

# GENERAL AGREEMENT ON

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COUNCIL  
17-18 April 1991

TRADE POLICY REVIEW MECHANISM  
HUNGARY  
MINUTES OF MEETING

Chairman: Mr. Lars Anell (Sweden)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. Introducing the meeting, the Chairman noted that the discussion would be based on the report by the Government of Hungary contained in document C/RM/G/11 and the report by the Secretariat circulated in documents C/RM/S/11A and 11B. The report by the Government of Hungary followed the outline format for country reports agreed by the Council in July 1989 (L/6552). The report by the Secretariat followed the format of its earlier reports. In line with the Decision establishing the Trade Policy Review mechanism, the Secretariat had sought clarification from Hungary on its trade policies and practices with respect to the information contained in the six factual chapters of its report.

2. The Chairman recalled that the procedures for the meeting were set out in document C/RM/3. The Hungarian delegation had received advance notices in writing of certain points some participants in the meeting wished to raise.

3. The Chairman pointed out that the task of reviewing Hungary was particularly challenging because of the very rapid changes that were taking place in the structure of the Hungarian economy and trade.

4. The Chairman thanked the two discussants for their assistance. For the review of Hungary, Ambassador See would open the discussion and Mr. Denis would subsequently make his statement.

II. INTRODUCTORY STATEMENTS BY THE REPRESENTATIVE OF HUNGARY

5. On behalf of the Government of the Republic of Hungary, I welcome the opportunity this special session of the GATT Council offers for the review of Hungary's trade policies.

6. I would like to convey the appreciation of my delegation to Ambassador See and Assistant Secretary Denis for undertaking the delicate rôle of discussants. Their remarks and questions circulated in advance facilitate a substantial discussion on Hungarian economic and trade policies.

7. May I also express our thanks to the Secretariat for the report on Hungary as well as for the co-operation shown in the process leading up to the present review. In our view, the reports submitted by my Government and the Secretariat, respectively, usefully complement each other. As we see it, the Secretariat's document is comprehensive and informative. However, beside many correct and readily acceptable findings it also contains a number of statements and conclusions which are not fully shared by the Hungarian delegation, or need at least to be commented.

8. The fact that Hungary volunteered for the review mechanism in its trial period and as first among the countries of the Central and Eastern European region proves our dedication to the effective functioning of the multilateral trading system. This also shows that, in the process of radical and, in fact, historically unprecedented economic transformation of Hungary, the Government is committed to shaping its economic and trade policies with due consideration to the rules and principles of the General Agreement.

9. Hungary expects from the present review an objective evaluation of the developments in Hungarian trade policies against the background of the interrelated broad economic policies and the relevant political aspects. The review can meet properly its objective only if due consideration is given to the progress achieved in the recent period and to the actual level of the country's economic development. With a GDP per capita of slightly more than US\$2,700, Hungary is in the lower range of middle income countries. In this context we note with concern that some parts of the Secretariat's report, especially of the summary observations show a certain inclination to formulate somewhat unrealistic expectations when evaluating the present situation. In our view, the conclusions of this exercise should acknowledge the results while also pointing to the problems and shortcomings. Such a message would give an important feedback to the Hungarian authorities both in providing encouragement for their economic transformation programme and in directing attention to areas where further improvements or changes may be desirable. At the same time, this will not

be a message only to the Hungarian authorities, but also to foreign Governments and relevant international institutions as well as to businessmen and investors interested in the Hungarian market. Without their continued support and active involvement, internal efforts for a radical restructuring of the economy and subsequent sound and sustainable economic growth cannot be achieved. We believe that the Council members can, through their participation in the review process, substantially contribute to an outcome enhancing confidence of the international and, in particular, the business community in the Hungarian economy.

10. Any approach which would attempt to review the Hungarian economic and trade policies without taking into consideration the political aspects can only lead to false conclusions. In the past decades international political developments have seriously influenced the political directions and the socio-economic development of Hungary. Political conditions which prevailed after World War II forced Hungary to adopt a non-democratic political system and a non-efficient economic model. These circumstances have largely determined the room of manoeuvre in policy formulation. The economic reform process started in 1968 should be evaluated against this background. Though the reforms were for two decades limited in scope and as such were not able to prompt basic changes, this uneven and sometimes contradictory process has made the Hungarian economic operators increasingly receptive to market economy values and mechanisms. This is clearly an advantage in the difficult process of transition to a market economy. With the achievement in 1990 of the radical change in the political system and the establishment of democratic institutions, previous constraints have disappeared. Thus market economy mechanisms and legal regulations already in place could start to play a full rôle.

11. The report of the Secretariat encompasses a far broader time frame than the usual five years which may help in putting political and economic developments in a proper perspective. Nevertheless, our discussions should concentrate on the present situation and on the directions of the evolution of Hungarian economic and trade policies. The process of full-scale economic transformation is characterised by fast changes. Therefore, I would provide information on a number of developments which have taken place recently and thus could not be reflected in the reports.

12. The Programme of National Renewal adopted by the Government in autumn 1990 has set the basic political, economic and social objectives. Now the Government elaborated its detailed economic policy action programme up to 1994, in the formulation of which due account could be taken of the latest developments.

13. The most important among those is the faster than expected shrinking of bilateral trade, especially with the USSR, which was previously

conducted in the CMEA framework. The severe contraction of these trade flows in 1990 (a decrease of 18 and 27 per cent in imports and exports) have caused grave problems to a number of companies, as whole industries have developed in Hungary based on the demands of CMEA partners and a large part of Hungary's energy and raw material imports came from these sources.

14. In spite of these difficulties, the overall trade performance of last year was remarkable due to the adjustment efforts and increased market shifting of Hungarian companies. Trade policy measures of a number of OECD countries resulting in improved market access conditions for certain goods meant an important contribution to this process.

15. The prospects for 1991 seem to be less bright. Adjustment to the further worsening external conditions puts serious strains on the Hungarian economy. Experience in the first quarter shows that trade with central and eastern European countries may decline even faster than foreseen. Due in particular to the financial problems in the USSR market, Hungarian companies have orders for only a fraction of previous years' sales. In addition, deliveries of the products ordered are constrained by increased payment difficulties. On the other hand, supply problems of the partners and slack internal demand lead to a contraction of imports. As a consequence, after last year's serious decline a further 50 per cent drop in this trade may not be excluded. For companies heavily relying on these markets, decreasing production and capacity utilization resulted; a growing number of them is at the brink of insolvency. This process largely explains the forecast that unemployment will exceed 200 thousand by the end of the year. It is of crucial importance whether Hungarian companies can repeat past year's successful market shifting. Statistics for the first quarter of 1991 are encouraging in this respect. Exports to countries other than CMEA members grew by some 90 per cent.

