

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
L/7444
26 April 1994
Limited Distribution

(94-0740)

Original: English

UPDATE INFORMATION ON POLAND'S ECONOMIC
AND TRADE POLICIES AND PERFORMANCE

Communication from Poland

The information reproduced hereunder has been submitted by the Permanent Mission of Poland.

With reference to the submissions already made by Poland (L/6714; L/6862; Spec(92)27) and reflected in the Draft Report of the Working Party on the Renegotiation of the Terms of Accession of Poland (GATT document Spec(92)4/Rev.1 dated 28 July 1992), the delegation of Poland wishes to submit the following additional comments. They are intended to present briefly the salient features of Poland's economic and trade performance and systemic change in the intervening period, as regards those aspects which seem to have been of particular interest to members of the Working Party on Poland. The presentation follows broadly the structure of the Draft Report, in order to facilitate its updating.

I. GENERAL BUSINESS CONDITIONS

1. By the end of 1993 the Polish economy had shown strong signs of recovery. In fact, according to an IMF assessment, Poland's growth in 1993 was the second fastest in Europe, with similar performance expected in 1994. Thus, four years after the transformation began, a growing market economy has been established.¹ GDP increased by 1.5 per cent in 1992 and 4.6 per cent in 1993. The major contribution was provided by improved industrial performance. Industrial output (at constant prices) went up by 3.9 per cent in 1992 and 6.2 per cent in 1993. The fact that it still remains substantially lower than in the late 1980s reflects essentially the underlying restructuring process under which those industries which are relatively inefficient have to trim down their output and yield to more effective competitors, both domestic and foreign. This is perhaps best illustrated by the rapid shift in relative strength of private and public industrial sectors. While the volume of sales of public industry (measured at current prices) continued to decline by 3.3 per cent in 1992 and 6.5 per cent in 1993, private industries achieved a rapid expansion at the rates of 23.4 per cent and 34.7 per cent respectively. As a result, the share of private industry in the total industrial output now comes close to 40 per cent.

Inflation rates continued to decline from 70 per cent in 1991 to 36.5 per cent in 1992 and 33 per cent in 1993. The budget deficit is foreseen at 4.2 per cent of GDP for 1994, thus meeting the targets agreed with the IMF. Unemployment continued to grow, albeit at a lower annual rate of approximately 2.1 per cent in 1993 and had reached 15.7 per cent of the labour force at the end of that year.

¹Qf.Address by the Managing Director of the IMF, 14 February 1994.

II. OWNERSHIP TRANSFORMATION

By early 1994 the privatization process had effectively become one of the fundamental driving forces of economic and social transformation. The share of private sector in GDP increased from less than 29 per cent in 1989 to over 50 per cent in 1993. As the agricultural sector had been traditionally mostly private, the evolution indicated above has been entirely due to a rapid expansion of private entrepreneurship in industry.

In terms of employment outside private agriculture, the share of the private sector increased from 40 per cent in 1991 to over 46 per cent in 1993. Private investors claimed 44 per cent of total investment expenditure in 1993, due to fast expansion of investment spending in processing industry, construction and services.

The number of private companies registered under commercial law increased from 16.6 thousand in early 1990 to almost 70 thousand at the end of 1993. In addition, the number of small private establishments employing up to five persons jumped from 814 thousand in 1989 to 1.784 thousand in December 1993, of which about 40 per cent are active in trade and services.

Privatization of State-owned enterprises

By the end of December 1993, 2,685 State-owned enterprises - out of a total of 7,647 registered at the end of March 1990 - had been subject to various privatization schemes. Most of them, not less than 1,824, had been involved in the privatization through liquidation and 511 had been or are in the process of being transformed into commercial law companies under Article 5 of the Privatization Law.

The most common approach to their ownership transformation is through a mass privatization programme (MPP). This concept was first floated in early 1991 and had been officially endorsed under the Law on National Investment Funds, which was passed on 30 April 1993.

The MPP provides for a rapid privatization of hundreds of large- and medium-size enterprises which enjoy relatively good financial standing. Under the scheme, such entities are to be converted into joint-stock companies. Their shares are to be transferred to about 20 National Investment Funds (NIF), while the share of NIFs are tradeable at the public market for equities. So far, over 30 foreign-led consortia have applied for the right to manage NIFs.

Each company privatized under the MPP is expected to have initially the same shareholding structure: 33 per cent will be held by a leading NIF; 27 per cent will be distributed equally to all other NIFs; 25 per cent will be retained by the State Treasury; 15 per cent will be distributed, free of charge, to employees.

By the end of 1993, the Ministry of Privatization has identified 367 State enterprises which are to be included in the scheme. Work is continuing on selecting the next group of firms. Share certificates are expected to be distributed sometime in the summer of 1994 and the NIFs will be listed on the Warsaw Stock Exchange in mid-1995.

The Warsaw Stock Exchange (WSE), established in 1991, is now in full operation. Only in 1993 the WSE index increased more than 12 times in zloty terms and about sevenfold in terms of United States dollars, while the daily trading exceeds at present the equivalent of \$100 million.

