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TURKISH IMPORT TAXES AND EXPORT BONUSSES

(Item 12 (m) of the Agenda)

Statement by the Representative of Turkey on 5 November 1954 on the Equalization Fund

I. The Legal Basis for the Equalization Fund

The system instituted by Order No. K/907 of 1 September 1953 is based on Articles 27 and 29 of Law No. 3780 of 18 January 1940 (Law for National Protection), which has been given continuing application since 1940, that is long before Turkey acceded to the General Agreement. Under Article I a.11) of the Protocol of Provisional Application the CONTRACTING PARTIES apply the General Agreement to the fullest extent compatible with existing legislation. Therefore, the measure taken by Turkey cannot be regarded as contrary to the General Agreement.

For the purpose of clearing up the problem, it would be useful to examine the meaning of the decree in question and the results obtained in one year of the application of Decision K/907. Subsequent upon this decision the system of the Equalization Fund instituted in September 1953 with the Turkish Agricultural Bank was the corollary of the new system of foreign trade adopted in September 1953 which represented an improvement in the form of the elimination of the barter system which was not compatible with the system of multilateral trade. That measure was in fact the liquidation of the barter system which dates back to the world depression of 1930 and which was at the same time a consequence of the bilateral trade system and the successive devaluations which various national currencies were submitted to, a process in which Turkey did not follow suit and which had long assumed a certain importance in international trade. That is why this operation, which consisted in placing the existing system on a new and sounder basis, could be carried out only at the cost of great sacrifices.

In this operation it was deemed that it would be fair and equitable to secure for an interim period additional purchasing power in the case of twenty-six articles, thereby filling the foreign exchange loss resulting from the reduction of this group of 178 export items subsequent to the abrupt elimination of the barter system, a group for which prices had long been established at high levels.

It was deemed opportune to meet the export price differences by levying corresponding amounts from an equalization fund, which offered less inconvenience. It can therefore be stated, as indicated above, that the existing system represents the liquidation of the barter system which was based on a group of 178 export items, now reduced to twenty-six for an interim period.

The object of the application of this system for an interim period is therefore mainly to secure the necessary foreign exchange availabilities for the safeguard of our balance of payments and further to ensure the purchase of import items with the purchasing power thus obtained.

Imports effected under this system, which is not based on automatic compensation, are on the one hand limited by the level of our foreign exchange availabilities and moreover, as is mentioned in Article I (provisional) of Decision K/907, those very imports are subject to the authorization issued by the Ministry for Economy and Foreign Trade.

Such are, therefore, the general characteristics of that system which is based on the need for safeguarding our balance of payments while maintaining import possibilities.

For the purpose of illustrating the inconvenience inherent in the previous barter system, it would be useful briefly to examine the former mechanism which resulted in a very heavy burden saddling our imports, such as a compensation premium which reached 215 per cent at the time of the entry into force of the new system, which has brought this percentage down to 75 per cent. We wish to stress this aspect of the improvement effected pending the total elimination of this interim system.

II. The Mechanism and Structure of the Equalization Fund

In its answer to questionnaires GATT/CP/89 and L/155, relating to the method of restriction, the Turkish Government had indicated that its foreign exchange availabilities did not make it possible for them to authorize international transfers in payment of imports of certain non-essentials and that these could be imported only as against payment in currencies which were the proceeds of exports of certain categories of goods equally non-essential. Under this system Turkish exporters of those export items were authorized to retain the whole of the proceeds of their sales in foreign currencies and to effect import operations with such proceeds. But a trader is not always necessarily both an importer and an

exporter and therefore Turkish exporters sold their import entitlements and the foreign exchange that they held as a result of their exports to importers on the spot, and this transaction could be freely carried out between traders without the Government intervening in any way and this system eventually resulted in some sort of compensation operation. This trade practice, which dates back to the years 1929-1930, constituted until 1953 the system followed for the importation and exportation of the items mentioned above.

This system imposed upon trade abnormal changes which caused unnecessary prejudice both to exporters and to Turkey. Indeed, on account of the mechanics of this system each transaction relating to the sale of export proceeds resulted in exporters benefiting by a special exchange rate above the official parity of the Turkish pound, this rate representing in most cases the excessive percentage of 150 to 200 per cent of the official parity and at the time of the entry into force of this measure, that is, as of 24 September 1953, this percentage had reached the figure of 215 per cent. Thus traders cashed, so to speak, a premium which caused not only an increase in the prices of imported products on the domestic market but which also resulted in depressing the price of export items abroad while inflating prices of those same items on the domestic market.

With a view to finding some remedy to the drawbacks of this system and to the resulting damages, the Turkish Government by Order K/907, published to 3 September 1953, subjected to a new system trade in the above-mentioned import and export items and by abrogating the former system effected modifications in the relevant lists of those items. In particular the Turkish Government limited the number of non-essential import goods and further decided to levy the price differences to be granted on such export items from certain import items which were regarded not only as non-essential but also as luxury articles.

In effecting these changes the Turkish Government took particular care of the following factors:

1) Exports of certain Turkish products had become practically impossible as a result of export incentives and protective measures applied by other countries, which completely impeded free competition as a result of the lowering of the price of the same or of similar articles. 2) The selling prices of imported goods on the domestic market were doubled and thus importers could make undue profits which were damaging to the trade in the products concerned.

To remedy this situation and in pursuance of the Order of 3 September 1953, an Equalization Fund was set up with the Zirast Bankasi (Turkish Agricultural Bank). The object of this measure is on the one hand to help Turkish exporters against competition on foreign markets by enabling them to charge different prices for items the export of which proved difficult as a result of the above-mentioned circumstances and at the same time to permit token imports of certain non-essentials.

The Equalization Fund is financed by the sale of import permits for goods listed in Schedule A annexed to the Order. Under the Decree Turkish importers are required to pay for their import permits a price differential representing between 25 per cent and 75 per cent of the value of the goods imported. These price differentials, which do not in any way constitute import duties or charges, represent in fact the price at which they buy their import entitlements.

The export products in the case of which varying prices are charged are listed in Schedule B, which is also annexed to the said Order.

III. The Results of the Operation of the Equalization Fund

During the period 1953-54 the proceeds of the sale of import entitlements within the framework of the Fund reached 5 million Turkish pounds, and the financial assistance granted to export items amounted approximately to 9 million Turkish pounds.

During the same period, a total of 12,335,791 Turkish pounds in foreign exchange was allocated for imports of goods listed in Schedule A.

The total amount allotted during the period September 1953 - September 1954 i.e., 12 million Turkish pounds, represents, in fact, a very small figure. Indeed, it represents only 0.82 per cent of the total value of imports for the same period.

The above indications make it clear that the system in question has not been instituted for revenue purposes. Had it been the case, the Turkish Government would have been in a position completely to liberalize imports of goods listed under Schedule A and to grant all the import licence applications submitted by importers. This measure had been notified to the Executive Secretary in January 1954.

To conclude, Mr. Chairman, I wish to add that the implementation of the above measures has been made necessary by the Turkish balance-of-payments difficulties. I have just heard that the International Monetary Fund have approved the setting up of this Equalization Fund. This measure has not in any way damaged the interests of the CONTRACTING PARTIES, as we shall have to demonstrate in a more detailed manner if the need arises.