16. These developments in the external environment accentuate the need for speeding up structural transformation. The economic programme of the Government foresees the rapid completion of the market economy framework and the acceleration of privatization. A basic goal is the substantial reduction of State involvement in all fields of the economy. Apart from privatization procedures launched by the State Property Agency, privatization initiated by the companies concerned or by potential investors is becoming more frequent. By now more than 10 per cent of State assets, roughly 3 billion in US\$ terms, has been already privatized and such procedures for a more substantial part of the State property are under way. In view of the shortage of indigenous capital, the success of the privatization process depends to a great extent on the inflow of foreign capital. At present some 3 per cent of the total equity of Hungarian companies is foreign owned, an important increase compared to the figure of 0.4 per cent a year ago. As it was noted in a recent publication of the

Vienna Institute for Comparative Economic Studies, out of last year's total foreign investments of US\$1.6 billion in central and eastern Europe Hungary alone accounted for US\$1 billion, "as this country provides western investors currently with the best local conditions". Recent legislative changes are to further facilitate and encourage foreign investments. These include the abolition of licensing requirements for the establishment of companies even with majority or full foreign ownership. Beside the legal guarantees on profit transfer and capital repatriation, wholly or partially foreign-owned companies are granted in most respects national treatment. Large scale investment projects, in particular those in sectors of priority (such as technology intensive manufacturing and tourism) benefit from substantial tax preferences. The recently created Investment Promotion Fund with a capital of 1.5 billion Forints is to assist foreign investors in establishing the infrastructure needed for their business operations.

17. The decreasing share of State-owned companies in the economy and measures to encourage entrepreneurial activity bring about radical changes in the company structure. Private ventures, constantly growing both in number and size, play an increasingly important rôle in the Hungarian economy, thus reducing the dominant positions of large State-owned enterprises and cooperatives. Last year some 15,000 new private companies were established, 4,000 of them with foreign participation. The private sector has become the most dynamic sector in the economy. Output of companies with less than 50 employees tripled last year, and the share of the private sector was close to 20 per cent in total industrial production while even higher in agriculture and services.

18. According to the programme, during the next two years priority is given to economic stabilization and structural adjustment over growth. Restoring the macroeconomic equilibrium is all the more important because of heavy foreign indebtedness. The Government remains committed to maintain the country's solvency and to meet the debt servicing obligations punctually. Hungary's gross foreign debt stands about 19 billion US\$, while net debt slightly exceeds 14 billion US\$. The ratio of debt servicing per exports which in recent years exceeded 50 per cent is expected to decrease to some 35 per cent this year. The recently concluded 3-year agreement with the IMF which provides a total of 1.7 billion SDR financing is also important in preserving the confidence of the international financial community in the Hungarian Government's policies.

19. The growing inflation is partly due to severe cuts in subsidies and State intervention. The almost total elimination of the previously widespread consumer subsidies, the significant reduction of producer support and the liberalization of prices substantially contributed to sharp price increases. The rate of inflation increased from 17 per cent in 1989 to 30 per cent in 1990 and is expected to grow further this year. Enhanced

competition in the domestic market, however, puts a brake on the acceleration of inflation, as witnessed by falling prices in a number of product groups. To counteract the negative effects of the significant difference between the inflation rate in Hungary and that in its major trading partners, an active exchange rate policy is followed. It is envisaged that the strengthening of budgetary discipline, increasing competition and the pursuance of liberal import policies will result in slowing down inflation and stabilizing the currency. This should create the basis for making the Forint convertible by 1994.

20. Though the overwhelming part of the legal framework necessary for a market economy has already been put in place, a number of important legislations are yet to be adopted. The Government submitted or intends to submit in the near future bills to the Parliament on State Finances, on Land, on Concessions, on Accounting and a revision of the Law on Bankruptcy.

21. In the recent period, the most important change occurred in the import system. Until 1989, all imports were subject to licensing. The then started liberalization process resulted in gradually eliminating import licensing requirements for products accounting for some 90 per cent of convertible currency imports. Products still subject to licensing include many agricultural items. Hungary has indicated, in its offer submitted at the Uruguay Round agricultural negotiations, its readiness for tariffication of non-tariff measures in this sector.

22. In February this year, the Government reduced tariffs for a great number of products. Accordingly, the nominal average tariff rate decreased from 16 to 13 per cent. This level is fairly low compared to that of countries with a similar level of economic development. In line with the offer made in the framework of the Uruguay Round, Hungary is ready - if appropriate concessions are received - to further reduce tariffs and increase the level of bindings. In view of the high level of liberalization and changes in the external environment, the Government may consider the increasing of tariffs in certain selective areas, in conformity with the relevant GATT provisions and procedures. Due to the phasing out of trade arrangements previously applied with respect to CMEA countries, Hungary has now a uniform trade régime where GATT rules and tariffs apply to all trade flows.

23. As the reports demonstrate, State support to producers has substantially decreased in recent years. In industry, most production subsidies were abolished; only some branches in critical situation (such as mining) receive certain budgetary assistance. Most of the still existing subsidies are linked to agricultural activities. Price support may be provided to exports of agricultural goods up to the limits set in legal

regulations with the purpose of partially offsetting the harmful effects of seriously distorted international trading conditions. It is, however, evident that Hungary cannot keep pace with the subsidy competition dictated by major agricultural exporters. Besides, the need to restore domestic macroeconomic balance also compels a cut in all forms of support. Therefore, Hungary has a clear interest in the success of the Uruguay Round agricultural negotiations not only with a view to improved market access opportunities but also to achieve a substantial decrease of distortive subsidies and increased possibilities to utilise existing comparative advantages.

24. Under the present circumstances, the basic objective of Hungarian trade policies is the support of economic restructuring and the facilitation of the country's integration into the world economy with special emphasis on the European processes.

25. The overall basis and general framework for the achievement of this objective should be provided by the strengthened GATT. We are strongly interested in the conclusion of the Uruguay Round with substantial results in all areas. While the time factor cannot get priority over the content, the favourable direct and indirect impacts of a successful and early completion of the negotiations would be of special importance for Hungary.

26. Ongoing negotiations with the EC and EFTA countries on the establishment of an association and a free-trade agreement, respectively, mark the first stage of Hungary's reintegration into the mainstream of European development. We expect such progress at the negotiations which would enable the entry into force of the agreements on 1 January, 1992. We expect to conclude agreements in conformity with the provisions of Article XXIV of the GATT, covering substantially all trade, including agricultural, textiles clothing and steel products. The agreements should provide appropriate time-frames for the abolition of trade barriers, which duly take into account the respective levels of economic development of the parties.

27. The Hungarian Government strives to maintain a balanced economic relationship with all regions and all GATT contracting parties. In this respect it would be of special significance to put the dynamically developing Hungarian-US trade relations on a GATT basis. This would require the disinvocation by the US of Article XXXV vis-a-vis Hungary. Beyond the favourable impact of such a move on the bilateral trade relations, it would also facilitate the initiation of negotiations on the elimination of all specific provisions of Hungary's Protocol of Accession.

28. In spite of the reorientation of, and changes in, foreign economic and trade policies, continued close economic relations with central and

eastern European countries are viewed by Hungary as of considerable importance. Hungary intends to co-operate with its partners on the basis of equality and mutual advantages relying on market mechanisms. In this spirit, Hungary initiated to start exploratory talks with Poland and the Czech and Slovak Federal Republic on the possible conclusion of bilateral free-trade agreements.

29. In order correctly to evaluate the directions and scope of action of the present Hungarian trade and economic policies, one should be conscious of the inherited serious difficulties affecting the process of economic transformation. Radical changes have to be implemented while preserving the functioning of the economy during the period of transformation. The magnitude of this venture is immense and its complexity goes far beyond the aspects of international trade.

30. The main responsibility and also the burden to complete overall political and economic transformation lie with the Hungarian Government and the population of the country. As the Secretariat's report rightly points out in paragraph 80 and 81 of the summary observations, there may be no doubt that without a supportive, in fact a more favourable than the presently existing external economic, trade and financial environment the risk of failure would be tremendous, despite whatever internal efforts. The desired transformation of the Hungarian economy necessitates continued access to external financing and is hardly possible without foreign capital and investment playing a far more important rôle. As concerns trade relations, support should be translated into increased market access opportunities and improved conditions.

