

CONSULTATION WITH HUNGARY

SEVENTH REVIEW UNDER THE PROTOCOL OF ACCESSION

Report by the Working Party on Trade with Hungary

1. At its meeting on 19-20 October 1988 the Council established a Working Party to conduct the Seventh Consultation with the Government of Hungary provided for in paragraph 6 of the Protocol of Accession and to report to the Council.

2. The Working Party met on 26 and 29 June 1989 under the chairmanship of Ambassador Graham C. Fortune (New Zealand) to carry out the consultation.

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

L/6501 and Addendum 1
(plus Corr.1)

Hungarian Foreign Trade
Statistics

L/6451 and Addenda 1-4

Notifications by contracting parties
on discriminatory restrictions
maintained on imports from Hungary
on 31 December 1988

4. This report sets out the main points of discussion in the Working Party.

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:

Argentina
Australia
Austria
Canada
Czechoslovakia
Finland
Hong Kong
Japan
Malta

New Zealand
Norway
Poland
Romania
South Africa
Sweden
Turkey
United States
Yugoslavia

The representative of Hungary said that he assumed that those contracting parties who had not sent in notifications were not applying discriminatory quantitative restrictions against Hungary.

6. The Working Party had before it the notifications on discriminatory quantitative restrictions maintained by the European Communities.

7. The representative of Hungary made an introductory statement, the full text of which is annexed to this report. He described the overall economic situation and gave a detailed description of the economic reform measures taken by the Hungarian government in order to move towards a market economy. The description touched on taxes, the price system, banking, the Company Act, the Act on foreigners' investment, liquidation procedures, eligibility to conduct foreign trade activities, direct representation of foreign firms in Hungary as well as other aspects. He underlined that a favourable external environment was indispensable for the success of the reform process. In this context he also referred to the trade distortive measures and barriers affecting Hungarian exports. He reiterated the importance Hungary attached to a well functioning multilateral trade system and to the successful and timely conclusion of the Uruguay Round negotiations.

8. The representative of the United States said that his authorities were pleased with the general development of trade relations between Hungary and the other GATT contracting parties, despite the deterioration of the US-Hungary trade balance during the period under review. Hungary's trade with GATT contracting parties, outside of the trade flows mandated under the CMEA agreements, had shown steady and balanced growth. Hungary's participation in GATT had grown steadily since accession in 1973, and in his delegation's view had contributed to the development of the GATT and the international trading system. Hungary's constructive contributions to progress in the Uruguay Round of negotiations merited particular note, in negotiations on agriculture and the new areas.

9. His delegation welcomed the opportunity to learn more about what the government of Hungary was doing in the area of economic reform, and commended Hungary for the very serious efforts it had made to date. The Hungarian economy was in transition to a system where market forces were allowed much freer-play than in the past. Such change would promote greater economic efficiency and would work to the benefit of the Hungarian people. He hoped it would continue. Of particular interest were measures Hungary had taken in the direction of allowing greater foreign trading authority to domestic enterprises; implementing bankruptcy laws aimed at ensuring that domestic enterprises operated on a profit-and-loss commercial basis; reducing the role of central planning in economic decision making and reducing subsidies to inefficient enterprises.

10. His authorities also believed that much more needed to be done in these and in other areas if Hungary was to become the sort of market-oriented economy on which the GATT system was based. In addition to the areas already mentioned, his delegation saw it as very important for Hungary to move over time to allow free-play to market forces in determining prices, particularly of tradable goods and their inputs; to eliminate exchange controls; and allow the exchange rate to be determined by market forces. The challenge was a tremendous one, but one to which

Hungary appeared to be responding successfully. His delegation very much hoped to hear further progress in the coming years.

11. The representative of the EEC said the Community was impressed by the programme of reforms under way, which indicated that Hungary was moving by stages toward an open-market economy. The measures adopted in so many areas and most importantly in the foreign trade area deserved recognition by all as being in the direction of the General Agreement. Hungary's determination to carry the reform forward augured well for a fuller integration of the Hungarian economy in the GATT family and world economy. It would be a further demonstration of this determination if Hungary were to be one of the early candidates for the Trade Policy Review. Since the previous consultation Hungary and the EEC had signed a trade and economic cooperation agreement, (of which the Council of GATT was informed in October 1988). The agreement provided for reciprocal liberalization in line with the GATT, progressive elimination by the EEC of its quantitative restrictions, and progressive application of non-discrimination with regard to licensing.

12. The representative of Japan welcomed Hungary's efforts toward economic reform and encouraged it to continue in that direction. Pointing to the trade statistics in document L/6501, he said that while Hungary had fully benefited from Japan's open-market, its imports from Japan had nevertheless declined. He hoped that Hungary would continue its efforts for further liberalization and economic reform. With respect to remaining discriminatory measures applied by some contracting parties against Hungarian imports he said that such measures were not in conformity with GATT. Japan was opposed to any discriminatory quantitative restrictions and he hoped that their elimination would be accelerated.

13. The representative of Finland speaking on behalf of the Nordic countries paid tribute to the reforms undertaken by Hungary. The Nordic countries appreciated the efforts towards reform in general and reform of foreign trade in particular, including all facets of foreign economic relations. With respect to remaining discriminatory quantitative restrictions against Hungary, it was their hope that the matter could be solved in the not too distant future. It was reconfirmed that the Nordic Countries did not maintain discriminatory quantitative restrictions. The Nordic countries had noted Hungary's remarks concerning a favourable external environment in order to carry out its reform, and they welcomed Hungary's contribution to the Uruguay Round negotiations, the success of which was vital to Hungary's reform.

14. The representative of Israel said that his delegation was encouraged by the measures taken by Hungary which were all in the direction of a more efficient economy. He agreed that a positive external trading environment was needed. He noted with appreciation Hungary's active role in the Uruguay Round negotiations. He said that Israel was taking some liberalization measures in the tariff and non-tariff areas, which would be of benefit to Hungary and would improve the trade flow between the two countries. He recalled the existing cooperation between the two countries

in the field of agriculture, which should result in enhanced competitiveness of Hungary's exports in this important sector.

15. The representative of Uruguay said that his delegation appreciated the reform of the economy and foreign trade. He hoped that the process would continue and be successful. He noted that Hungary's objectives, coincided with those of the Uruguay Round negotiations and thanked Hungary for its cooperative efforts in the negotiations. The traditional position of Uruguay was that all contracting parties had the same rights and obligations; he was hopeful that Hungary would soon have not only the same level of obligations but the same rights. His delegation also hoped that the elimination of remaining discriminatory quantitative restrictions would take place soon.

