

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## CONSULTATION WITH HUNGARY

### SIXTH REVIEW UNDER THE PROTOCOL OF ACCESSION

#### Draft Report by the Working Party on Trade with Hungary

1. / At its meeting on 5-6 June 1985 the Council established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the Sixth Consultation with the Government of Hungary provided for in the Protocol of Accession<sup>1</sup>, and to report to the Council. The report was adopted on ..... 1986.

2. The Working Party met on 23 January 1986 under the chairmanship of Ambassador R.F. Nottage (New Zealand) to carry out the consultation.

3. The Working Party had before it the following documents:

L/5899 Hungarian Foreign Trade Statistics

L/5870 and Adds. 1 to 3 Notifications by contracting parties on discriminatory restrictions maintained on imports from Hungary on 31 July 1985

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<sup>1</sup>BISD, 20S/3

4. This report sets out the main points of discussion in the Working Party under three headings:

- A. Hungarian exports
- B. Hungarian imports
- C. Developments in Hungary's trading relations

A. Hungarian exports

5. The Working Party noted that the following contracting parties had notified, or stated in the meeting, that they did not maintain any discriminatory quantitative restrictions on imports from Hungary:

Australia	Norway
Austria	Poland
Canada	Portugal
Chile	Romania
Czechoslov	South Africa
Iceland	Sweden
India	Turkey
Japan	United States
New Zealand	

6. The Working Party took note of the notifications on discriminatory quantitative restrictions maintained by the European Communities.

7. Notifications submitted by contracting parties for the previous consultations are listed in the Annex.

8. The Working Party welcomed the information that Norway had eliminated all quantitative restrictions on imports from Hungary, as notified in a communication to the contracting parties dated 31 August 1984 (L/5675).

9. The representative of Hungary made an introductory statement, the full text of which is annexed to this report.

10. A member of the Working Party noted that, as had been requested at the previous consultation, in the foreign trade statistics supplied by Hungary (document L/5899), exports were broken down into three categories: to all contracting parties, to contracting parties excluding those listed in Annex A, and to countries listed in Annex A. He also noted that trade with CMEA countries was over 50 per cent. For the sake of transparency he suggested that a further breakdown into more detailed product categories be supplied next time, and that values be given both in forints and in convertible currencies. Another member of the Working Party asked for exchange rates for various currencies, or average exchange rates for the forint into SDRs or dollars for 1983 and 1984. The representative of the EEC noted that Hungarian exports to the Community had been relatively dynamic and now accounted for some 16 per cent of total Hungarian exports. Trade in agricultural goods was in surplus for Hungary and now account for some 16 per cent of total Hungarian exports to the Community. He pointed out that the EEC was Hungary's first supplier and first purchaser. The representative of the United States said that Hungarian exports to the United States had grown

significantly, which was viewed as a positive development. She asked whether Hungary expected additional shifts in the composition of exports and their geographic destination.

11. In reply to a question raised by the representative of Israel, the representative of Hungary said that the average exchange rate for the forint vis-à-vis the US dollar was Ft 42.94 for 1983, and Ft 48.31 for 1984. His Government had no intention of deliberately shifting the destination or composition of exports; this was a matter of market situation. Since 1976 the share of Hungarian exports going to convertible and non-convertible currency areas had remained basically the same. Hungary was under no obligation to observe any particular share of trade between these two areas. Hungarian exports settled in convertible currencies had been as follows: 1982 - 50.5 per cent, 1983 - 52.2 per cent and 1984 - 57.2 per cent; exports for the same years settled in non-convertible currencies had been respectively 49.5 per cent, 47.8 per cent and 42.8 per cent. Hungarian imports settled in convertible currencies had been the following: 1982 - 52.7 per cent, 1983 - 52.3 per cent and 1984 - 53.2 per cent; imports settled in non-convertible currencies had been respectively 47.3 per cent, 47.7 per cent and 46 per cent.

12. The representative of Australia stated that his authorities did not apply any discriminatory quantitative restrictions against Hungarian imports. He noted that there had been some improvement in Australia's trade with Hungary. In 1984 Hungarian exports to Australia had nearly doubled while Hungarian imports from Australia had increased less. The last consultation with Hungary had focused on the EEC's intention to remove its quantitative restrictions; he noted with satisfaction that a number of these restrictions

had been lifted. Although the value of these liberalization measures was not enormous it was nevertheless a positive trend. However, a number of discriminatory quantitative restrictions did remain and he enquired on the prospects of their removal.