31. Finally, I would comment on some points appearing in the summary observations of the Secretariat's report where my delegation found certain questionable statements and qualifications.

32. As I referred to earlier, using standards applicable to highly developed countries in case of Hungary, which is struggling with the difficulties of economic transformation and may be classified only among those countries at a medium level of economic development, may be flattering for national pride but might lead in certain cases to erroneous conclusions. In this context, I would like to refer to a statement in paragraph 77 according to which "many changes still need to be made before Hungary becomes a fully open economy". Not questioning the substance of this evaluation, I wonder how many GATT trading nations would fit in the category of a fully open economy.

33. When discussing the activities of State-owned enterprises and the issues of State trading the description given by the Secretariat is, in our view, somewhat misleading. A major differentiation is made between

enterprises under administrative direction and those with self-management, that is directed by enterprise councils. In reality, however, both types of enterprises operate with full independence, according to business considerations. The only difference is that in case of enterprises under administrative direction the director is appointed by a governmental body, while in the latter case he is elected by the enterprise council. Business decisions in both cases fall within the exclusive competence of the managers and it is not correctly stated in the Secretariat's report that enterprise collectives decide in all economic and personnel matters. The Government has neither the intention nor the possibility to interfere in the business decisions of the companies. The Constitution of Hungary reaffirms that all enterprises, including those owned by the State, carry out their economic activities independently. For the information of the contracting parties, I would add that the economic programme of the Government sets the target of transforming enterprises presently under administrative direction into companies limited by shares by the end of 1992.

34. Similarly, misleading conclusions are drawn in the context of Article XVII. As it is reflected in the report of the Hungarian Government, in the present trade régime only the requirements related to the so called "list of exceptions " might be considered as exclusive or special privileges which can be relevant under Article XVII. According to regulation, there are a limited number of products, such as arms, narcotic drugs, hazardous products, precious stones and metals, exports and imports of which are subject to a special authorization which can be, and in practice in most cases is, granted to more than one company.

35. Tables A.V. 1-18 containing trade measures applied by Hungary might give rise to certain confusion. These tables enumerate not just the measures in force at present but also those phased out earlier including regulations related to the now defunct CMEA trade régime. In other cases, separate symbols are used for the same measure. These shortcomings limit the utility of the information provided.

36. The report also contains some qualifications which may give rise to misunderstanding. Paragraph 32 states that "political parties do not intervene directly in business matters". It may well be that the intention was to emphasize a positive change but the wording may imply as if there were indirect interventions. I should make it clear that in this respect political parties in Hungary have no other possibilities than in any other democratic societies. We also have similar problems with the expression "in principle" used in paragraph 26 in connection with the price system and in paragraph 43 when describing present trade rules with CMEA countries. By this qualification the reader may get the impression that there exists

an official policy direction and a squarely opposing practice, which is clearly not the case.

37. Referring to paragraph 78 of the concluding remarks of the Secretariat's report, in general, we would not call into question the potential existence of temporary uncertainties during the transformation process. I have already referred to areas where legislation is still in the process of preparation. Nevertheless, as concerns import, export and investment regulations, uncertainty is not the most characteristic feature of the present Hungarian policy.

38. My delegation cannot share the statement according to which the Government has a wide discretionary competence in trade matters and that criteria for its decisions are "somewhat opaque". This statement creates the impression that trade decisions are made in a somewhat secret way. On the contrary, we believe that now the Hungarian trade régime is fairly transparent. During the last two years, the Government embarked on a comprehensive deregulation programme. As a result, a very great number of legal norms and regulations have been abolished. At present, the main issues are regulated mainly by Acts which are adopted by the Parliament through open debates. The former Presidential Council with its extensive legislative authority has also been abolished. Also, the Ministers ceased to issue directives which were the main tools of State interference in business matters. The pieces of legislation are published in the Official Gazette of the Republic as well as in the official papers of the various ministries, which are all available to the general public. In addition, since early last year, the most important legal materials are regularly issued in the Hungarian-German-English periodical called "Hungarian Rules of Law in force". Taking into account the fact that there are many thousands of economic operators engaged in foreign trade in Hungary, it would be impossible for the authorities to influence their activity in any other way but through normative legislation.

39. Currency convertibility is clearly one of the objectives of the Government's economic policy. At the same time, the statement in paragraph 79 that "the issue of currency convertibility is also of major concern to foreign traders" does not reflect the real situation. As concerns payments for imports, profit transfer or capital repatriation, access to foreign currency is not restricted, as in these fields the Forint is de facto convertible.

40. I should make two remarks related to paragraph 82. In our view, the full implementation of the programme of economic transformation will make Hungary's trading system not just largely but fully compatible with that of developed market economies. Also the objective of my Government is not a more close but the full integration of Hungary into the GATT system and the

expanding world economy. Consequently, it is the intention of my Government to initiate in the future the formal procedure in the appropriate GATT body, i.e. the regular session of the Council, for starting negotiations with a view to eliminating all the specific provisions contained in the present Hungarian Protocol of Accession.

### III. STATEMENT BY THE FIRST DISCUSSANT

41. Compliments to both the GATT Secretariat and Hungary for presenting high quality reports on Hungary. Both reports are precise and well-documented, and complementary to each other. In particular, the national report by the Hungarian Government is commendable for its candour in pointing out to the failures of past economic reforms, and its admission of the considerable hurdles in overcoming the immense structural adjustment problems in transforming the economy from a socialist to an open market economy. In a nutshell, the national report summarised the crux of the past failures in a single sentence: "Ideological considerations prevented the addressing of such fundamental problem as the overwhelming rôle of State ownership in the economy and the limitation on private initiative". There is also a bold recognition that success of economic reforms could not be sustained by half-way measures. They have to be accompanied by institutional changes in the political system.

42. Indeed, the Hungarian economy is in a transitional stage. Though the reform process gained new momentum in the early 1980s, radical measures are undertaken only very recently after the new Government took office in May 1990. In fact, it must have posed some difficulties for the GATT Secretariat to present the trade policy measures in as current a manner as permissible as they undergo rapid changes. In going through the Secretariat report on trade measures, the reader is often confronted by a short sentence at the end of the section that those measures have recently been abolished. For example, it may be useful to know to what extent the restrictive trade measures contained in the Table AV.1 to Table AV.11 of the Secretariat statistical report are still applicable.

43. It would be pertinent in our collective review of the current status of the trade régime of Hungary to bear in mind the radical changes that are taking place in the economy, its transitional character, the immense problems that the economy has to cope with, the equally momentous changes in its past economic relations, namely that with the CMEA countries, and the structural adjustment problems of its industries as a result of the sudden exposure to the rigor of international competition after having been sheltered for four decades by a system that did not reflect real economic prices.

44. There has been a major shift in the regional trade pattern of Hungary. Trade with CMEA member countries, which accounted for over one-half of Hungary's total merchandise trade, has fallen to less than one third by 1990. In contrast, Hungary's trade with the developed market economies increased to about 60 per cent. This major shift in a relatively short spate of time must be regarded as a major achievement, even though the national report admits the enormous problems associated with this

change. It states: "The shift to convertible currency trading ... will cause marketing problems to companies whose medium-quality products or high prices may not stand the competition with the goods of other suppliers". This must be especially true for a country whose exports accounted for 30 per cent of its GDP. In addition to the dramatic collapse of the CMEA trade, the Hungarian economy is faced with the problems of growing inflation, decreasing GDP and a sizeable external debt. These must have put serious strains on economic development and reform efforts.