Banking sector privatization

The Government's programme includes nine State-owned commercial banks. In addition to Bank Rozwoju Eksportu which was privatized already in 1992, two more were privatized in 1993 (Wielkopolski Bank Handlowy and Bank Slaski). About 70 small- and medium-sized banks are now already in private hands.

Foreign Trade Organization

By early 1994 about half of all Foreign Trade Organizations (FTOs) have become involved in privatization procedures. Of this number, 26 FTOs - one third of the total - had been effectively privatized or are close to completing the process, while about 30 other FTOs have undertaken preliminary steps in this direction. Among those for which privatization will be effectively implemented in 1994, are some of the largest trading entities, such as "Rolimpex", (feedgrains, sugar and other agricultural commodities), "Stalexport" (ferrous metals), "Paged" (forestry products), "Polimex-Cekop" and "Agromet" (two of the largest traders in industrial equipment), "Budimex" (construction services), "Agros Holding" (processed food and beverages).

III. MACROECONOMIC DEVELOPMENTS IN EXTERNAL SECTOR

Changing trade patterns

On the commodity basis, exports between 1991 and 1993 remained stable at close to \$14 billion. Imports, on the other hand, continued to expand at a relatively fast rate, to reach almost \$16 billion at the end of 1993, resulting in growing trade deficits which reached \$3.5 billion at the end of the third quarter of 1993. The deficit was recorded in trade with all groups of partners. On the basis of preliminary figures it had been relatively highest in trade with highly industrialized countries (\$3.4 billion of which \$1.2 billion with the European Communities and approximately \$0.5 billion with the United States).

As regards the geographical structure of trade, there has been a radical shift towards OECD member countries. Between 1989 and the end of 1993 their share in Poland's trade in goods increased from 49 per cent to 75 per cent in exports and from 53 per cent to 80 per cent in imports, largely at the expense of the former USSR and of Central and Eastern Europe. This trend has been particularly strong in relations with the European Union, whose shares in both flows of trade had nearly doubled to reach in 1993 some 64 per cent of exports and 60 per cent of imports.

Foreign exchange regime and exchange rate policy

Since the introduction of internal convertibility in 1990 the exchange rate has been "pegged" to a basket of major currencies, against which the zloty continues to be devalued systematically, albeit at a modest average monthly rate of less than 2 per cent, to reflect the domestic inflation. The system of unrestricted access to foreign currencies for Polish private and legal persons continues to remain one of the fundamental features of the economic instrumentation and a key factor behind the steady expansion of imports.

Foreign investment

Since 1991 the profile of foreign investment has increased dramatically. The number of ventures involving foreign capital has grown from about 5,000 in 1991 to over 15,000 late in 1993. The capital already in place or committed is well over \$8 billion. It is concentrated primarily in machine manufacturing, food processing, financial services, construction, chemicals, wood and paper industries

and in telecommunications. Further improvements have been made in the legislation, to provide new business opportunities for foreign investors, including indirect portfolio investment in the rapidly developing stock exchange market.

IV. AGRICULTURAL SECTOR

Since 1992, a number of new developments have taken place, particularly as regards the ownership structure. Government-sponsored institutions, such as the State Farmland Property Agency, are actively engaged in taking over the land and other production facilities operated by the remaining State-owned farms in order to transfer them to the private sector through sale or lease. Practically all of 3.3 million hectares of State-owned land have been involved in this procedure, of which more than half in 1993. Once implemented, this process will have virtually completed the elimination of the State from any meaningful direct role in agricultural production.

Food distribution in the domestic market is effectively controlled by the private sector, which in 1993 accounted for 88 per cent of the total value of all retail sales. What remains, is almost wholly attributed to trading cooperatives.

V. TARIFF AND CUSTOMS SYSTEM

Tariff levels and bindings

From 1992 onwards, tariff policy has been increasingly oriented towards embracing the goals established multilaterally within the framework of the Uruguay Round. Consequently, only minor adjustments had been made in some individual tariff rates (in both directions) without a significant impact on the overall level of tariff protection. The most important development had been the negotiation and presentation of Poland's GATT Schedule which was annexed to the Marrakesh Protocol to GATT 1994. The Schedule, which is the first tariff schedule ever presented by Poland in the GATT, provides for a comprehensive tariff binding of all agricultural products and over 96 per cent of industrial tariff lines. Simple average tariff cut will be 37 per cent for food and agricultural products. Trade weighted reduction of industrial tariff is estimated at 38 per cent, with the average level of tariff protection decreasing from the present 16 per cent to less than 10 per cent after the implementation of the Marrakesh commitments.

Duty suspensions

Pursuant to Article 5 of the Customs Law, the Government may suspend, in whole or in part, the collection of customs duties on any product or group of products on the *erga omnes* basis. Such suspensions may be ordered for a period not to exceed the end of the calendar year in which the decision has been taken, subject to possible extension on an annual basis. This practice has been applied particularly in respect of goods which are used for further industrial processing. The most recent decision of this type was taken in December 1993 (*Dziennik Ustaw* - Journal of Law No. 128/94). It provides for the application of customs duties below MFN tariff rates and covers over 1,500 nine-digit tariff lines, ranging from HS heading 0511 to HS 9202.