13. The representative of the EEC said that the progress in removal of restrictions could not be spectacular because their number was negligible. They covered about 4 per cent of total Hungarian exports to the Community. There had been some changes since the last consultation. Restrictions on fifty-two NIMEX positions had been eliminated and some products had been de facto liberalized as shown in document L/5870/Add.1 and 2. New liberalizations had been introduced on 1 January 1986 covering over thirty NIMEX positions so that since the last consultation, some 150 NIMEX positions had been liberalized. Further liberalizations were under examination and might be announced shortly. As for the quantitative restrictions applied by Greece as a consequence of its accession to the European Economic Community, these had mostly been eliminated on 1 January 1986.

14. The representative of Hungary welcomed the elimination by Norway of all discriminatory quantitative restrictions against Hungary on 13 July 1984 (L/5675). At present only EEC member States still applied discriminatory quantitative restrictions against Hungarian imports. Referring to the Community's notifications in document L/5870/Add.1 and 2, he asked why certain positions with asterisks (indicating that the position was non-discriminatory) were notified as liberalizations under paragraph 4 of the Protocol of Accession. List B of the Community's notification in L/5870/Add.1 appeared to omit some 146 tariff lines still under

discriminatory quantitative restrictions. A part of this omission was presumably due to the exclusion by the EEC from its notification of some quantitative restrictions which had been maintained also vis-à-vis some third countries or groups of countries but not applied on an erga omnes basis. His delegation supplied an informal paper listing the differences between the EEC's notifications of restrictions against Hungarian exports and his delegation's analysis of the relevant EEC Regulations No. 288/82, Annex I and No. 3420/83, Annex III, and requested the EEC to clarify the discrepancies.

15. He acknowledged that the United Kingdom had eliminated fourteen quantitative restrictions with a trade coverage of 39 per cent. This had been done in implementation of obligations under the Protocol of Accession. The Federal Republic of Germany had eliminated quantitative restrictions only in seven tariff lines, with a trade coverage of 2 per cent. The position of Greece was not totally clear although; according to its Accession Treaty to the EEC, it should have eliminated all its quantitative restrictions as of 1 January 1986 but some still remained in force. The Benelux countries had liberalized some positions with a negligible trade coverage; Denmark had reduced 7 per cent of its quantitative restrictions with a zero trade coverage; Italy had removed seven tariff lines or 1.6 per cent of its quantitative restrictions with a 0 per cent trade coverage; Ireland had not eliminated any discriminatory restrictions under paragraph 4 of the Protocol but rather rectified a recent illegal situation by the notified measures. According to the Hungarian analysis a total of 1.9 per cent of discriminatory quantitative restrictions had been eliminated in the European Economic Community since the last consultation. Since 1973, when Hungary acceded to the GATT, progress in elimination of discriminatory quantitative restrictions had been of the order of 10 per cent. At this rate it would take 100 years to abide fully by the provisions of the Protocol of Accession.

16. The representative of Hungary also questioned the legal status in the EEC as regards the elimination of discriminatory restrictions at the regional level. He pointed out that in the light of the respective rules of the EEC, the de jure liberalization of quantitative restrictions at Community level was attained by the inclusion of products in question into the common list of liberalization (regulation 1765/82 of the EEC) and in legal terms only this could be considered as elimination of discriminatory quantitative restrictions under paragraph 4(a) of the Protocol of Accession. Referring to the list of the so-called "Testausschreibung" applied by the Federal Republic of Germany (L/5870/Add.1), he said that these measures did not constitute an elimination of discriminatory quantitative restrictions under paragraph 4(a) of the Protocol of Accession. According to document L/5870/Add.2, only in four out of the seventy-seven tariff lines covered by the "Testausschreibung" had the discriminatory quantitative restrictions been eliminated. He asked what conclusions had been drawn by the Federal Republic of Germany from the application of this régime, taking into account that only in the case of fifteen out of the seventy-seven items there were actual Hungarian exports.

