

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

1981 CONSULTATION WITH TURKEY

(Consultation Under Simplified Procedures and
Examination of Request for Extension of Stamp Duty Waiver)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD, 26th Suppl., pp. 205-209) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration. The paper also gives background information intended to help the Committee examine the request of the Turkish government to extend a waiver permitting the imposition of a stamp duty (L/5190).

I. Turkey's last full consultation

2. The last full consultation with Turkey took place on 30 October 1979. The Committee noted at that time that severe external payments difficulties had resulted in a sharp decline in imports of about 30 per cent in real terms in 1978. The Committee expressed the view that the adoption of a comprehensive programme to restore external and internal balance would permit Turkey to work toward a liberalization of the import regime. In this connexion it noted with satisfaction the introduction of a stabilization programme and a new orientation in exchange rate, monetary and budgetary policy (BOP/R/107, p.10).

3. The last full consultation was preceded by five further such consultations in 1977 (BOP/R/99), 1975 (BOP/R/81), 1973 (BOP/R/65), 1969 (BOP/R/34) and 1967 (BOP/R/11).

II. The main changes in Turkey's trade policy since the last consultation

a) Licensing

4. Until 1981 the annual import programme classified imports into three basic categories: The first was the category of liberalized imports for which there were no value or quantity limits. For these imports there were two lists: For List I imports, licences were granted automatically; for List II imports, the approval of the appropriate government department was required. The second category was that of global quota imports for which limitations were published annually. In 1980, 300 tariff headings accounting for 12 per cent of total imports were subject to global quota limitations. In the third category fell imports of products subject to a bilateral quota system which implemented bilateral agreements.

5. In January 1981 the list of global quotas was abolished. The items contained in this list were transferred to the lists of liberalized imports, which, as a result, now account for 86.2 per cent of total imports as compared to 66 per cent in 1980. In addition, about 200 items, which represented about US\$ 300 million in 1980, were transferred from List II to List I, thereby freeing them from certain administrative controls. The number of bilateral agreements has been reduced to two and the imports under them now represent less than two per cent of total imports.

b) Import deposit requirements

6. Turkey has maintained its system of guarantee deposits but has reduced the deposit rates. Applications for import licences must still be accompanied by a guarantee deposit in cash in local currency in an amount equal to a specified percentage of the foreign exchange cost of the goods they cover. The public sector is exempt from making advance guarantee deposits. The deposits are made through authorized banks and are blocked by the Central Bank until importation has been effected. If the imports are not made in conformity with import regulations or the conditions of specific licences, the Treasury may decide to retain up to ten per cent of the recorded import value.

7. In 1981 the general deposit rate was reduced from 30 to 20 per cent and the rate applicable to industrialists' requirements from 15 to 10 per cent.

c) Stamp duty

8. A stamp duty representing a percentage of the declared value of imports has been levied since 1963. In January 1980 this duty was lowered from a range between 22.5 per cent and 25 per cent, to one per cent and its scope was extended to apply to all products. All of the above charges are applied on a non-discriminatory basis.

d) Other non-tariff charges on imports

9. There have been no changes in the system of charges on imports that are levied in addition to customs duty, namely the municipal tax representing 15 per cent of the applicable customs duty; the wharf duty of five per cent of the sum of c.i.f. value, customs duty, municipal tax and customs clearance expenses (not levied on imports by air); and the production tax ranging from five to 75 per cent, depending, inter alia, on the type of product, and the applicable customs duty. The production tax is levied in order to compensate for internal taxes and charges on similar domestic products. All of the above charges are applied on a non-discriminatory basis.

III. The Turkish stamp duty waiver

10. On 28 February 1963 a law took effect in Turkey according to which all customs declarations (or documents used in lieu thereof) are charged with a duty of five per cent ad valorem. Considering that

this stamp duty was inconsistent with Article II of the General Agreement in so far as it applied to products for which Turkey has assumed obligations under Article II, the CONTRACTING PARTIES granted a waiver temporarily exempting Turkey from its obligations under this Article. This waiver has subsequently been extended and amended seven times as shown in the table below.