16. The representative of Argentina thanked Hungary for his comprehensive statement. Argentina viewed positively the structural reforms and liberalization measures under way. The Uruguay Round negotiations would contribute to Hungary's efforts, and his delegation would support Hungary in its move toward liberalization.

17. The representative of Australia congratulated Hungary on the economic reform measures under way. He had noted the comments made on Hungary's active role in the Uruguay Round and said that his delegation was also in close cooperation with Hungary, especially in the field of agriculture, where Australia faced similar problems in exports as Hungary. His delegation welcomed and supported the liberalization changes in Hungary and hoped that Hungary would reach its full rights and obligations under the GATT.

18. The representative of Canada said that he wished to support what previous speakers had said concerning the comprehensive statement on economic reform measures and hoped that Hungary could overcome some of its current difficulties by strengthening and liberalizing its economy and by making it more compatible with GATT. He noted from the statistical report (L/6501) that Hungary would continue to broaden the geographic distribution of its trade. He noted that Canadian exports to Hungary had fallen sharply and hoped that this was only temporary and due to the recent hard currency shortage. European companies could have used recourse to counter-trade to avoid a decline in their trade. Referring to the EEC-Hungarian agreement he noted that a timetable was now established to phase out the remaining discriminatory quantitative restrictions. He hoped that this agreed timetable would be adhered to or even improved upon. His delegation believed that further reform measures would be needed to open up the market. In that context the Uruguay Round was important; he also welcomed the active role of Hungary in the negotiations. His delegation remained confident of the success of the Uruguay Round, but the final result would require a meaningful contribution from all, including Hungary. His delegation was also pleased to note that Hungary was determined to pursue economic reform further.

19. The representative of Austria thanked the Hungarian delegation for its comprehensive statement. As a neighbour Austria followed developments in

Hungary with great interest and the recent developments had all been in the direction of a full market economy. He hoped that Hungary would continue in this direction. He encouraged Hungary's contribution in the Uruguay Round negotiations. He pointed out that Austria did not apply any discriminatory quantitative restrictions against Hungarian exports.

20. The representative of Korea supported the previous speakers statement of appreciation. His delegation appreciated the economic reform process under way and encouraged it. These reform efforts should be widely recognized and encouraged and supported step-by-step. He also appreciated Hungary's active participation in the Uruguay Round negotiations.

21. The representative of Switzerland said that the reform measures which had been taken since 1968 were now accelerating and that Hungary's trading partners would feel its impact. The volume of trade between Switzerland and Hungary was of the order of Swiss francs 560 million, a figure that had regressed from the past and a figure well below trade possibilities. His delegation did not doubt that the reform measures under way would allow Hungary to better develop trade between the two countries. He said that it was in the interest to all to eliminate barriers to Hungarian exports and to ensure m.f.n. treatment. He also said that all agreements between Hungary and any trading partners should be applied on a most-favoured-nation basis. His delegation encouraged and supported Hungary's efforts towards economic reform.

22. The representative of Pakistan supported the previous speakers and expressed his delegation's appreciation and satisfaction about the positive developments in Hungary, where a profound reform programme was under way in so many different areas. This reform was far reaching and would produce results. His delegation was impressed and commended Hungary which deserved recognition for its efforts. He agreed with the remarks concerning the favourable external trading environment and, like other delegations, hoped that Hungary would soon enjoy equal rights and obligations under the GATT.

23. The representative of Brazil congratulated the delegation of Hungary for the economic reforms under way; she noted that the success of this reform would depend on a positive external environment. She said that it would be important to eliminate EEC quantitative restrictions against Hungarian exports.

Hungarian exports

24. The representative of Hungary said that his introductory statement contained certain elements relevant to this part of the review, especially the changes in the institutional framework of foreign trading activities.

25. On the basis documents L/6501 and addendum 1, which contained statistical information, he said that between 1985-1988 a major shift in the proportion of convertible and non-convertible currency trade had taken place. While in 1985 the share of convertible currency exports was 50 per cent, by 1988 it had grown to 57 per cent. On the other side the 55.2 per cent portion of convertible currency imports had risen to 58.7 per cent.

26. After a significant deficit in the trade balance in 1986, improvement had taken place in 1987 and by 1988 a surplus of some US\$550 million had been registered.

27. In the period under review total Hungarian imports had increased by 15 per cent: from OECD countries 29 per cent, from the EEC 37 per cent and from EFTA countries 50 per cent. Total exports had grown by 16 per cent: increase of sales destined to OECD countries 60 per cent, to the EEC 73 per cent and to EFTA countries 42 per cent.

28. This dynamic trade in convertible currencies, in particular with developed countries, had led to a growing share of trade with GATT contracting parties, both in total Hungarian export (an increase from 51.5 per cent in 1985 to 60 per cent in 1988) and in imports (up from 58.2 per cent to 62.8 per cent in the same period). The share of contracting parties (excluding Annex A countries) had grown in total Hungarian imports from 47.6 per cent in 1985 to 52.5 per cent in 1988. At the same time, the share of countries listed in Annex A had decreased in Hungarian imports from 51.3 per cent to 46.4 per cent. Imports from contracting parties (without Annex A countries) were 27 per cent higher in 1988 over the 1985 level, while the growth of imports from countries listed in Annex A was a mere 4.3 per cent during the same period.

29. Focusing on Hungary's main trading partners, he said that the trade balance with EEC countries had improved in 1988. The deficit which had prevailed in the years 1985-1987 (in the range of US dollars 350-550 million) had declined but even in 1988 there was a negative balance of some US dollars 20 million. The traditionally significant negative trade balance with the Federal Republic of Germany and Belgium had been partly offset by surpluses with Italy, France and Greece.

30. As for EFTA countries a deficit of US dollars 31 million in 1985 had grown to US dollars 129 million in 1988. This was mainly due to a substantial imbalance of Hungary's trade with Austria. In the case of Switzerland the previous surplus had turned into a deficit in 1988, while for Finland an opposite trend had been observed. Trade with Sweden had been balanced.

31. The trade balance with the United States had shown a deficit in 1985, while by 1988 a substantial surplus had been recorded. As for Japan the traditional negative balance had turned to a slight surplus for the first time in 1988. Referring to Japan's previous comments he said that there was no predetermined share of Hungary's trade by regions. The decline of trade with Japan was partly a reflection of a decrease in the volume of investments in Hungary. Furthermore, Hungary imported high technology products from Japan and Japanese export controls caused delays, thereby prompting Hungarian importers to turn to other sources of supply. There were other reasons also; for instance personal computers where prices had fallen considerably; therefore Hungary's increased import volume was not reflected in the value of trade. With respect to the remarks made by Canada that Hungary might have relied more on counter-trade with Western-Europe was not a valid explanation. Canada was a supplier of raw

materials to Hungary and some of these materials were imported by trading firms in Western-Europe and it was likely that some of the Canadian products reached Hungary through these trading houses and therefore would not be reflected in country figures. There was generally a wide range of possibilities for foreign firms to trade with Hungary but the geographic reality was such that Canada, the United States and Japan were far from the Hungarian market. He suggested that having direct representatives in Hungary would facilitate trade expansion.