17. The representative of Hungary recalled that there was a contractual obligation under Article 4(a) of the Protocol of Accession not to increase the discriminatory element of the existing restrictions. Nevertheless some member States had taken action which had resulted in an increase of discrimination against vis-à-vis Hungary (see EEC proposals in NTM/W/12, 20 March 1985): France had submitted a list of twelve quantitative restrictions to be liberalized except for the Eastern trading area, i.e. excluding Hungary. Italy had submitted five product categories for similar liberalization, except for the Eastern trading area; two of these were

eliminated but three remained. While the transitional period had expired for Greece under its accession to the EEC, the Hungarian analysis showed that 3.4 per cent of Hungarian exports to Greece, i.e. twenty-two tariff lines, were still under discriminatory quantitative restrictions. As for Spain, Article 177 paragraph 3 of the Treaty of Accession of Spain to the Community allowed and paragraph 5 required Spain to maintain certain quantitative restrictions until 31 December 1991. It appeared that, as a consequence of Spain's accession to the European Community, as of 1 January 1986 some 17.6 per cent of Hungarian exports to Spain would be subject to quantitative restrictions not consistent with Article XIII under this provision. Yet Spain had in each of the five previous consultations notified that it maintained no discriminatory import restrictions against Hungarian exports. In a recent session of the Hungarian-Spanish Mixed Commission held in Budapest, the Spanish delegation had stated that Spain did not intend to introduce discrimination against Hungarian exports as a consequence of its accession to the EEC. He sought clarification on this point.

18. The representative of the United States said that the United States imposed no discriminatory quantitative restrictions on Hungarian exports. The recent growth of Hungarian exports to the United States attested to the possibilities that existed. Despite the progress on elimination of quantitative restrictions, she deplored that this was still an issue under debate. Progress was too slow and the date for complete elimination laid down in paragraph 4 of the Protocol was long past. The fact that ten years after implementation of the Protocol elimination of discriminatory quantitative restrictions was still under review did not bode well for future negotiations of this kind.

19. The representative of Japan expressed concern over the maintenance of remaining quantitative restrictions twelve years after Hungary's accession to GATT and called for the EEC to establish a time-table for their elimination.

20. The representative of Canada said that when the Protocol of Accession of Hungary had been drawn up, it had not been expected that twelve years later the Working Party would still be facing the same core group of restrictions. Their continued application implied that there were major difficulties between the trading countries involved; however, these difficulties had not been explained or discussed in the Working Party.

21. The representative of the EEC explained that the asterisk beside certain positions in L/5670/Add.1 and 2 indicated non-discriminatory restrictions. However, the EEC notification had a broader coverage than elimination under paragraph 4 of the Protocol and included all elements relevant to trade between Hungary and the EEC; it was based on a comparison, with respect to Hungary, between EC Regulation 288/82, the general import régime, and Regulation 3420/83 of the régime applied to state trading countries. Regarding the EEC legislation, he explained that there was a difference between regional liberalization and Community liberalization; this was an internal matter but in both cases the liberalization were de jure, whether it was registered or not in Community regulations. As for the experimental liberalizations by Germany, it was the Commission's point of view that they were equivalent to de jure liberalizations, as the volume of Hungarian exports was not limited. Following such an experience the country was usually in a position to liberalize restrictions de jure. He recalled that the EEC was examining the possibility of future liberalizations. ncerning

the prospects for future liberalization he felt that the representative of Hungary had insisted too much on the percentages of trade coverage which could give a misleading picture of the actual situation and recalled that EEC restrictions covered only 3-4 per cent of Hungarian exports to the EEC in terms of tariff headings. Some of the remaining restrictions were on very sensitive products which were undergoing restructuring such as glassware, leather, etc. Concerning the increase in the discriminatory element of restrictions referred to by the representative of Hungary he said that it was not possible for the EEC to apply certain liberalization measures to centrally planned economies, but in order to respect the provisions of Article 4 of the Protocol of Accession the EEC had liberalized an equivalent number of other restrictions. Therefore, there had been no increase of the discriminatory element of restrictions, which was a factor that had to be appreciated in a global manner. He said that it was premature to examine the effects of Spain's accession to the Community, as some of the provisions had not yet been adopted by the Council. Nevertheless, it was already possible to state that, due to the acceptance by Spain and Portugal of the Community import régime, many of the restrictions previously in force in these countries had been abolished at the date of their accession or would be abolished at the end of the transitional period. In addition, it should be noted that the system existing in Spain and Portugal before their accession to the Community was complex and combined quantitative restrictions, import licensing and state import monopolies. This system had been replaced by the Community régime. Most Hungarian exports to the EEC were free of any restrictions and the EEC would continue to examine the possibility of further liberalizations and was disposed to enter into negotiations with Hungary to explore the matter and settle outstanding problems.

