries be maintained when the safeguard provisions are invoked? Will the Parties to the Agreement observe the provisions of Article XIX in the application of safeguard measures that involve third country trade?

1.2 Answer

- The EFTA-Turkey Free Trade Agreement establishes a free-trade area in products covered by the Agreement, and no margins of preference have been fixed vis-à-vis third parties as there are no common external tariffs among the Parties to the free trade agreement.
- The rules of origin laid down in Protocol B to the EFTA-Turkey Agreement function in the same way as in all other EFTA free trade agreements, i.e. the Stockholm Convention establishing EFTA, the bilateral EFTA Free Trade Agreements with the EEC and the Free Trade Agreements concluded between the EFTA countries and certain other third countries. Since the EC-Turkey Association Agreement is aiming at establishing a customs union, there is no need for preferential rules of origin, and there is no link between the Association Agreement and the EFTA-Turkey FTA in respect of the rules of origin. Reference is made to answer 3.1 in document L/7186/Add.1.
- There are no direct benefits to EC trade with EFTA countries from the EFTA-Turkey FTA as a result of the establishment of the EEA. Reference is made to answer 1.11 in document L/7186/Add.1.
- Possible tariff reductions by the Parties to the Agreement in connection with the Uruguay Round will diminish the level of preference as any other cut in the m.f.n. tariff rates.

- The Agreement does not require that any margin of preference vis-à-vis third countries is maintained when a safeguard provision is invoked. According to Article 23:4 of the Agreement, safeguard measure can also be taken by one signatory state against another signatory thus not affecting the trade with other signatories to the Agreement. Provisions of Article XIX are observed in application of safeguard measures by individual parties, but nothing in the Agreement prejudices the interpretation of the relationship between Article XIX and Article XXIV:8 of the General Agreement. Reference is made to answer 11.2 in document L/7186/Add.1.

2. SCOPE OF THE AGREEMENT

2.1 Question

In response to question 2.1 of document L/7186/Add.1, the Parties have indicated that they have met the GATT Article XXIV(8)(b) obligation that the Agreement covers "substantially all the trade". Could they please indicate what percentage of their trade, between the EFTA States, on the one hand, and Turkey, on the other, is in products falling within Chapters 1-24 of the Harmonized Commodity Description and Coding System? What percentage of trade between EFTA States and Turkey is covered by the separate bilateral agreements and agriculture?

2.1 Answer

14.2 per cent of the total trade between EFTA and Turkey is falling within HS Chapters 1-24.

7.4 per cent of trade between EFTA and Turkey is covered by bilateral agricultural agreements. (1991 data)

3. CUSTOMS DUTIES ON IMPORTS AND CHARGES HAVING EQUIVALENT EFFECT

3.1 Question

- We note that the Agreement does not provide for immediate duty free treatment or duty reductions by Turkey to EFTA countries and that the question of further reductions is within the responsibility of the Joint Committee.
- Are further duty reductions planned? If so, when?
- If not, why not?

3.1 Answer

No further duty reductions are planned for the moment, but the Joint Committee can decide on amendments to the Annexes and Protocols to the

Agreement at any time, if so agreed. Amendments to the bilateral agricultural arrangements are agreed between the two signatory States in question. The Parties to the Agreement will duly notify any substantial changes to the Agreement, including further duty reductions. Reference is made in document L/7186/Add.1.

3.2 Question

Turkey applies a number of non-tariff import charges, e.g. the Support and Price Stabilization Fund Tax, the Transportation Infrastructure Tax, municipal taxes on imports, and the Stamp and VAT taxes.

- Does Turkey apply these measures to imports from the EFTA countries under the FTA? If so, which ones?
- Was Article 6 of the Agreement applied to any such charges when the FTA came into effect?
- Did Turkey maintain any quantitative restrictions on imports that were eliminated or modified towards the EFTA countries as a result of the Agreement? What measures, if any, were applied by the Parties to the Agreement that were subject to Article 7?
- To the extent that any Article 6 or 7 measures are still in effect vis-à-vis third parties, can we expect that these measures will be eliminated for all trading partners, not just Parties to the Agreement?

3.2 Answer

This question has already been answered in document L/7186/Add.1 and in oral explanations given by the Turkish representative in the second meeting of the Working Party.

3.3 Question

We understand that import taxes and border charges, such as the Support and Price Stabilization Fund and the Stamp Tax were eliminated on 1 January 1993. Our information indicates that Turkey's former six types of border charges were eliminated, but were replaced by a single import surcharge.

- Is this information correct? If so, please explain the nature of the surcharge and the terms of its application.
- Does the import surcharge apply equally to all trading partners? Are EFTA countries exempt under this Agreement from the import surcharge?
- We request a listing of all non-tariff import measures (charges and quantitative restrictions) that are applied to third

countries and not to intra-FTA trade. This request is made in the interest of transparency.

3.3 Answer

In the current trade regime of Turkey, the only remaining import tax in addition to the customs tariff is the Mass Housing Fund. This import levy covers about 16,000 items under the new import regime. The rate of the Mass Housing Fund, which is based on the c.i.f. import value, differs according to the product and thus its effect on imports is not the same for every single product. The Mass Housing Fund is charged on a non-discriminatory (m.f.n.) basis.

With the current import regime of Turkey all non-tariff measures were eliminated.

(Reference to document L/7186/Add.1).

4. STATE MONOPOLIES

4.1 Question

- How can the provisions of Article 9 relating to the adjustment of the trade impact of state monopolies be reconciled with obligations under Article III vis-à-vis third countries?
- Are the "state monopolies" referred to in this Article all notified as required by Article XVII of the GATT? If not, please list all such entities covered by Article 9 of the FTA and explain why they are not covered by Article XVII of the GATT.

4.1 Answer

- Article 9 is a provision to ensure that monopoly rights are exercised in a non-discriminatory manner. In this respect, Article 9 is similar to Article XVII of the General Agreement, and neither does it extend to matters dealt within GATT Articles I and III.
- Article 9 does not contain any notification obligation, and no lists of entities have been exchanged between the Parties to the Agreement. Notification obligations under Article XVII of the General Agreement are fully complied by the Parties.

5. BALANCE-OF-PAYMENTS

5.1 Question

Please elaborate on how the provisions of Article 22 of the FTA relate to Turkey's current obligations under the GATT. Will balance-of-payments measures currently applied by Turkey continue in force with EFTA countries? If not, why not?

5.1 Answer

The basic aim of the Mass Housing Fund is not balance-of-payments purposes. The application of this fund enables Turkey to refrain from resorting to quantitative measures. The Mass Housing Fund is applied on "erga omnes" basis.