32. There had been no basic change in Hungary's pattern of trade with developing countries. The traditional deficit had remained with important Latin-American trading partners while surpluses had been registered vis-à-vis most countries in the Middle East and some trading partners in Africa.

33. In the commodity structure of total trade at an aggregated level, the only significant change had been the decrease of the share of fuels and the increase of materials (commodities and semi-finished products) both in exports and imports.

34. The continued deterioration in 1985 and 1986 of the terms-of-trade in convertible currency trade had stopped in 1987, and a modest improvement had been registered in 1988. In spite of this development the terms-of-trade in 1988 had remained well below (i.e. 93.7 per cent) the 1985 level.

35. The representative of Hungary said that the conclusion of the bilateral agreement on trade, commercial and economic cooperation between the European Economic Community and Hungary represented an important development since the last consultation. The agreement which had been signed on 26 September 1988 and had entered into force on 1 December 1988 was of a non-preferential character. Its objectives were to create favourable conditions for the harmonious development and diversification of trade and the promotion of commercial and economic cooperation on the basis of equality, non-discrimination, mutual benefit and reciprocity. It provided for most-favoured-nation treatment in accordance with the GATT and the Protocol of Accession of Hungary.

36. Under the Agreement, the Community had undertaken to abolish quantitative restrictions on imports originating in Hungary referred to in paragraph 4(a) of the Protocol of Accession of Hungary to the GATT. Paragraph 4(a) related to quantitative restrictions not consistent with Article XIII of the GATT. The abolition of these quantitative restrictions was to be implemented in three phases:

- (i) restrictions listed in an Annex to the Agreement would be lifted within one year of the entry into force of the Agreement, i.e. by 30 November 1989 at the latest;
- (ii) a second set of restrictions, also listed in the Agreement would be abolished on or before 31 December 1992;

(iii) finally, all other quantitative restrictions referred to in paragraph 4(a) of the Protocol of Accession of Hungary would be abolished by 31 December 1995 at the latest.

37. In view of the importance of their trade in agricultural products and the implications of multilateral negotiations in the framework of the GATT, the Community and Hungary had agreed to examine in a Joint committee the possibility of granting each other reciprocal concessions in the fields of trade in agricultural products on an m.f.n. basis. The two sides had also undertaken to examine the possibility of increasing their mutual trade by the abolition, reduction, or other modification of tariffs in conformity with their obligations under the GATT.

38. The Agreement contained, in line with the Protocol of Accession of Hungary, a safeguard clause to which each of the parties could have recourse. It provided for bilateral consultations by the two parties if any product being imported in their mutual trade in such increased quantities or under such conditions as to cause serious injury to domestic producers. Either party could refer any disagreement arising from such safeguard measures to the CONTRACTING PARTIES of the GATT.

39. The Community and Hungary had further agreed to ensure the publication of comprehensive commercial and financial data as well as information in accordance with Article X of the GATT and to maintain and further improve favourable business regulations and facilities for each other's companies on their respective markets.

40. A provision explicitly ensured that the Agreement shall not affect or impair the rights and obligations of the parties under the GATT and the Protocol of Accession of Hungary.

41. The delegation of Hungary considered that the undertaking of the Community under the bilateral Agreement concerning the phasing out of all quantitative restrictions inconsistent with Article XIII of the GATT was a renewed commitment to the implementation of the relevant provisions embodied in the Hungarian Protocol of Accession. In the Agreement Hungary had not granted any concession in exchange of the implementation of this undertaking by the Community. There was no Hungarian undertaking whatsoever in the Agreement that would not have been already implemented in regard to all contracting parties or would not be extended on the basis of m.f.n and non-discrimination to other contracting parties.

42. Turning to the question of notifications under paragraph 4(c) of the Protocol of Accession the representative of Hungary said that the Community had prepared an impressive notification contained in document L/6451/Add.3. In spite of the fact that in several NIMEXE positions quantitative restrictions not consistent with Article XIII had been eliminated, a great number of positions remained to be eliminated in the forthcoming period with a view to achieving the complete elimination of restrictions referred to in paragraph 4(a) of the Protocol.

43. He made the following observations regarding the EEC notification.

a) List A of the notification gave an overview of the progress made from 31 July 1985 up to 1 January 1989. According to this the Community had eliminated some 400 quantitative restrictions on imports from Hungary during this period. While welcoming these steps, Hungary had to note that some of these measures concerned quantitative restrictions which did not fall under paragraph 4(a) of the Protocol.

b) There were unfortunately some deficiencies in List B of the Community's notification, which should contain all quantitative restrictions inconsistent with Article XIII still maintained by Member States. It did not include some 800 quantitative restrictions not consistent with Article XIII which were maintained not only against imports from a certain group of countries including Hungary but also vis-à-vis some other third countries. There was no other possible interpretation than the one according to which any restriction not applied on an erga omnes basis was necessarily a restriction inconsistent with Article XIII of the General Agreement, a basic provision mentioned expressis verbis in paragraph 4(a) of Hungary's Protocol of Accession. Therefore such restrictions should also be notified.

The notification avoided the listing of any textile and clothing products subject to de jure existing quantitative restrictions inconsistent with Article XIII on imports from Hungary. These restrictions were not eliminated but only suspended for the duration of the bilateral agreement concluded under the MFA.

List B also omitted to include any product falling within the scope of the Treaty establishing the European Coal and Steel Community, though some of them were subject to quantitative restrictions not consistent with Article XIII maintained by certain member states.

Finally the representative of Hungary referred again to the fact that though Spain had notified the GATT several times that it did not maintain any QRs not consistent with Article XIII, List B contained a great number of such restrictions applied by Spain.

c) He made the following comment on certain proposed measures which could not be incorporated into the notification. He had in mind the conditional offer put forward by the Community more than a year ago in the Surveillance Body established pursuant to the Punta del Este Ministerial Declaration. He could not but express the hope that in light of the observations made in that Body, the Community would soon be in a position to bring its offer into full compliance with the General Agreement.