45. We are indeed encouraged by the rapid pace of international economic reforms and trade liberalization efforts by the Hungarian Government. At the same time, as contracting parties of GATT, what is of immediate interest to us must be the transparency of those reform measures; the way in which they are being implemented, i.e. whether or not they are in conformity with the GATT; and the direction of the reform process. It is also evident that despite the considerable trade reform measures that are underway, a substantial share of the economy is still under administrative direction in Hungary, as mentioned in the report of the Secretariat. It is relevant for GATT contracting parties to know in which direction further liberalization in those remaining areas are to proceed. I would therefore request the Council to address the following issues, and invite comments from our Hungarian colleagues:

(i) State administration of trade

How much of the external trade is still undertaken by State-owned enterprises and those under administrative direction? What are the main criteria and guidelines under which trade is conducted by such bodies? Do these enterprises discriminate by source, e.g. by bilateral trade agreements concluded with Hungary?

(ii) Rôle of bilateral trade agreements

Hungary has signed bilateral trade agreements with 105 countries. Are they still applicable in the conduct of Hungary's external trade? Are they compatible with the MFN principle of GATT?

(iii) Administered prices

The report of the Secretariat states that some 10 per cent of all goods sold in Hungary are said to be subject to administered prices. They include basic necessities (household energy, transport and postal services) and several agricultural products. What are the reasons for such administered prices?

Are they intended to stabilise the economy and control inflation during the transitional period? Is there any time schedule to phase them out?

(iv) Export subsidies

According to the GATT Secretariat report (paragraph 27 of page xiv), in view of an overvalued forint vis-a-vis convertible currencies, "the ability to earn the foreign exchange required to finance imports from convertible currency sources depended on subsidies on many export products, in particular food items and other agricultural commodities." In the light of the recent policy of real devaluation of the forint vis-a-vis convertible currencies, is there any plan to phase out such export subsidies and administrative import controls?

(v) Import licensing requirements

Despite recent reduction in import licensing requirements, a wide range of products is said to be still subject to licensing. Are these import items subject to non-automatic licensing? What are the purposes for such licensing requirements? Are the criteria published? At the same time, a global quota on consumer goods from the market economies is still in place to protect a wide range of Hungarian food products. Is there any plan to phase out these global quotas on consumer goods, to replace them with tariffs?

(vi) Trade relations with eastern Europe and the Soviet Union

The Hungarian Government's economic reform program for the period 1991-1993 includes an item "the preservation of Hungary's interests in Eastern European and Soviet markets." (GATT Secretariat report page xxv, paragraph 74). How is this objective to be achieved? What trade policy instrument are involved?

IV. STATEMENT BY THE SECOND DISCUSSANT

46. My first observation is to commend the concerted efforts being made by the Hungarian authorities to move toward the establishment of a market based economy. The challenges facing Hungary's policy makers are simply mind-boggling, as virtually all economic and trade policy instruments are affected in this process.

47. There is no question in my mind that recent developments in Hungary's trade policies, however incomplete they may still be, represent major steps in the right direction in terms of the basic principles of the open multilateral trading system. I have the impression that it will be difficult to come to any hard assessment of the effectiveness and impact of any particular trade policy instrument until the fundamental domestic reforms under way in terms of privatization are more advanced. Indeed, I was impressed by one simple and very lucid statement in the report prepared by Hungary for his meeting, that is that "trade policies are to concentrate on promoting market orientation".

48. It would be important to use this TPRM opportunity to secure a better understanding of Hungary's efforts to become a more attractive place for its trading partners to do business. Any further elaboration of its foreign investment régime and its likely evolution, its relationship to the new private ownership régime as well as their implications for Hungary's capacity to successfully pursue an open import policy would be appropriate. This would add a useful contribution to the transparency and the comprehensiveness of this TPRM review.

49. I also have the impression that in this transition period facing the Hungarian economy, there may inevitably be a degree of experimentation with various trade policy instruments. I wonder how serious the constraints imposed by problems of industrial adjustment are likely to be as Hungarian enterprises are fully integrated into the world economy?

50. Also, I wonder whether the severe foreign exchange pressures may impose hard short-term choices because of the limited capacity to satisfy the strong import demand from both consumers and industrial enterprises.

51. Since I had the privilege of being Canada's representative when Hungary joined the GATT in 1973, I note with particular satisfaction that the days when the import tariff will be able to play its full and intended rôle are obviously closer now. What are Hungary's intentions in terms of binding its customs tariffs more fully in order to increase the predictability of market access conditions? How important is the tariff as a source of Government revenue?

52. I also note the positive efforts by Hungary to gradually reduce the extent of restrictive import licensing requirements. An indication of any timeframe for the complete removal of licensing requirements would be appropriate.

53. Another observation I would add on the prospects of a successful accomplishment of Hungary's reform of its specific trade policy instruments has to do with the importance of the external trade environment. I believe that the Hungarian report appropriately stresses that "the domestic efforts cannot succeed without a supportive external environment with special emphasis on improved market access conditions and possibilities for Hungarian products".

54. This clearly points to the convergence between Hungary's trade reform process and the efforts to improve market access conditions and to strengthen the non-discriminatory trade rules in the context of the Uruguay Round. In this regard, more precision on the progress made towards the removal of long-standing discriminatory quantitative restrictions maintained in some major foreign markets for Hungary would be in order. The disinvocation of the GATT Article is also relevant. The cost to the Hungarian economy of agricultural protectionism and subsidization on the part of many of its principal trading partners should be brought to your attention. In addition, an assessment of the prospects of Hungary's negotiations of economic arrangements in Europe would be helpful.

V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

55. Members of the Council thanked the Government of Hungary and the Secretariat for their reports, and the discussants for their constructive comments. Participants welcomed, encouraged and supported Hungary's wide-ranging reform efforts and appreciated the degree of trade liberalization implemented by Hungary. The importance of a favourable trade environment for the success of Hungary's reforms was highlighted. A number of participants noted Hungary's active and constructive rôle in the GATT and in the Uruguay Round.

56. The representative of the European Communities recalled that Hungary had started its long march toward a market economy well before the fall of the Berlin Wall. Hungary was undergoing profound changes in establishing a market economy; in this transformation process, Hungary deserved not only the understanding but also active support of all contracting parties. He noted that in pursuing its reforms, Hungary was contributing in good faith, and with the means at its disposal, to the strengthening of the multilateral trade system. The reform process embarked upon by Hungary was difficult, painful and fragile, and would necessarily be long; however, due to its length the process might become less vulnerable. He warned that, in its transition to a market economy, Hungary might soon enter an especially dangerous phase. In this phase, Hungary would need the active support of all its partners in the multilateral system; none had the right to stay passive, to play a waiting game or to be mistrustful or threatening. Every participant of the multilateral system had to give real assistance to Hungary, rising above petty, short-term concerns.