22. The representative of Hungary said that, according to their list, the trade coverage under discriminatory quantitative restrictions maintained by member States was as follows: Benelux 2 per cent; Denmark 0 per cent; Federal Republic of Germany 6.9 per cent; France 5.8 per cent; Ireland 0 per cent; Italy 5.9 per cent, United Kingdom 1.9 per cent and Greece 3.7 per cent. Disregarding textile products in the case of which the discriminatory quantitative restrictions had not been eliminated but only provisionally suspended, still 6.5 per cent of the Hungarian exports to the Community were under quantitative restrictions not consistent with Article XIII at the end of 1985. While taking note of the statement by the representative of the EEC that regional liberalizations were de jure, he urged the inclusion of the regional measures into the list of common liberalization of the EEC. He also urged that the EEC member State concerned should transform the "Testausschreibung" régime into de jure elimination of quantitative restrictions. Concerning the increase in the discriminatory element of the restrictions he said he could not accept the interpretation of the EEC, in particular with regard to France and Italy. There could be no trade-off between the elimination of some restrictions and the introduction of new ones. The obligations under paragraph 4(a) of the Hungarian Protocol of Accession were to eliminate progressively all prohibitions or quantitative restrictions not consistent with Article XIII of the GATT, and not to increase the discriminatory element in these restrictions. Therefore, no new discriminatory measures could be introduced against Hungarian exports by virtue of these obligations. He also asked for confirmation that Greece no longer applied any discriminatory restrictions to Hungarian exports as of 1 January 1986. He furthermore requested clarification of the possible discriminatory restrictions applied by Spain.

He recalled that under paragraph 4(b) of the Protocol of Accession any quantitative restrictions still in force after January 1975 could only be maintained for "exceptional reasons" and asked for these reasons, particularly in view of the small share of Hungarian exports still under quantitative restrictions in the total imports of the EEC.

23. The representative of the EEC said that the bulk of the quantitative restrictions maintained by Greece had been eliminated on 1 January 1986 and recalled that, when comparing the situation existing before and after the accession of Greece to the Community, one should consider other factors such as clearing arrangements with Eastern European countries or a widespread licensing system. These elements were eliminated after the accession of Greece. With respect to the accession of Spain and Portugal to the Communities, it was too early to give a definitive answer: if Article 177 of the Accession Treaty was clear on the problem of quantitative restrictions, the secondary legislation had to be examined and accepted by the EEC Council. Referring to the "exceptional" reasons for maintaining restrictions, he reiterated that some products were very sensitive and some sectors were in crisis. One of the difficulties with Hungarian exports concerned price levels, which were very inferior to similar products imported into the EEC.

24. The representative of Hungary took note of the EEC statement that the discriminatory quantitative restrictions maintained during the transitional period by Greece had been eliminated on 1 January 1986. He awaited clarification on the position of Spain, and added that it was unacceptable that Spain's accession to the EEC resulted in the introduction of discriminatory quantitative restrictions vis-à-vis Hungary. Article XXIV

did not release any contracting party from the obligation of non-discrimination as provided for by Article XIII of the GATT. As for the "exceptional reasons" for maintaining restrictions described by the Community, it was his view that difficulties in particular sectors should be dealt with by measures applied erga omnes rather than by discriminatory quantitative restrictions. He did not exclude the possibility that the price level of some Hungarian exports could seem low, but there were remedies under the GATT, such as the Anti-Dumping Code, as well as paragraph 5 of the Protocol of Accession. On the EEC's remark to negotiate a bilateral agreement with Hungary, he said that his authorities were of the view that the relationship between Hungary and the EEC was normalized. Both parties were contracting parties to the GATT and therefore their trade relations were regulated on a contractual basis. At the same time there did exist some important problems in Hungary's trade with the EEC and it was in the interest of both to find solutions. Exploratory talks had been held on a non-official basis. Hungary had had three objectives in these talks: any bilateral trade agreement should be in conformity with the GATT and with Hungary's Protocol of Accession; the agreement should give full effect to m.f.n. and non-discriminatory treatment under the GATT and under the Protocol of Accession providing for a time frame for the elimination of remaining discriminatory quantitative restrictions; and the agreement should be justified by a substantive improvement of Hungary's access to the EEC market. The informal talks had been suspended as the EEC was not in a position to offer adequate solutions. However, Hungary had no objections in resuming these talks provided the EEC could meet these demands.