44. His delegation recognized the positive fact that the Community had slightly accelerated in the recent period the pace of elimination of quantitative restrictions referred to in paragraph 4(a) of the Hungarian Protocol of Accession. At the same time the Hungarian authorities invited the Community to consider the possibility of speeding up the elimination of the quantitative restrictions referred to, with a view to terminating that process before the final deadline foreseen in the recently concluded bilateral agreement. In doing so, the Community would not only give a

recognition to the acceleration of the reform process in Hungary, but would also contribute to the success of the internal Hungarian efforts. His delegation hoped that the Community would soon find a way to treat Hungary in its import régime on an equal footing with all other contracting parties.

45. The representative of the EEC welcomed the Hungarian statement on exports as well as the expansion of trade in both directions. The EEC attached importance to the bilateral agreement with Hungary which was a further step in the direction of trade liberalization, in full conformity with GATT. Regarding Hungary's comments on the EEC's notification (L/6451/Add.3) he took note of the requests and hopes expressed by Hungary and would transmit the message to the respective authorities concerned. Regarding the deficiencies in List B mentioned by Hungary he said there was an old standing divergence of view concerning the definition of "discriminatory" which he would not wish to go into again. The Communities' position had not changed and in time the problem would disappear. As to the restrictions in the textile area he recalled that all was done with full transparency, subject to the established review mechanism. He said his authorities would consider what could be done concerning the products covered by the coal and steel treaty. Concerning the EEC's rollback offer he recalled that this matter was dealt with in the Surveillance Body which was the appropriate forum.

46. The representative of the United States said that the US did not apply any discriminatory prohibitions or quantitative restrictions on Hungarian exports. He also said that his authorities were not in a position to disinvoke Article XXXV at present. Based on the foreign trade data reported by Hungary in L/6501, he noted that Hungary's exports to GATT contracting parties had grown 38 per cent in forint terms in the period 1985-88, substantially faster than the growth of total Hungarian exports in this period, which was 19 per cent. This growth had been led by increased exports to contracting parties not listed in Annex A of the Hungarian Protocol of Accession, which had increased almost 45 per cent in this period and totalled about 50 per cent of the total Hungarian exports in 1988, up from 39 per cent in 1984. In contrast, Hungarian exports to the countries listed in Annex A had continued to decline from the time of the last consultation, and now accounted for only about 46 per cent of the total. Hungarian exports to Europe accounted for 89 per cent of the total sales abroad in 1988, up from 83 per cent in 1984, with destinations to countries not listed in Annex A showing the fastest growth. This data indicated that GATT contracting parties as a whole, and those not listed in Annex A in particular, had provided relatively better markets for Hungarian exports in the recent period than other trading partners. In this regard he was interested in Hungary's view on what the future trends might be.

47. The development of Hungarian exports to the United States and other GATT contracting parties markets in recent years should attest to the export opportunities available for Hungarian products, despite existing restrictions. Nevertheless the slow progress of the EEC since 1973 in addressing paragraph 4 of Hungary's Protocol had been a topic of constant discussion in this Working Party. These restrictions, as listed in

56 pages in document L/6451/Add.3, represented after ten years an inconsistency with the Community's obligations under the General Agreement. Their continued existence after all this time was an affront to GATT and undermined the credibility of Agreements reached in accession negotiations. However, the United States was pleased to see that the EEC had at least eliminated a small number of these restrictions since the last meeting and that a more comprehensive elimination was contemplated in the agreement concluded in 1988 between the Community and Hungary on trade and commercial and economic cooperation. Phasing out of the remaining restrictions was now scheduled. The United States welcomed this development. After so many years it was encouraging that the Community had committed to a timetable to phase out these restrictions. His delegation's reading of the Agreement indicated that the deadlines proposed were maximum limits and that the Community might accelerate the process if it so wished. After 14 years the United States urged the fastest possible removal of these restriction.

48. The United States also urged the EEC and Hungary to provide the text of this Agreement to the members of the Working Party. An agreement that so directly addressed issues that had been constantly addressed in this Working Party since 1973 should be notified formally to the GATT and included in the documentation of the meeting. His delegation would appreciate hearing from the participants in this Agreement a description of the proposed schedule of phasing out of the restrictions, including data on what proportion of the restrictions would be eliminated during each phase. He also requested a description of provisions in the Agreement, for the Working Party record, of how the existing quantitative restrictions would be dealt with if individual member state barriers were eliminated in 1992. How did the Community plan to deal with quantitative restrictions still in place at that time.

49. The representative of the United States also noted that there were two separate safeguard clauses in the Agreement, and that the Agreement specified that these arrangements must be exhausted prior to referral to the GATT; no provision was made for GATT notification. In particular, the special arrangement permitting the Community to extend the quantitative restrictions through 1998 would impact on the interests of the contracting parties engaged in this discussion by providing for extension of the quantitative restrictions. In light of the assurances in Articles 1 and 14 concerning the consistency of the Agreement with the GATT and Hungary's accession Protocol, he asked for an explanation of why these additional safeguards were necessary beyond the safeguard provisions contained in Hungary's protocol. The United States was concerned that other contracting parties' trade interests could be overridden in the application of these measures, since there was no provision for notification to the GATT in these safeguard arrangements.

50. The United States request for this information and for notification of the Agreement was principally intended to increase the transparency to GATT contracting parties of the bilateral arrangements dealing with one of the major issues addressed by this Working Party in recent years, as well as to give contracting parties a benchmark for future discussions in this forum.

The provisions of this Agreement that dealt with issues in Hungary's accession protocol were of interest to all contracting parties.

51. The representative of Poland thanked the Hungarian delegation for the introductory statement. He supported the view that countries which were implementing reforms aimed at liberalizing their economic systems and making them more open and market-oriented should be assisted by a supportive external trade and economic environment on the part of their main trading partner. He was in favour of an early elimination of remaining discriminatory quantitative restrictions.

52. The representative of the EEC said, in response to observations made by the representative of the United States, that the bilateral Agreement between Hungary and the EEC had been officially published (including in three GATT working languages) by the Community on 30 November 1988. It was in the public domain and he had no objection to having it circulated in GATT. Concerning safeguard clauses in the bilateral Agreement he said that the second clause referred to by the representative of the United States had been drawn up in the context of the protocol on the complete phasing out of all discriminatory quantitative restrictions. This was a bilateral issue between the EEC and Hungary; other contracting parties' interests were not at stake.