57. The representative of the European Communities said that, in view of the situation in the last two years, progress in trade liberalization achieved by Hungary had surpassed all expectations, despite some transitional measures to control excessive imports of a certain number of clearly identified products. The average tariff level had been reduced very rapidly to 13 per cent and a further - perhaps somewhat courageous - reduction to 8 per cent was envisaged in the context of the Uruguay Round negotiations. This process was surprising in view of the daily pressures to which the Hungarian Government was constantly exposed, the narrowing field of manoeuvre available to it and the absence of direct control over the economy. He noted that the GDP had been declining since 1988; inflation was increasing; the budget deficit and foreign indebtedness were substantial, although Hungary had shown its will to honour all its commitments. The Hungarian Government had, to date, resisted all these pressures. In addition, Hungary had to stick to a strict budgetary discipline prescribed by the IMF, involving abolition of subsidies and price liberalization. A further source of difficulties was the sudden collapse of trade with the Soviet Union.

58. One sine qua non of the success of Hungary's reforms was the maintenance of social harmony. The difficult transition to a market economy raised the risk of disillusion among the population in the light of the initially painful effects of the transition process. To date, however, social harmony and consensus had prevailed. In addition, the capacity of Hungary's industries to adapt to the demands of international markets gave cause for concern. Hungary needed new foreign investment. In order to attract foreign capital, there was an urgent need to adopt clear rules on the ownership of real estate.

59. The representative of the European Communities recognised that Hungary's reforms had to be supported through opening of Western markets to Hungarian export products. The absorptive capacities of these markets also had to be taken into consideration, particularly in such sensitive sectors as textiles, agriculture and steel.

60. He drew attention to three fields in which Hungary could make supplementary efforts. Firstly, the rôle of State-owned enterprises should be reduced through privatization. The maintenance of 90 per cent of national output in State ownership was not a good basis for a market economy. Secondly, the import licensing system should be progressively eliminated as envisaged in the Programme for National Renewal. Lastly, transparency in State decision making had to be increased.

61. The representative of the European Communities stressed that Hungary's economic transformation had to be encouraged not only with words but with concrete deeds. In this context, the success of the Uruguay Round was of crucial importance. In the event of its failure, Hungary's partners would have no right to ask Hungary to undertake a painful integration process into a bankrupt multilateral economic system.

62. The representative of Turkey, referring to the good economic and commercial relations of his country with eastern European countries and particularly with Hungary, pointed out that these relations had been below their potential level. Turkey observed with a certain admiration Hungary's attempt to transform its economic structure substantially and wished Hungary success in the process of integration in the world economy on the basis of market principles. Despite certain positive developments it was regrettable that in Hungary some specific measures continued to remain from the period of centrally planned economy; especially, in the area of import licensing and import quotas, which were not in conformity with market economy principles. He recognized that radical reforms could not be achieved overnight and a transition period of a reasonable duration was needed. However, the rules of the transitional period had to be equitable, transparent and non-discriminatory.

63. From the beginning of 1991, Turkey had been included in the list of countries subject to restrictions on two of the fifteen product groups included in the consumer goods quota under the new rules, namely footwear and outer garments. The quotas allocated to Turkey regarding outer garments were far below the levels of imports in previous years. He sought information on the legal and economic justification for these restrictions in the context of GATT rules and disciplines; the selection of countries and the determination of quota levels; and whether there was any plan for dismantling these restrictions.

64. The representative of Sweden, speaking on behalf of the Nordic countries, expressed their support for Hungary's political and economic reform process. Fundamental economic reforms and far-reaching trade liberalization should be implemented without excessive social costs.

65. Continuous transparency would be of utmost importance in the period of fundamental reform of the Hungarian trade régime. Both TPRM reports prepared on Hungary were helpful instruments in establishing such transparency. He urged Hungary to continue providing information on the progress of its reform process. While commending Hungary's active participation in the Uruguay Round and the fact that Hungary was the signatory of a number of Tokyo Round Codes, his delegation invited Hungary to join the GATT Codes on Subsidies and Government Procurement.

66. The representative of Sweden noted that, while Hungary's average level of customs tariffs was high, Hungary had been very forthcoming in the market access negotiations and further reductions in customs tariffs had been announced. However, the system of administrative levies and fees imposed by Hungary was not very transparent and discriminated between imported and domestic goods. The import quota on consumer goods should be abolished, given the fact that measures introduced by Hungary for balance-of-payments reasons had been terminated in 1984. He asked the Hungarian delegation to provide information on trade policy measures envisaged by Hungary when increased border protection was viewed as necessary to protect domestic production. Finally, as evidence of the Nordic countries' support for Hungary's reforms, he referred to the ongoing negotiations between Hungary and the EFTA countries for a free trade agreement in accordance with Article XXIV of the GATT.

67. The representative of the United States said that the Hungarian reforms, if fully realized, would go a long way towards transforming Hungary into a market economy and integrate it more fully into the GATT and the world trading system. His delegation appreciated that Hungary's economic reforms had been underway for some years. Recent efforts including privatization, price and wage liberalization, currency convertibility, import and export licensing reform and tariff reductions,

were doing much to achieve Hungary's economic policy objectives in its Program for National Renewal.

68. These challenging reforms were already showing tangible results. As a consequence, Hungary was becoming a more attractive place for its trading partners. As an example, the number of US-Hungarian joint ventures had increased from eight to about three hundred in 1988, with US\$800 million in commitments. Hungary's foreign investment law now guaranteed the repatriation of profits in convertible currency, even for those earned in local currency; from this year Hungarian companies that were majority or 100 per cent foreign-owned did not require Government approval. The United States welcomed these early successes and hoped that Hungary could continue this process of liberalization.

69. He sought information on three areas of concern. Regarding the transparency of decision-making and the establishment of a predictable, rule-oriented trade régime, he took note of the comments made by the representative of Hungary. However, he added, improvements in this field needed to be institutionalised. He asked whether Hungary had any plans to improve transparency of decision-making.

70. In relation to the rôle of the State and privatization, he stated that according to the United States' estimates, about 65 per cent of Hungarian GDP was derived from State-owned sources. The Secretariat report indicated that approximately 90 per cent of current Hungarian national output was still generated by State-owned enterprises and cooperatives. Privatization of the Hungarian economy "from below" had clearly accelerated. However, progress had been slow in privatizing very large industrial enterprises. He asked for more detailed information on the share of trade still conducted by State-owned enterprises and those under administrative direction.

71. The United States' representative asked how far the bilateral agreements and annual protocols with former CMEA countries were still functioning and how these agreements were now enforced.

72. Regarding the withdrawal of the invocation of Article XXXV of the GATT by the United States, he said that the non-application of the GATT by the United States to Hungary was required by the provisions of the Jackson-Vanik amendment to the 1974 Trade Act. A positive response to Hungary's request regarding the disinvocation of GATT Article XXXV required legislative action. The Administration intended to pursue this. The United States would also give serious, sympathetic consideration to any request by Hungary to renegotiate its terms of accession to GATT, in light of the present developments.

73. The representative of Switzerland thanked Hungary for submitting its trade policies to scrutiny under the GATT Trade Policy Review Mechanism at this early stage in the cycle of reviews. The review in itself was a proof of the increase in transparency in Hungary. The Hungarian Government had embarked on a profound transition from central planning macro-economic problems. Hungary needed access to markets and foreign technology, know-how and entrepreneurial capacity mainly in the form of foreign investments. Organisations such as the new European Bank for Reconstruction and Development and the coordinated efforts within the Group of 24 should play a rôle in this respect. However, investment decisions would be taken by private companies. The active and constructive rôle played by Hungary in the Uruguay Round would further strengthen Hungary's place in the multilateral trading system and solidify its own internal reform process.