Date of Waiver	Expiry of Waiver	Max. Stamp Duty Permitted	BISD Suppl./page
20 July 1963	31 December 1967	5%	12S/55
11 November 1967	31 December 1972	15%	15S/90
24 August 1969	31 December 1972	25%	17S/28
30 January 1973	31 May 1973	25%	20S/31
3 July 1973	30 June 1975	10%	20S/32
15 July 1975	31 December 1977	10%	22S/13
17 April 1978	31 December 1979	25%	25S/12
27 November 1979	31 December 1981	25%	26S/228

11. Since 1973 the requests for an extension or amendment of the stamp duty waiver were examined by the Balance-of-Payments Committee in connexion with Turkey's regular balance-of-payments consultations. At the last consultation on 30 October 1979 the Committee noted that the stamp duty was levied primarily for fiscal rather than balance-of-payments reasons and that the need for it would be obviated once a fiscal reform had been implemented. It shared the Fund's view that the stamp duty should be replaced by alternative measures. Recognizing, however, that Turkey's economic situation did not permit it to give first priority to the immediate removal of the duty, the Committee agreed to recommend that the CONTRACTING PARTIES grant an extension of the waiver until 31 December 1981 (BOP/R/107, p.10), a recommendation which was accepted on 27 November 1979.

12. On 1 January 1980, Turkey reduced the incidence of the stamp duty to one per cent, as part of a comprehensive economic reform programme (L/4960). On 11 September 1981, Turkey informed the GATT that it requests an extension of the existing waiver until 31 December 1983 (L/5190) suggesting at the same time that this request be examined by the Balance-of-Payments Committee. While the present waiver permits a stamp duty of up to 25 per cent, Turkey requests its extension at the presently applied rate of one per cent.

13. In the previous consultations the representative of Turkey indicated that the stamp duty could not be abolished unless the fiscal impact was offset by compensating measures, such as the introduction of a value-added tax (VAT). In late 1980 a proposal to reform the tax system was put before the legislature. Some of the proposed measures were enacted and, as of March 1981, increased government revenue slightly. Another part of the proposal - the introduction of a VAT system - is now expected to be enacted in 1983. A detailed description of the tax reform can be found in Appendix I of the IMI'

paper "Turkey - Recent Economic Developments", dated 24 August 1981 (pp. 87-90).

IV. Major trends in Turkey's foreign trade since the last consultation

14. According to OECD trade estimates, the dollar value of Turkey's imports and exports increased by around 10 per cent in 1980, to \$6.26 billion and \$2.75 billion respectively. The further increase in the country's trade deficit in 1980 reflected primarily a deterioration in the terms of trade.

15. All available information indicates that the dollar value of both imports and exports recorded strong increases in the first half of 1981, compared to the same period of 1980. According to OECD data, Turkey's trade deficit widened from \$1.5 billion in January-June 1980 to \$2.5 billion in the first six months of the current year.

V. Fiscal impact of stamp duty

16. The table below offers a view of the impact of the revenue gathered by the Turkish government through the imposition of an import stamp duty on its revenues and net expenditures.

Relative Importance of the
Stamp Duty Revenue in Turkey's Consolidated Budget^a

	<u>1979</u>	<u>1980</u>	<u>1981^b</u>
	(Expressed as a percentage of total revenue)		
<u>TOTAL REVENUE</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
of which:			
Total tax revenues	79.7	87.4	93.9
of which:			
Import stamp duty	(5.2)	(0.7)	(0.1)
<u>TOTAL EXPENDITURE</u> (Relative to Total Revenue)	<u>117.3</u>	<u>124.3</u>	<u>104.3</u>

^aFiscal year data: March-February.

^bOfficial estimates.

Source: International Monetary Fund, Turkey - Recent Economic Developments, August 24, 1981, Tables 18 (p.40) and 21 (p.43).

17. According to these data, the revenue gathered through the import stamp duty in fiscal 1979 (the duty was 25 per cent for most of the year) accounted for just over 5 per cent of total revenues and its entire withdrawal would have entailed an increase in the consolidated budget deficit from 17.3 to 22.5 per cent of total revenue. In fiscal 1980, when the duty was reduced to one per cent, the share of the revenue thus gathered decreased to 0.7 per cent of total revenue and its importance in reducing the budget deficit became negligible. The same would apply in fiscal 1981, on the basis of official estimates of the consolidated budget³.

FOOTNOTES

¹Recent developments in Turkey's foreign trade in dollar terms are particularly difficult to analyze, due to the wide variations among information from different sources, differences which are thought to be related to, among other things, the exchange rate used in converting lira values into dollar values. Depending on which national or international source used, the percentage increase in the dollar value of imports (customs basis) between 1979 and 1980 varies from 10 to 51 per cent; export growth rates vary from 5 to 29 per cent. Data published in OECD, Statistics of Foreign Trade, Series A, have been used here because the statistical series also provided information on the first half of 1981.

²Customs basis; exports (f.o.b.) less imports (c.i.f.).

³The amounts involved, in Turkish Liras, are shown in IMF's Turkey - Recent Economic Developments, August 24, 1981, Tables 18 (page 40) and 21 (page 43).