53. The representative of Hungary said that provided the EEC had no objection he was in favour of circulating the text of the Agreement which was also officially published in Hungary. In reply to the question concerning the future trend of Hungary's trade with Annex A countries, he said that all he could see from the statistics was that the rate of growth of trade had slowed, thus the share of Annex A countries in Hungary's exports and imports had decreased. No forecasts could be made as much depended on the mutual trade interests of the countries concerned and the success of Hungary's internal reforms and the opening of trade in all directions. In reply to the remark by the EEC on the traditional problem of interpretation of the notion of "discrimination" he said that the question was really one of defining restrictions not consistent with Article XIII.

54. The Chairman said that the bilateral agreement between Hungary and the EEC would be published in English, French and Spanish as a GATT document.

55. The representative of Czechoslovakia thanked the Hungarian delegation for its comprehensive statement. He noted that a big part of it was devoted to the EEC and to free currency countries which was Hungary's main trading concern. He noted that while some liberalization had taken place, there were still quite a few measures inconsistent with Article XIII remaining and that the EEC member states were committed to their removal both in Hungary's Protocol of Accession and in the bilateral agreement between Hungary and the EEC. However, for contracting parties the priority went to the Protocol of Accession. Bilateral agreements were not always in full conformity with the GATT and therefore the Protocol of Accession remained the principal basis for eliminating these quantitative

restrictions. He asked whether the EEC could consider an earlier removal of these measures than that provided in the bilateral agreement.

56. The representative of Japan thanked the Hungarian delegation for its comprehensive statement and explanations on imports from Japan. He recalled that at the previous meeting of the Working Party, Japan had asked the EEC to establish a timetable for the elimination of discriminatory quantitative restrictions against Hungary. This had now been done in the bilateral agreement. However, it was Japan's view that these restrictions should be abolished as soon as possible. He therefore supported the Hungarian statement inviting the EEC to consider early elimination of the discriminatory quantitative restrictions.

57. The representative of the EEC recalled that their agreement with Hungary was bilateral. It was in no way inconsistent with any GATT obligation.

58. The representative of the United States asked whether there were any restrictions not covered by the bilateral agreement between Hungary and the EEC.

59. The representative of Hungary replied that his understanding was that the Agreement foresaw the elimination of quantitative restrictions referred to in paragraph 4(a) of the Protocol of Accession, which explicitly related to "prohibitions and quantitative restrictions not consistent with Article XIII". There would be three steps to the elimination of these restrictions. Evidently Hungary was fully convinced that at the end of the road i.e. in 1995 at latest, all quantitative restrictions not consistent with Article XIII will have been eliminated. He suggested that any omissions in the EEC notification could be corrected.

60. The representative of the EEC confirmed that the bilateral agreement covered all quantitative restrictions mentioned by the representative of Hungary, except for those products coming within the scope of the European Coal and Steel Treaty.

Hungarian imports

61. The representative of Hungary said that in assessing the main developments in Hungarian imports, he wished to refer to some relevant trends in the Hungarian economy. The volume of convertible currency imports had increased in 1985, 1986, 1987 but had dropped in 1988. This was in correlation with the general trend in the Hungarian economy, the evolution of its growth rates, investment activity and private consumption. After a period of continued increases, domestic demand had fallen in 1988. During the same period the former policy of fiscal and monetary expansion had been followed by restrictive ones. Between 1985 and 1987 the purchasing power of Hungarian firms and enterprises had increased substantially while from 1988 a sharp fall was observed. Reduced domestic demand and purchasing power had also had an impact on import flows.

62. On the other hand, between 1986 and 1988 the forint had been devalued six times vis-à-vis convertible currencies, resulting in about a ten per cent depreciation both in 1986 and 1987 in both nominal and real terms. The depreciation had contributed to the reduction of import demand and to the promotion of export activities.

63. As far as import licensing was concerned, all foreign trade activities in Hungary had been subject to licensing, applied in a non-restrictive and non-discriminatory manner. An important change, with effect from 1 January 1989, had taken place when the licensing requirement had been abolished for goods representing approximately 40 per cent of the value of Hungarian imports in convertible currencies. The relevant decree and its Annex containing the list of goods affected had been notified to GATT. His authorities considered that this was a significant step in the process of economic reform, market opening and in fostering competition. It should also be regarded as an advance contribution by Hungary to the objectives of the Uruguay Round.

64. As part of the liberalization process, tariff rates for 67 CCCN headings and subheadings had been reduced significantly as from January 1989. The items concerned included electrical goods, household electronics and parts thereof, insulators, instruments for physical and chemical analysis and passenger cars. The tariff rates for these items had been reduced by 70 per cent, as a result of which the average tariff level of the 67 items concerned had decreased from 34 per cent to 11.3 per cent. This step was also to be considered as a positive contribution in the Uruguay Round negotiations.

65. Hungary participated in the negotiation process directed toward the fullest liberalization of trade in tropical products. Hungary's contribution to the mid-term review has been made in the framework of the Hungarian GSP scheme. GSP rates had been reduced to zero for 41 tropical products and new GSP rates had been introduced for 44 tariff lines with an average tariff level of 3.7 per cent.

66. During the period under review certain developments had taken place in the importation of consumer goods. The value of the global quota had been set at US dollars 170 million (in the years 1985 to 1988), representing a 70 per cent increase compared to 1984. As from January 1989 a further 18 per cent increase had taken place; the value of the quota now amounted to US dollars 200 million.

67. The importation of some items, formally falling under the quota, had been liberalized in the context of the partial abolition of the import licensing requirement (household electronics, baby clothing, etc.). The trade coverage of liberalized consumer goods amounted to 21 per cent of the quota in 1988. Tariff reductions, referred to above, also involved certain consumer goods.

68. The issue of the publication of the lists of goods contained in the agreements with countries enumerated in Annex A had been raised on several occasions at previous meetings of the Working Party. He informed the

Working Party that the lists in question had now been published in the Official Trade Gazette in respect of six countries; some others were expected to be published soon.

69. It was the intention of the Hungarian authorities to gradually and substantially enlarge the coverage of products for which no import licence would be required. In the implementation due regard would be given to developments in Hungary's balance of payments position in convertible currencies. Further reductions in the coverage of the export and import negative lists were also contemplated.

70. The representative of the EEC welcomed the liberalization of import licensing requirements and encouraged Hungary to move further in that direction.

71. The representative of the United States, basing himself on document L/6501, noted that Hungarian imports from GATT contracting parties had grown only 24 per cent in forint terms between 1985 and 1988 or about half the rate of exports in the same period. This imbalance had not improved since the last consultations. Imports from contracting parties excluding those listed in Annex A had risen 27 per cent in this period, not a significantly fast pace, but did exceed 52 per cent of total Hungarian imports, a sharp increase over the 44 per cent share of 1984 and the highest level recorded since 1981. His delegation was interested in hearing Hungary's views on further developments in this regard, and having a description of the operation and scope of Hungary's import licensing system, and the status of its "global quota" on imports of consumer goods. How did these import restrictions operate and under what GATT provisions were they justified?