74. The representative of Switzerland asked whether the objective of reducing the share of State ownership below 50 per cent within three years was still considered realistic by Hungary. He asked what measures had been envisaged by Hungary to ensure equality of treatment between private and public enterprises regarding conditions of competition. Switzerland also sought clarification of the reference made in paragraph 34 of the Secretariat's summary observations that a new Government decree provided the authority to introduce trade restrictions under a variety of circumstances. He asked whether abolition of the quota on consumer goods was envisaged and whether Hungary could give some further clarification on the new administration of the consumer goods quota. Switzerland would also wish to know whether Hungary intended to sign the GATT Code on Government Procurement; how Hungarian authorities saw the competitiveness of Hungarian products on Western markets after the collapse of the CMEA trade; the share of Hungary's CMEA trade which was still covered by intergovernmental agreements, and sought further details on the envisaged free trade area between Hungary, the Czech and Slovak Federal Republic and Poland.

75. The representative of New Zealand welcomed Hungary's wide-ranging efforts to liberalize its economy and trade policy practices. His country strongly supported these changes, which would ultimately result in closer integration of Hungary's trade régime into the world economy. Hungary's trade with market economies had been conducted almost entirely on an m.f.n. basis. New Zealand considered this a valuable contribution to the maintenance of a non-discriminatory and effective multilateral trading system. A supportive external environment would be crucial to the success of Hungary's domestic reforms; in this context, he emphasised the importance of a successful outcome of the Uruguay Round. He underlined the importance of foreign investments in facilitating Hungary's reforms.

76. Hungary was well placed to pursue liberalization in agriculture, as in its industrial sector. New Zealand looked forward to Hungary's continued strong advocacy of global reforms in agriculture, both in Europe and elsewhere. Referring to paragraph 380 of the Secretariat report he noted that restricted market access and export subsidies had depressed global commodity prices. This affected both Hungary and New Zealand.

77. New Zealand hoped Hungary's negotiations on an association agreement with EC towards free trade agreements with EFTA would maintain and extend the current trend towards a more liberal trade policy, including in agriculture. He hoped that Hungary would eventually be in a position to discontinue subsidising its own agricultural exports.

78. Relatively high Hungarian tariffs on many agricultural products were impeding Hungary's own agricultural development. He hoped that many of these high tariffs could be reduced through negotiations in the Uruguay Round. The low percentage of Hungarian tariff bindings on agricultural products might reflect inadequate commitments on access for agricultural exports offered by other contracting parties in previous market access rounds, a situation which New Zealand had also faced.

79. The representative of New Zealand asked the following questions:

- Did the Ministry of Agriculture have authority to establish minimum prices for products other than wheat, maize, cattle and pigs for slaughter? If so, was it intended that minimum prices had to be used more extensively in future?
- Did Hungary intend to liberalise the licensing régime which still applied to food items (particularly butter, cheese, edible milk powder, milk powder for animal feed, other powdered milk products, apples and pears as listed in Table IV.2) and if so, when?
- Could Hungary provide further details of the principles and expected main features of the new agricultural régime which is being prepared?

80. New Zealand noted from the Secretariat report that the principles for import liberalization had been based, among other things, on promotion of restructuring by imports of advanced technologies. In this context, it appeared inconsistent that many of the inputs required for agricultural reconstruction still faced high tariffs.

81. The representative of Australia noted the significant steps made by Hungary towards trade liberalization and recognized difficulties facing the Hungarian Government in fundamentally transforming its economy.

82. Hungary's trade policies were generally transparent; Hungary had a clear tariff régime and uncomplicated rules of origin. However, the use of import licences, taxes and quotas on consumer goods, and taxes and levies on imports in general, tended to obscure the actual cost of imports and could complicate entry of goods into Hungary. These restrictions were at least applied on an m.f.n basis and did not appear to act as disguised barriers to trade. Transparency in the administration of licences could be further enhanced by the publication of the criteria used in issuing licences and by formalization of a timeframe for processing licence applications.

83. He congratulated Hungary on the strength of its adherence to the m.f.n. principle. He expected to see an even greater application of m.f.n. principles in the conduct of Hungary's trade relations with CMEA members.

84. The representative of Australia appreciated that Hungary relied increasingly on tariffs rather than non-tariff barriers to regulate imports. However, duties were often high; only a very small proportion of imports entered duty free and tariff escalation appeared widespread. He welcomed Hungary's intention to reduce its tariff average to 13 per cent during 1991 and that Hungary was aiming for an eventual tariff average of 8 per cent. He encouraged Hungary to publish a timetable for its tariff reduction programme.

85. Hungary should continue the comprehensive liberalization of its trade policies. The liberalization so far included such fields as import licensing; higher annual ceilings for the consumer goods quota; privatization of State trading enterprises; and reduction in the number of goods that require special authorisation for trade. He encouraged Hungary to consider the further liberalization of its consumer goods quota.

86. The representative of Australia noted that while a large proportion of Hungary's imports were free of licensing requirements, licensing remained the dominant regulatory mechanism for food items, covering fruit and vegetable products, sugar, vegetable oils, grains and beverages. Import licences were also required for certain mineral products, coal, some chemical products, pharmaceuticals, vehicles and telecommunication articles. The agricultural régime also had other features of a protective nature, with some imported agricultural products being subject to a layered system of restrictions. For example, butter and cheese were subject to licences, a consumer quota plus very high m.f.n. tariffs; the beverage industry was protected by import licensing and global quota. In addition,

export subsidies were applied extensively on agricultural products. He hoped that Hungary would reduce its export subsidies as part of multilateral reform in the Uruguay Round.

87. In this connection, he pointed out that Hungarian agricultural production and exports were adversely affected by EC levies and the system of compensatory payments. These had a particular impact, given the geographic proximity of the EC. He noted that increase in market access to the EC and a reduction in its export subsidies were thus key goals for Hungary.

88. The representative of Australia expressed the hope that Hungary, as it participated more freely in international trade and as access to its own market became more liberal, would use GATT procedures to protect its rights and interests. Australia also hoped that Hungary would maintain its commitment to the multilateral trading system and would not develop a bilateralist approach to its trade policy. He noted Hungary's current negotiations with the EC and the EFTA countries and recognised Hungary's need also to find alternative markets and sources of working capital and technology. He encouraged Hungary to look to the world and the multilateral system as well as to its regional agreements.

89. The representative of Yugoslavia recognised Hungary's efforts in deregulating the economy and introducing legislative measures which enhanced the market economy framework despite the country's high debt burden and economic recession. Hungary needed appropriate external support for its reforms in order to prevent the protectionist pressures arising during the process of restructuring. Inflows of foreign investment and high technology were also needed.

90. Bilateral trade between Hungary and Yugoslavia had suffered as a consequence of the restructuring taking place in both countries. Yugoslav producers had financial problems, Hungarian consumers experienced a fall in purchasing power, and foreign competition was rising on both markets. Significant declines had occurred in Yugoslavia's exports of some major products subject to counter-purchase obligations in Hungary, operated through the import licensing system. It was difficult to comply with the counter-purchasing obligations as it was hard to find the needed items on the Hungarian market. His delegation sought more clarification on the operation of Hungary's import licensing policy. He also asked for more clarification on the new criteria and procedures applied to the consumer goods quota, which from 1 January 1991 included former border trade quotas.