25. The representative of Australia said that the Protocol of Accession of Hungary maintained a balance between rights and obligations of Hungary and of

other contracting parties. In paragraph 3(b) of the Protocol, Hungary was requested not to discriminate or operate its trade regulations to the detriment of other contracting parties; in paragraph 4(a) contracting parties maintaining prohibitions or quantitative restrictions at the date the Protocol entered into force were obliged not to increase their discriminatory element and remove them progressively and not to apply new discriminatory measures. Hungary had the expectation that the restrictions would be removed by 1 January 1975 unless exceptional reasons were invoked for continuing them beyond that date. It would be an incorrect interpretation of paragraph 4(a) to say that a country maintaining such restrictions beyond that date could introduce new restrictions or could extend such restrictions or their discriminatory effects. A contracting party maintaining such restrictions beyond 1975 was not in conformity with the Protocol unless exceptional reasons were put forward; it was incumbent on those contracting parties to give the reasons.

26. The representative of the EEC said that he could not read in the Protocol of Accession any provision that barred a global interpretation of the level of discriminatory quantitative restrictions. The EEC had not introduced any new restriction on Hungarian exports. He confirmed that neither Greece nor Spain had any new discriminatory measures on imports from Hungary taking into account the régimes which were actually in force in those countries before their accession to the Community; the restrictions applied by Greece in the transitional period were terminated on 1 January 1986. The EEC saw no obstacle in the way of negotiations with Hungary, without prejudice to the rights and obligations of Hungary under its Protocol of Accession to GATT, which the EEC intended to respect.

27. One member of the Working Party was of the view that it would be unacceptable for bilateral negotiations to be used to trade relaxation of discriminatory quantitative restrictions for forms of market access that were not available to all contracting parties on an m.f.n. basis.

28. The representative of Hungary requested the Community to examine together the divergencies between the EEC list of quantitative restrictions and the one drawn up by his authorities, with a view to coming to a common understanding on the factual situation regarding the existing discriminatory restrictions. This would be purely technical work. With the exception of the United Kingdom, the elimination of quantitative restrictions had unfortunately been very slow and had fallen behind reasonable expectations. In some cases, the discriminatory element had even been increased. He again rejected the EEC's global interpretation of the level of discriminatory restrictions and confirmed the statement made by another delegation that by virtue of paragraph 4 of the Protocol of Accession, the provisions of Articles XI and XIII of the GATT were fully operational vis-à-vis Hungary. He also noted the statement of the representative of the EEC that no new discriminatory quantitative restrictions due to Spain's accession to the EEC would be applied. However, he still failed to understand the implications of Annexes XV and XVI of paragraphs 3 and 5 of Article 177 of the Treaty of Accession of Spain to the Community. He had heard no credible explanation of the "exceptional reasons" for the continued existence of discriminatory restrictions. He assured those who were concerned by a possible bilateral agreement between the EEC and Hungary that it was out of the question for Hungary to conclude any bilateral agreement that could affect Hungary's rights and obligations under the GATT. Such an agreement could be based

only on m.f.n. and non-discrimination, it could not call for a counterpart to be paid for the implementation of the obligations under the Protocol and could not legalize discriminatory practices.

29. The representative of the EEC said that for the sake of transparency his delegation would accept to undertake the technical work necessary to reconcile the divergencies between the Hungarian and the EEC lists. The so-called slow progress of the EEC in removing restrictions was due to particular situations in certain sectors of the EEC industry and also to price differentials. As for the increase in discriminatory elements in quantitative restrictions, he stressed that the EEC had not introduced any new quantitative restriction since the last consultations with Hungary. It was clearly the Communities' intention that any agreement it would conclude with Hungary would comply with the provisions of the Protocol of Accession (notwithstanding divergent interpretations by Hungary and the EEC of some of its provisions), and would be on a non-discriminatory and most-favoured-nation basis.