72. His delegation had carefully read the EEC - Hungary bilateral agreement, including the commitments in Article 1 of the Agreement to accord m.f.n treatment in accordance with Article I the GATT and Hungary's accession protocol, and the provision in Article 14 that the Agreement would not affect GATT rights and obligations of either party. He enquired as to the relationship of that commitment to the terms of Article 4 of the bilateral agreement which provided for the EEC and Hungary to "accord the highest degree of liberalization which they generally apply to third countries to imports of the other products taking into account all the provisions of GATT and of the Protocol of Accession of Hungary thereto".

73. In light of Hungary's special trade regime with the countries in Annex A, and the extensive system of the EEC trade preferences to countries outside its customs union, he asked for clarification of the nature of the "liberalization" referred to in Article 4 of the bilateral agreement. He sought EEC and Hungarian assurances that this language meant that both countries intended to comply fully with the obligations of Article I of the GATT vis-à-vis each other and other contracting parties.

74. He also sought the views of Hungary and the EEC concerning the commitment in Article 10, paragraph 3 of the bilateral agreement, which stated that neither party shall impose counter-trade requirements on

companies established in either region or shall compel them to engage in such trade practices. Did this mean that Hungary or the EEC was free to impose such conditions on the trade of companies of other GATT contracting parties but not on the trade of the EEC or Hungarian companies.

75. The representative of Canada welcomed the Hungarian efforts toward tariff reductions and hoped that more reductions could be achieved in the context of the Uruguay Round. He also shared the comments of other delegations regarding the improvement of the import licensing system.

76. The representative of Hungary said that the product description of the global quota for consumer goods (at the 6 digit level) had been notified to GATT (MTN/W/6/Rev.5 and MTN/TG/W/5). The system functioned on a "first come first served" principle as in the past. He was not in a position to comment on the future of the quota. He was aware that in the Non-Tariff Measures negotiations some participants had expressed a wish to negotiate this issue and his delegation was prepared to participate in such a negotiation.

77. Regarding specific provisions of the bilateral agreement it was the Hungarian view that Article 10, paragraph 3 concerning counter-trade contained nothing that Hungary would not grant on an m.f.n and non-discriminatory basis to all contracting parties. He recalled that at the Second and Fifth Review of Hungarian trade the issue of counter-trade had been debated. The Hungarian position had been explained in detail at the time and was still valid.

78. In reply to the question about the terms of Article 4 in the bilateral agreement which provided for "the highest degree of liberalization ..." he explained that this notion in the Agreement, was linked to the purpose of eliminating all restrictions covered in paragraph 4(a) of Hungary's Protocol of Accession.

79. Finally, he confirmed that the bilateral agreement contained no provision that granted any preferential treatment between the parties.

80. Commenting on the United States assessment of the growth of different trade flows of Hungary it was his assessment, based on the statistics provided, that trade with contracting parties had grown much faster than trade with Annex A countries.

81. Finally, in reply to a question on whether there had been any major changes in Hungary's trade practices with countries in Annex A since the last review, he said that there had been no major changes during this period.

82. The representative of the EEC, in reply to a question by the representative of the United States, confirmed that the bilateral agreement did not provide for any kind of preferential treatment.

83. In summarizing, the Chairman said that all delegations who had spoken had acknowledged the importance of the reform process taking place in

Hungary and had taken note of the legislation already adopted and of the measures implemented. They had expressed support to the objectives set forth by the Hungarian authorities and had encouraged them to take the necessary steps with a view to their early achievement. It was recognized that though the primary responsibility for the implementation of the reforms lay with Hungary, a supportive external, including trading, environment was essential to success. It was emphasized that the conclusion of the on going Uruguay Round negotiations would have a contribution in this respect. Some delegations expressed their appreciation of the active role Hungary had played in these negotiations. Furthermore the significance of the implementation of some basic provisions of the recently concluded bilateral agreement between Hungary and the EEC on trade, commercial and economic cooperation was stressed. A number of delegations had expressed their expectations with regard to the faithful implementation of that agreement. Some delegations supported the wish, expressed by Hungary, to the effect that the EEC should consider speeding up elimination of quantitative restrictions inconsistent with Article XIII, with a view to terminating that process before the deadline envisaged in the bilateral agreement. Finally the Chairman recalled a suggestion that Hungary might be one of the early candidates for the Trade Policy Review Mechanism.

A N N E X

Introductory statement of the
Hungarian Delegation

1. The 7th session of the Working Party established pursuant to paragraph 6 of Hungary's Protocol of Accession to the GATT takes place after a longer than usual interval. Before addressing the specific aspects of the review, I would like to give an overview of the developments of the Hungarian economy since January 1986 and to outline the objectives set by the Government for the next years. Under this heading I intend to address in more detail the developments in the external sector, and to refer to the external environment which has a major impact on the evolution of Hungary's trade flows and trade policy.

2. Let me start with a brief description of the overall economic situation in the recent period. Making use of the temporary ease of pressure on the convertible currency balance of payments position in 1983-84, from 1985 the economic policy focused on the dual objectives of speeding up economic development and arresting the increase of external indebtedness. Within a short time, however, most indicators worsened: economic growth remained below expectations, while domestic consumption kept on increasing and structural adjustment did not progress appreciably. Convertible currency exports expanded only modestly while the value of imports increased considerably so the gross external debt of the country has grown substantially, reaching 64 per cent of the GDP by the end of 1986.

3. By 1987, it was recognized that a radical reorientation of the economic policy was unavoidable and priority had to be given to the restoration of the external balance and internal equilibrium of the economy. Accordingly, fiscal and exchange rate policy measures have been implemented with a view to correcting the current account deficit in convertible currencies. In addition, restrictive monetary policies were followed for limiting domestic demand. A series of measures have been taken in order to promote a more efficient allocation of factors of production including both labour and capital. The most important steps included the overhauling of both the banking and tax systems, the adoption of restrictive budgetary policies.

4. In 1987-88 certain improvements were registered compared to the previous years. Due to cuts in budgetary subsidies and to the first effects of the new tax system, the budgetary deficit has decreased. Certain progress has been made in the restructuring of the economy, both on sectorial level (among others with respect to metallurgy and mining) and at the level of companies. The latter meant the reorganization and/or splitting up of some large, inefficient enterprises, putting into liquidation a number of lossmaking companies, etc. At the same time, the cuts in consumption subsidies have contributed to the speeding up of

inflation (15.7 per cent in 1988) although up to now it has been kept within manageable limits.