Surcharges

Prior to late 1992 Poland did not apply any import surcharges. In December 1992 a 6 per cent surcharge was established for the period until the end of 1994 on the *erga omnes* basis for all imported goods, including preferential trade. For legal reasons, the surcharge was technically operated in 1993 as an additional customs duty. Since January 1994 it is applied in its originally intended shape of a uniform border tax. The purpose of this measure had been to prevent a rapid deterioration in the

balance-of-payments position. The surcharge was immediately and duly notified under the relevant GATT procedures and was consulted in the BOP Committee under Article XII:4(a) in March/April 1993 (BOP/R/206). The surcharge is still in effect and will be subject to consultations in the BOP Committee scheduled for June 1994.

Duty free zones

The initial concept of Duty Free Zones (DFZs) as "enclaves" of a market economy is now obsolete since the entire economic system has become market-based. Consequently, the number of DFZs had been reduced from 17 to three. All presently existing DFZs focus on commercial functions typical for such entities in Western Europe and related to the operation of major air and sea-ports.

Taxation

Since July 1993 a Value Added Tax (VAT) has replaced the previous turnover tax. It is levied uniformly on all goods and services, irrespective of their domestic or foreign origin. The basic rate is 22 per cent ad valorem, with a lower (7 per cent) rate applicable to: certain agricultural inputs (fertilizers, pesticides, farm machinery); basic goods for children; health-care products; certain services (transportation, telecommunications); fuels and electricity.

In addition to the VAT, some goods are subject to excise tax. This applies to passenger motor vehicles (priced higher than ECU 7,000), fuels and lubricants, alcoholic beverages, tobacco products and certain luxury consumer items, such as video cameras, yachts, motor boats, perfumes, etc. The excise tax is uniformly applied to comparable domestic and imported goods.

VI. NON-TARIFF MEASURES

Import restrictions

A complete inventory of non-tariff import measures was notified by Poland in GATT document NTM/W/6/Rev.5/Add.7 in May 1993.

Export restrictions

As of early 1994 very few export prohibitions were in place. They applied to the following products: geese weighing not more than 185 grams; geese eggs for hatching; waste of raw hides or skins.

Several other goods, including dairy products, alcoholic beverages, tobacco products, hard coal, petroleum products, natural gas and ferrous and non-ferrous metal scrap were subject to export licensing. The principal reasons of the licensing requirement are: the need to enforce minimum price provisions of the Dairy Arrangement; fiscal policy considerations (alcoholic beverages, tobacco products); existence of few remaining domestic price controls (coal and petroleum); shortage of domestic supplies (metal scrap).

VII. MTN CODES

Poland's membership in the successor arrangements to the Tokyo Round Codes is assured through the application of the relevant provisions relating to Multilateral Agreements listed in Annex 1A to the Agreement Establishing the World Trade Organization, which was signed by Poland at the Marrakesh Ministerial Meeting. As regards Plurilateral Agreements of Annex 4, Poland intends to seek an early accession to the Aircraft Agreement, subject to a negotiated arrangement which would accommodate

Poland's concerns regarding, in particular, tariff reduction schedule, public aid and offsets. Domestic legislation is now being developed on government procurement rules, which should allow Poland to accede also to the Government Procurement Agreement. The continuation of membership in the Dairy and Bovine Arrangements will be decided soon, one important consideration being the position taken by major suppliers as regards their own participation.

VIII. POLAND'S TRADE RELATIONS

Trade agreements

The Association Agreement between Poland and the European Communities officially entered into force in February 1994 after the ratification process had been completed by all signatories. Its trade provisions had been applied on an interim basis since March 1992. The immediate objective of the Agreement is the establishment of a free-trade area between Poland and the European Union within 10 years, through a gradual elimination of tariffs and other barriers in mutual trade. The Interim Agreement was notified in the GATT under Article XXIV (document L/6992/Add.1). Replies by Poland and other parties directly concerned to questions asked by a number of GATT contracting parties have been circulated and are expected to be reviewed later this year.

In December 1992 Poland and the EFTA States signed a Free Trade Agreement. Bilateral arrangements on trade in agricultural products between each EFTA State and Poland were also concluded within the framework of the Free Trade Agreement. The objective of the Agreement, in accordance with GATT Article XXIV, is to abolish tariffs and other restrictions on industrial products, fish and other marine products and processed agricultural products between the EFTA States and Poland. The Agreement is applied, together with the above-mentioned bilateral arrangements, as from 15 November 1993 on the basis of exchange of notes, pending the ratification by all Signatory States. A GATT communication on this subject was transmitted by Austria on behalf of all the signatories in document L/7372. The text of the Agreement is contained in GATT document L/7372/Add.1.

Also in December 1992 Poland, together with the Czech Republic, Hungary and the Slovak Republic signed the Central European Free Trade Agreement (CEFTA), which took effect in March 1993. The Agreement covers trade in industrial and agricultural products and provides for the gradual elimination of tariff and non-tariff barriers to substantially all trade among the signatories. The liberalization process, to be completed over eight years (or during a shorter period if mutually agreed), will be based on the principle of symmetrical mutual concessions.