91. The representative of Japan appreciated Hungary's efforts to transform its economic system into a market economy, even under severe conditions of high inflation and recession. For Hungary, which had a

relatively small economy and was heavily dependent on foreign trade, the existence of a free world trading system was of basic importance. Hungary's participation in the Uruguay Round would greatly contribute to its internal economic reforms; the reduction of external trade barriers was also essential. Japan did not apply any kind of restrictions against Hungary.

92. He asked the Hungarian delegation to provide information concerning the results of the privatization already undertaken and the programme for future privatization; Hungary's intentions regarding transparency, in particular with respect to rules on State-trading, Government procurement and foreign exchange; and policies and measures, other than providing special tax benefits, aimed at promoting foreign direct investments.

93. Japan was following with keen interest Hungary's negotiations with EC and the EFTA countries, with a strong hope that these agreements would contribute to the expansion of world trade and the strengthening of the free trade system and would be compatible with GATT principles. He asked for the Hungarian delegation's views on the prospects for these negotiations.

94. The representative of India recognized the bold steps taken by Hungary towards decentralisation of economic decision making and privatization as well as the institutional changes introduced in the foreign trade régime.

95. He asked the Hungarian delegation to clarify the legal basis of the quota on consumer goods, given that Hungary disinvoked Article XII of the GATT in 1984. He also noted that the amendments introduced since 1 January 1991 in the implementation of the quota constituted an additional restrictive element. The range of products and countries covered by the quota was considerably higher than before, while its value had not been increased to be able to cater for the existing trade flows. The six monthly quotas for many items of interest to developing countries had been exhausted within the first six weeks of the year.

96. He expressed his delegation's concern over the new Hungarian safeguard regulation, based on Hungary's Protocol of Accession to the GATT, which allowed the authorities to take safeguard action on a selective basis. He noted Hungary's intention to seek appropriate changes in its Protocol of Accession and added that the issue of selective safeguard measures could be raised at these discussions.

97. The representative of India asked the Hungarian delegation to clarify why Hungary's imports under GSP had declined from 6.2 per cent in 1985 to 3.8 per cent of the total in 1989.

98. The representative of Canada, citing examples of Canada's support for Hungary's reform efforts, said that Canada extended GSP treatment to Hungarian imports and provided an economic development fund to promote private sector development in Hungary. The Canadian private sector participated in about 30 joint ventures in Hungary.

99. He asked the Hungarian delegation whether the authorities intended to decrease the high tariffs applied to products not made in Hungary, but protected from competition from market economies because they were still included under existing CMEA arrangements; to provide criteria for the continued inclusion of products such as telecommunication equipment, chemicals, minerals and food including fish products on the import licensing list; whether Hungary planned to eliminate the consumer goods quota, and, if so, whether there was a timetable; whether Hungary planned to privatize State enterprises with import monopoly powers; what proportion of imports would remain under State control; the future relationship between the Government and State-trading enterprises; the existing tendering procedures and selection criteria for public projects in Government procurement; whether Hungary envisaged a major shift in the direction and composition of its textile and clothing exports with the implementation of a market-oriented system; and to provide information on the likely scope of trade liberalization envisaged under association agreement with the EC and the timetable for achieving free trade.

100. The representative of Brazil noted that Hungary's exports of steel, textiles, clothing and agricultural products faced severe and outmoded restrictions. He agreed with Hungary that a great deal of its trade problems derived from the external environment. He also noted that one of the functions of the remaining Hungarian export licensing system was the implementation of VER's. He underlined that Hungary's situation resembled that of many developing countries.

101. Brazil would monitor Hungary's cooperation with Europe, and especially the treatment which Hungarian farm and manufactured products would enjoy in the European markets.

102. The representative of Korea said that Hungary had been responsive to the needs of less developed countries. It introduced GSP in 1972 and granted duty free treatment for all products of the least developed countries.

103. Commenting on specific elements of Hungarian trade policies, he hoped that quantitative restrictions on consumer goods and import licensing would be soon phased out. Levies and charges other than tariffs on imports harmed price competition between imported and domestic goods, and should be eliminated in accordance with Article II of the GATT. Export subsidies on

agricultural products and other forms of export assistance, such as profit tax preferences and R&D support, should also be reformed.

104. Hungary had taken positive measures to transform the country into a market economy, including trade liberalization and the replacement of the two-tier nature of its trade policy regime by a unified system. Hungary was an exemplary case of transformation of a socialist economy into a market economy.

105. The representative of Poland pointed out that the external economic environment and the stability of the international trading system was of great importance for the transforming eastern European economies. Basic economic instruments such as exchange rates, international pricing or competition had to be transplanted into these economies from outside as the old system had not been able to generate them. For these reasons, these countries were extremely sensitive to the integrity of the international trade system.

106. State-owned enterprises could not disappear overnight without causing serious internal upheavals. In this context, it was not the ownership, but rather the "modus operandi" of these enterprises which was important. According to Poland's experience, Hungary's fully or partially State-owned enterprises behaved like normal businesses in their decision-making.

107. Regarding trade relations within the former CMEA area, he said that from the beginning of 1991 trade between Hungary and Poland had been conducted under normal rules of international trade, with due commitments to GATT rules. Poland was interested in a possible tripartite arrangement between Hungary, the Czech and Slovak Federal Republic and Poland; however, this should be concluded within the framework of GATT disciplines.

108. The representative of Argentina recognised the courage of Hungary in carrying out reforms of vast dimensions within such a short period. A reasonable, just and fair international trading system was needed for the reforms to succeed. A stable multilateral system would assist to Hungary's reforms, which in turn would contribute to the strengthening of the system. Hungary was a substantial and efficient agricultural producer. Nevertheless, it had to subsidise its agricultural exports in order to compete with developed countries. This situation had to be changed. He encouraged Hungary to increase transparency in its decision-making.

109. The representative of Mexico acknowledged the breadth of Hungary's reforms. However, their implementation needed a favourable external environment. The Uruguay Round could contribute to the success of economic reforms through improvements in market access and trading conditions. He urged developed countries, who are the main beneficiaries of Hungary's

reform measures, to give the reforms their support. In this connection, trade liberalization measures taken by Hungary and developing countries should be recognised in accordance with the mid-term Uruguay Round decision. Mexico had contributed to the success of Hungary's reforms by opening the Mexican economy and increasing its economic and trade links with Hungary.

110. The representative of the Czech and Slovak Federal Republic noted that Hungary was the first country in transformation to a market economy whose trade policy had been reviewed by the GATT. Hungary was participating in the transformation of CMEA cooperation into a new type of regional and pan-European cooperation based on market principles and recognised rules of international trade. The implementation of far-reaching economic reforms and the transformation of Hungarian society needed the full understanding and active support of all contracting parties. Hungary's reforms would lead to further liberalization of the international trade system and would create new trade opportunities for Hungary's trade partners.

111. He said that Hungary had dismantled the majority of restrictive measures which were inherent in a centrally planned economy. It was understandable that for the period of transformation, Hungary would need to maintain certain measures to protect sectors of vital importance for the smooth functioning of its economy. He believed that the process of liberalization of Hungary's trade policy mechanism would continue. His country was looking forward for further extension of mutual trade and economic cooperation with Hungary, based on GATT principles and rules.

VI. RESPONSES BY THE REPRESENTATIVE OF HUNGARY

112. The representative of Hungary expressed his appreciation to the discussants for their statements and thanked all delegations that had taken the floor in the debate. The recognition, support and encouragement expressed by them concerning the progress Hungary had already achieved in the process of transforming the economy, as well as in the field of trade policy formulation was of great value to the Hungarian authorities.