5. The most noticeable improvement occurred in the convertible currencies trade. In contrast to a substantially negative trade balance in previous years, there was only a small deficit in 1987 and in 1988 a surplus was recorded. As a result, the current account deficit dropped to 847 million US\$ in 1987 and further to 592 million US\$ in 1988, from a level of 1,4 billion US\$ in 1986. These results due to a great extent to temporary phenomena, like improved world market prices for some Hungarian products, involved, however, high costs and sacrifices. Economic growth - already modest in the previous years - has dropped to zero in 1988, real wages continued their downward trend and the overall level of private consumption has substantially declined.

6. In the first few months of 1989 unfavourable tendencies continued to prevail. Industrial production is stagnating. Although 1989, partly due to fair weather conditions, promises to be a good year for agriculture, dynamic export growth cannot be foreseen because of the limited market access possibilities. The convertible currencies trade showed a balance in the first months of 1989, but for the rest of the year an acceleration of imports and slowing down of exports is forecast. The previously positive balance of the tourism sector is expected to disappear in 1989 with the huge increase of spending by Hungarians abroad, resulting from the abolition of travel restrictions since last year. These tendencies are bound to affect the balance of payments position of the country and will put an additional burden on the economy. The continuing difficulties have had an impact on the budgetary balance, too. The deficit has substantially exceeded the expected level, thus the government elaborated a set of measures in order to correct the imbalances. The package approved recently by the Parliament provides for further, differentiated cuts in budgetary expenditures, especially in the fields of administration and defence.

7. Let me now turn, to measures taken in the recent period in the framework of the economic reform process:

a/ Tax system

The previously existing complicated tax system was replaced on January 1st, 1988 by a streamlined and much more simple tax structure. This meant the introduction of the value added tax and the personal income tax, while a number of formerly existing taxes were eliminated.

Under the present system the main form of company taxation is a progressive profit tax. The top tax bracket was cut in 1988, showing a recognition of the necessity of enabling companies to retain a higher share of profits. As a result there was a drop of 17 per cent in the share of the national value added, taxed away by the Government.

The VAT operates with 3 rates. Most products are taxed at the normal 25 per cent rate while a reduced 15 per cent is applicable to basic

consumer services. The 0 rate is applicable to essential food products, pharmaceuticals, books and a few other goods. In case of exports there is a full rebate of VAT. The VAT paid in case of domestic consumption is identical, irrespective of the home or foreign origin of the products or services.

Under the personal income tax system all income is subject to taxation, except for some specific forms of incomes listed in the law. There is a basic tax-free income level above which the tax rates progressively rise from 17 to 56 per cent.

b/ Price system

The gradual liberalization of domestic prices, started in the early 80-s, has considerably accelerated in the recent years. At present about two-thirds of prices are set by the market without any government intervention. Prices for certain essential raw materials, some semi-finished products and food items are fixed by the competent authority, while for the rest, price raises require prior notification to or consultation with this authority. Previously widespread consumption subsidies have been eliminated except for dairy products and bread.

c/ Banking system

As it has already been stated by the Hungarian delegation at the previous session of the Working Party, a wide ranging reform of the banking system had been started in 1985. The objective was to allow a broad range of financial institutions to compete in the mobilization and management of financial resources, in offering banking services.

In the last 3 years this process has greatly advanced and by 1989 an extensive two-tier banking system has evolved. The National Bank of Hungary focuses on macro-economic and monetary policies, the main instrument being the regulation of the money supply. 13 commercial banks and 11 other financial institutions compete on the market with a wide range of services. There are 4 banks operating with foreign participation and 6 representations of foreign banks were set up. Recently the limitations on commercial banks' activities have been further reduced so now they can keep foreign currency accounts for their clients and collect foreign exchange deposits from domestic and foreign companies.

d/ The Company Act

A company act was adopted in 1988 with a view to increasing competition, promoting more efficient resource allocation and thus the structural adjustment in the economy.

The act defines the following company forms: unlimited partnership, limited partnership, syndicate, joint company, limited liability company and company limited by shares.

The state has only legal control over the companies and can interfere with their activity only in case of breach of law. The Act treats all - including private - ventures on equal terms with regard to access to financing, labour and material inputs. Private ventures can have as many as 500 employees, a major increase compared to the previous regulation.

The Act also creates more favourable conditions for foreign investment. Foreigners are free to participate in existing or to establish new companies without restrictions on their share in the venture. In case of a minority foreign stake, no authorization is required, while for majority or full ownership prior authorization is needed. In case of foreign majority there is no limitation as to the number of employees of a company. The profits of the foreign owner and in case of winding up the company his share from the assets can be transferred abroad in the currency of the original investment without any authorization and limitation.

The total number of companies with foreign participation was 280 on 31 December 1988, of which 29 were founded in 1986, 66 in 1987 and 144 in 1988.

e/ The Act on Foreigners' Investment

Another law entered into force in January 1989 with the purpose of protecting and promoting investments of foreigners. The new law stipulates that foreign investments enjoy full protection and security. Prompt and adequate compensation is to be provided in case of eventual nationalization, expropriation or any other measure of the same effect. Companies with foreign participation can operate in any sector of the economy. The participation in the decision making reflects the equity share of partners, unless otherwise agreed.

Taxation of companies with foreign participation exceeding 20 per cent is more favourable than that of domestic enterprises. The tax benefits range from 20 to 60 per cent and in case of investment in sectors listed as of priority importance a full tax exemption is granted for 5 years.

f/ Liquidation procedures

With the increasing market orientation of the economy the regulation of company liquidation procedures became necessary. Under a law adopted in 1986 these procedures can be initiated with respect to any enterprise either at its own (or its owners') request or in case of bankruptcy by its creditors. Since the introduction of the law up to the end of 1988 103 liquidation procedures have been initiated at the court.

8. As the Hungarian delegation has already pointed out at the previous session of the Working Party, a process of making the institutional framework of foreign trade more flexible had been started in the early 80-s. Up to the end of 1985 270 enterprises had been authorized to

conduct foreign trade activity. Since 1986 major new measures were implemented:

a/ Eligibility to conduct foreign trade activity

From the beginning of 1986 a simplified procedure was introduced, under which companies were authorized with respect to convertible currencies' trade to export their own products and to import the goods necessary for their own production, except for goods published in a so called negative list. Trade in goods contained in this list, covering in 1986 some 65 per cent of total exports and 50 per cent of imports, continued to be subject to prior authorization. At the end of 1987 the number of companies, directly engaged in foreign trade reached 350.