30. The representative of Hungary said that Turkey had introduced in 1984 a new import régime under which only companies with an export turnover of more than US\$50 million could trade with the Eastern countries. This limited trade to Turkish state-owned companies and some twenty-four private firms meeting the condition. This régime was contrary to Article I of the GATT, and he urged Turkey to terminate this practice.

31. The representative of Turkey said that his country did not apply any discriminatory quantitative restrictions on imports from Hungary. As for the new import régime which had been described accurately, it did not apply to

trade with Hungary only, but to all Annex A countries. Paragraph 3(a) of the Protocol of Accession showed that Hungary itself had maintained the right to have a separate trading system with Annex A countries. Turkey was doing the same thing; it had a separate system which applied to Annex A countries. The reason for this measure was the amount of compensation trade involved when dealing with centrally-planned economies, and only large companies were in a position to do this. The measure favoured Hungarian interests as could be seen by the development of Hungarian exports to Turkey in document L/5899. These had doubled from US\$22 million in 1982 to US\$47 million in 1984, and the upward trend was maintained in 1985. The reverse was true for Turkish exports to Hungary, which from US\$23 million in 1982 had fallen to US\$8.5 million in 1984.

32. The representative of Hungary said that irrespective of its trade effects, the Turkish measure was discriminatory. He rejected the juridical validity of drawing any comparison between the provisions of paragraph 3 of the Hungarian Protocol of Accession and the Turkish measure in question. Paragraph 3 of the Protocol was an arrangement negotiated with the contracting parties, granting Hungary a "waiver" for its existing trading regulations with Annex A countries. It was a recognized exception to Article I of GATT. The original report of the Working Party on Accession described fully the motivations underlying the provisions of paragraph 3(a). He challenged the legality under the GATT of the Turkish measure; its practical effect was to cut out small and medium Hungarian firms from trade with Turkey. He added that compensation trade in Hungary was a category relating solely and exclusively to firms, unlike Turkey, where it was government policy.

33. The representative of Turkey said that compensation trade was not required by his authorities but frequently requested by Eastern trading area countries. The thirty or so private companies that could trade with the Eastern trading area under the new import régime accounted for more than 45 per cent of Turkey's foreign trade in general; therefore the element of practical discrimination was negligible.

#### B. Hungarian Imports

34. The representative of the EEC referred to L/4899, Hungarian Trade Statistics, and pointed out that the level of Hungarian trade with CMEA countries had remained above 50 per cent. He reiterated the concerns of the EEC over the fact that Hungary's trade agreements with CMEA countries were not published, in particular the lists of products and all the details in the annexes. This trade was large, over 14 billion roubles a year. Bilateral agreements with CMEA countries signed in 1985 provided for increases of 3.5 per cent to 15 per cent. The provisions of Article X of GATT required that trade regulations be published; at the previous consultation Hungary had invoked the confidential nature of these agreements to justify their non-publication, but the EEC failed to understand why the details of trade with CMEA countries could not be disclosed. He also noted that Western exporters were excluded from some sectors of the Hungarian import market - automobiles for instance. In 1984, Italy had exported three automobiles to Hungary and the United Kingdom eight. Referring to the Hungarian global quota for consumer goods, which was to be enlarged, he pointed out that whereas it had stood at US\$106 million in 1982, it had fallen to US\$95 million in 1983 and stood at US\$100 million in 1984.

35. The representative of Hungary said that its trade with Annex A countries accounted for about 50 per cent of Hungary's total trade, and pointed out that Hungary had no obligation with regard to shares of trade in relation to any group of countries. Concerning publication of bilateral agreements with Annex A countries, he said that the texts were generally available whereas the lists of products annexed to them were not. They contained the cumulative results of private contracts concluded by enterprises; this was confidential information which Article X of GATT did not require to be disclosed. However, the Hungarian Statistical Yearbook gave detailed import and export statistics by country and products, and any request for further information would be taken into consideration. He said that the reduction of the level of global quotas for consumer goods had taken place at a time when Hungary had had to apply temporary import restrictions for balance-of-payments difficulties in convertible currencies. The quotas had been as follows: 1981 - US\$118.8 million; 1982 - US\$106 million; 1983 - US\$95 million; 1984 - US\$100 million. In 1985 the quota had been raised to US\$170 million due to the improved balance-of-payments. The same level remained valid for 1986.