A new regulation introduced on the 1st January 1988 brought about a basic change in the institutional framework of foreign trade. Since then any company - including those with foreign participation - has the statutory right to directly engage in convertible currencies' trade in respect of all products not included in the negative list. The only requirement is for companies to have themselves registered with the Ministry of Trade.

Private persons can, upon authorization, export goods produced by them and their patents as well as import goods needed for their activities.

Since the introduction of these measures, a great number of new applicants have been registered, so at present some 1000 enterprises and 300 private persons were involved in foreign trade.

The number of goods included in the negative list has been also continuously reduced, so at present 36 per cent of exports and 20 per cent of imports are covered. The list is now restricted to goods of key importance (such as basic foodstuffs, fuels) and to products, the trade of which is affected by international agreements and arrangements. Authorization for trading in any product still included in the negative list, can, however, be granted to several companies. As a result of these developments the previously declared state monopoly of foreign trade in practical terms has ceased to exist.

b/ Direct representation of foreign firms in Hungary

Foreign firms have had for decades the possibility of having representatives in Hungary and the number of representations has grown continuously. By a decree of February 1989, the direct representation of foreign firms in Hungary has been greatly facilitated.

Foreign companies can have their own representation in Hungary, or they can entrust Hungarian agencies with their representation. The opening of a direct representation requires a registration at the Ministry of Trade. Registration applications must be processed within 30 days. Foreign firms can establish information or service offices in a similar

way. As of 30 April 1989 there were 219 direct representations of foreign firms in Hungary. Their list is regularly published.

9. The Hungarian Government is determined to carry forward and widen the scope of the reforms against an economic background not favourable in many respects. In fact, developments in the recent period even accentuated the need for the evolution of a well functioning, efficient market economy. A radical restructuring of the entire economy calls for substantial changes in the political institutions too, a process which has already begun.

10. The Government is now faced with the difficult task of creating the conditions for a broad opening up and restructuring of the economy while preserving the creditworthiness and the external solvency of the country. The structural adjustment needed should be guided by market impulses. The Government's role will be limited to providing the appropriate legal and institutional framework, building on the reform measures already implemented. The main tasks ahead in the forthcoming period are the following:

a/ Both the achievements and the failures of the past twenty years prove that a profound reform of the system of ownership is an indispensable condition of a properly functioning Hungarian economy. Our objective is to create an economic structure based on mixed ownership with harmonious coexistence of various forms - public, collective and private. The Company Act referred to earlier and a recently adopted law on transformation of companies represent the first step in this direction. This latter law provides the framework for the transformation of state owned enterprises and of co-operatives into companies limited by shares or limited liability companies. Privatization, especially that of small and medium-sized companies will constitute an integral part of this process. Investments by foreigners are expected to play a vital role not just by providing additional resources but also by the transfer of managerial skills and technology. I have already outlined the favourable legal framework and the guarantees available for foreign investors.

b/ The operation of the securities market will be regulated by a law to be submitted to the Parliament this autumn. A law on competition, inspired by the antitrust legislations of some OECD countries is also under preparation. Its objective is to set the rules of fair competition and to limit the possibilities of maintaining and misusing monopolistic market positions. As to the legislative framework governing foreign trade, the Government intends to submit to the Parliament a new trade law. Legislation in certain other fields, like consumer protection and environment protection are also expected to be revised.

c/ The reform process is to be underpinned by a program of deregulation. In this context work is under way to identify outdated and superfluous regulations which need to be eliminated. This exercise will help achieving a transparent and more simple legal framework where the rules apply equally to all economic operators.

11. The radical restructuring of the economy cannot be completed within short and is bound to have negative effects too, including social tensions (increasing unemployment etc.). While the success of the reform process depends primarily on the determination of the Government and on the support and active participation of the population, a favourable external environment is indispensable for the achievement of our objectives.

12. There are a number of factors which underline the importance of a supportive external environment for Hungary. Being a small country with limited natural resources the economy is heavily dependent on international economic relations. The value of total exports corresponds to some 45 per cent of the GDP, foreign markets and inputs are indispensable for most sectors of the economy. Foreign trade is the most important source of income in convertible currencies, determining to a large extent the country's balance of payment position. A continuous, substantial surplus in the trade balance is essential, considering a gross debt of 17 billion US dollars at the end of last year. Debt servicing in 1988 amounted to 3,4 billion US\$, representing 43,5 per cent of the receipts from exports of goods and services in convertible currencies.

13. In view of the above, a trading environment conducive to the expansion of Hungarian exports is essential. This implies increased market access opportunities and improved trade policy conditions.

14. In the last two years certain market developments exerted a favourable impact on Hungarian exports. The generally dynamic growth in OECD countries resulted in improved demand and higher prices for some agricultural and industrial products of significant export interest to Hungary. Improved tariff treatment in the markets of some contracting parties has also enhanced the competitive position of Hungarian exports.

15. Still, export possibilities and conditions of most Hungarian products did not improve significantly during the period under review. Agricultural and food products represent roughly one quarter of our exports. In spite of price increases of certain products world agricultural trade continues to be plagued by protectionist barriers, competitive subsidization and distorted international prices. This brought about in many cases displacement of our exports in traditional markets and continued price losses. The losses attributed to low agricultural prices are estimated to exceed 200 million US dollars annually. Apart from price problems a host of market access barriers, such as quotas, variable levies, minimum export price arrangements and export restraint agreements limit Hungarian agricultural exports preventing us from fully utilizing comparative advantages. While between 1985-87 the value of overall convertible currency exports increased by nearly 6 per cent the value of agricultural exports dropped by 10 per cent.

16. Protectionist measures affecting Hungarian industrial exports have not decreased either. This is especially true for sectors like textiles, clothing and steel where due to export restraint agreements and arrangements Hungarian suppliers were not able to make full use of the recent increases in demand and price. In addition, quantitative

restrictions on imports are maintained in respect of some other important Hungarian products (e.g. chemicals, footwear, glassware, furniture) and in certain cases discriminatory price observance regulations are applied. The competitive position of Hungarian exports is also affected by tariff disadvantages at numerous markets. Restrictions on access to advanced technology do not only influence the possibilities for structural adjustment but also have a negative effect on our export ability.

17. All the above mentioned factors underline the importance for Hungary of a stable, predictable multilateral trading system, based on effective, operational rules and disciplines. Therefore, my Government from the outset supported the launching of the Uruguay Round and attaches great importance to the successful and timely conclusion of the negotiations. The Hungarian delegation does its utmost to contribute to the work of the various negotiating groups. Moreover, based on our essential trading interests we cooperate, within the framework of different groupings, with some other countries sharing a common approach to specific subjects.