36. The representative of Canada said that since Hungarian exports to Canada were running at a level double Canadian exports to Hungary and unlike the Canadian exports consisted mainly of finished goods, Canadians were naturally concerned to learn more about the mechanisms that determine Hungarian trade patterns. He was grateful for the information given at the beginning of the meeting on this, and enquired why Hungary made no notifications under Article XVII, and what Hungary considered to be state trading. It seemed to him that, at the very least, foreign trade enterprises under administrative supervision would qualify for notification under Article XVII.

37. The representative of Hungary said that the trade pattern was shaped by the competitive position of firms; it was not decided or organized by the State and was not under any administrative supervision. Article XVII referred to state-owned enterprises or private enterprises having exclusive privileges in foreign trade matters; it referred to enterprises, not to countries. At the preparatory phase of the Havana Charter negotiations, there had been proposals to draw up special provisions for countries with complete monopoly of foreign trade, but these proposals died away and were not discussed in Havana. The GATT consequently did not contain any special provision for countries with complete monopoly of foreign trade; there was no such category as state-trading country in the GATT legal system and any existing legislation based on this notion was not in conformity with the GATT. The monopoly of foreign trade in Hungary or the form of ownership of production means had no relevance to Article XVII. Monopoly of foreign trade in Hungary was the authority of the Ministry of Foreign Trade to license entities to carry out foreign trade activity. It did not imply monopolistic rights in the activities of the entities. The licensing procedure itself was a simple one. Enterprises with full autonomy in their economic activities enjoyed, with the exception of some products of key importance to the national economy, unrestrained freedom in the scope of their foreign trade activity. In the case of certain foreign trade enterprises under administrative supervision which carried out trade with essential goods, the trade might be carried out just by one enterprise. However, these enterprises were fully autonomous in their activities and were functioning on the basis of the same legal, economic and financial regulations creating the economic environment as the other foreign trade enterprises. The Hungarian delegation was ready to examine if this concentration of trade had any impact on the trade interest of its partners.

38. The representative of the EEC recalled that the 1974 Hungarian Foreign Trade Law layed down that foreign trade was a state monopoly. While it was interesting to watch the experiments made in Hungary to decentralize state trading, he nevertheless had some doubts as to the degree of autonomy enjoyed by Hungarian firms in the framework of a state planning system. He also referred to the free zones for joint ventures created in Hungary in 1982 and asked for an assessment of the experiment.

39. The representative of Hungary said the 1974 Foreign Trade Law was written in broad terms but was not meant to describe in detail the present situation. There was no obligatory foreign trade plan in his country. The GATT had accepted Hungary's tariff as a regulatory instrument of foreign trade policy. Concerning the customs-free zones for joint ventures started in 1982, any plant or area could be declared a customs-free zone, where the physical separation was possible. At present there were twelve such customs-free zones but not necessarily covering joint ventures.

40. Another member of the Working Party enquired whether there had been any changes in the trade practices regarding Annex A countries since the last consultation.

41. The representative of Hungary said there had been no changes in trading regulations of Hungary with Annex A countries.

42. The Chairman said that he had heard a number of delegations refer to the slow pace at which the EEC had been moving to comply with its obligations under the Protocol of Accession of Hungary. Questions had been asked as to

whether the EEC's maintenance of discriminatory quantitative restrictions on Hungarian imports were in conformity with the terms of the Protocol of Accession. Some delegations had indicated that a time-table for the elimination of the remaining restrictions would be appropriate. He had heard the representative of Hungary raise a number of definitional problems regarding the EEC's notifications. He was pleased that the representatives of Hungary and of the EEC had expressed a desire to clarify the factual situation as regarded the quantitative restrictions still in force. He recommended that the two delegations conduct consultations among each other at an early date with a view to clarifying the factual situation referred to in paragraph 4(a) of the Hungarian Protocol of Accession and to report on the results of the consultations to him.