113. The economic strategy of the Hungarian Government was based on the implementation of three main concepts, namely deregulation, liberalization and privatization. In the last two years, Hungary had carried out a broad deregulation programme. The rôle and influence of the State in the economy had been significantly reduced. The liberalization programme implemented by Hungary was not restricted only to imports, but also covered practically all other important aspects of the economy such as prices and wages. Hungary was now close to a situation where wage levels were determined in free bargaining between social partners. The Government used only one brake on this process, namely a tax on wage increases which went beyond the official inflation rate.

114. In recent years, the scope of administrative control of prices had largely been reduced. Law LXXXVII of 1990 on prices stipulated that the most important price-regulating factors were the market and economic competition. Administrative price fixing was possible only for products and services enumerated in the Annex to this Law. These comprised, apart from basic necessities, only two agricultural products, white bread and milk. High consumer subsidies paid on such goods and services in the past decades had been substantially reduced in recent years, resulting in sharp price increases for these products. In the face of growing inflation, unemployment and decreasing living standards, the Government considered it necessary for social reasons to control further price increases for these products. In view of the limited scope of administered prices and the nature of the products and services covered, the trade effect of this measure was rather limited. Administrative price setting now covered less than 10 per cent of the economy. The Government intended to liberalize prices further.

115. At present, there were no foreign exchange restrictions which in any way hindered the obtaining of foreign currency needed for the vast majority of imports. In this respect the forint was practically convertible. In cases where the import of goods was still subject to licensing requirements, the import licence gave entitlement to buy the foreign currency. Foreign currency was also freely available for transfer of profits and for capital repatriation in the case of winding up joint ventures.

116. Full convertibility was to a large extent dependent on the situation concerning non-merchandise payments, especially in the tourism sector. The Government could not easily liberalize payments in this respect because a sudden surge in tourism expenditures could undermine the overall balance-of-payments situation, as in 1989. Moreover, considering the substantial difference between inflation in Hungary and in western European countries, if full convertibility were immediately introduced Hungarian citizens could too readily convert and hold savings in foreign currencies. Therefore convertibility, which was an aim included in the economic programme of the Government, was viewed as a step by step process.

117. Hungary had already privatized about 10 per cent of State-owned assets, corresponding to a value of about US\$3 billion. Privatization of large State-owned enterprises was initiated by the State Property Agency; the privatization of other enterprises could also be initiated by foreign investors or Hungarian citizens. Privatization was encouraged by preferential credits. State ownership could not be abolished overnight, or only at a cost of total social upheaval. The process of privatization stood the comparison with the results of similar processes in the former German Democratic Republic, even without having financial means comparable to that of Germany. Hungary was confident that, within three years, the share of State property could be reduced to below 50 per cent.

118. He said that there had been misunderstandings concerning the rôle and activities of State-owned enterprises. The Constitution provided for the full independence of the economic activities of all economic operators, and for the equality of private and public property. There was no differentiation in the treatment and benefits, including the granting of subsidies, according to the ownership of the companies. The national consensus on the objective of transforming Hungary into a market economy, accepted by all political parties represented in the Parliament, was a political guarantee preventing a return to Government intervention in business decision-making. The independence of all companies meant that there were no Government criteria or guidelines concerning the trade activities of State-owned enterprises. These companies operated the same way as the private sector, i.e. strictly according to commercial considerations. The major issue was not the ownership, but the modus operandi of enterprises. In this respect there was no difference in Hungary between private and State-owned companies. State-owned companies had no privileges over private ones in tax preferences, subsidies, allocation of State funds, nor in access to means of production or distribution. Any bias among companies on the grounds of ownership was in favour of private entrepreneurs who could, among other facilities, obtain credits on preferential terms, financed partly by foreign countries. In addition, shares bought by private individuals could be deducted from their personal income tax.

119. One of his Government's basic economic objectives was the elimination of monopolistic positions in all activities, including trade. The substantial changes in the system of "list of exceptions" referred to in both reports also served this objective. Since January 1991, only a very limited number of exports and imports required special authorization. Even in the case of such products, there were no import monopolies; authorization could be granted to any company which met the requirements contained in the relevant legislation.

120. State-owned enterprises did not discriminate in their activities in any way. There were no Government guidelines or directives concerning their trading activities. The bilateral trade agreements concluded by Hungary were based on GATT principles and provided for m.f.n. treatment. With the transition in trade with "Annex A" countries from 1 January 1991 to convertible currency payment and world market prices, there were no remaining governmental delivery or purchase obligations.

121. The number of economic operators now directly engaged in foreign trade was around 15,000. Most of these enterprises were privately owned. No data were collected on turnover according to ownership. However, in Hungary's forthcoming notification under Article XVII, figures would be provided on the trade carried out by enterprises, whether State-owned or private, enjoying special authorization to trade in products on the "list of exceptions".

122. It was difficult to ascertain the overall weight of the public sector in the economy. The systematic collection of statistical data related to small scale enterprises was still not properly organized and there were no figures broken down according to ownership. No data were collected regarding companies with less than 50 employees, although these now represented the most dynamic element in the economy. The estimate by the United States' representative, that the share of the State sector in the economy was not more than two-thirds, was probably not far from reality. According to available data, close to 20 per cent of industrial output was provided by small scale, mostly private companies. In agriculture, the share of private farms was traditionally substantial, accounting for some 40 per cent of the value of total agricultural production. The share of the private sector in services was even higher than in industry.

123. Addressing the issue of transparency, he said that it was impossible to influence the business behaviour of 15,000 economic operators in any way other than through normative legislation. All main issues were regulated by Acts adopted in Parliament in open debate. Earlier drafts were also generally debated in open meetings by the competent committees of Parliament. The press and television gave great attention to all

Parliamentary debates. Given the short period of time since the new Government took office, there were still questions which could not be regulated in such a manner but Hungary would continue the legislative process in the same transparent way.

124. In the process of trade policy formulation and review, the Minister of International Economic Relations was supported by an Advisory Group consisting of representatives from academic and business circles, relevant Government agencies and associations of consumers and producers. Tariff policies were discussed in a Customs Tariffs Committee, composed of the Ministries of International Economic Relations, Finance, Industry and Trade, Agriculture, as well as the Customs Authority, the Chamber of Economy, the Association of Private Entrepreneurs and the Hungarian Confederation of Industrialists. The Committee provided inputs to tariff policy formulation, elaborated proposals and discussed requests for tariff modifications; these could be made by any business organization or producer or consumer association. The Committee took its decisions on the basis of consensus.

125. The Constitutional Court had determined, in December 1990, that an Administrative Court System should be set up where natural or legal persons could challenge any administrative decision. This was now part of the Government's programme and would soon be established.

126. Hungary had a relatively good GATT record for transparency. Since its accession, it had undertaken biannual consultations in the framework of the Working Party on Trade with Hungary. Hungary had always informed the Council of developments in its trade régime. Hungary was also subject to continuous examination by the IMF and the World Bank. A study by the OECD of Hungary's economic policies, including trade policy aspects, was underway at the Government's request.

127. As a participating country in the Tariff Study, Hungary had regularly submitted information on tariffs and trade turnover data, and had also done its best to submit notifications in accordance with various decisions of the CONTRACTING PARTIES.

128. On 1 January 1991, Hungary implemented major trade liberalization measures. The import of products subject to licensing, previously accounting for 30 per cent of imports, had been liberalized. The ratio of import liberalization now exceeded 90 per cent. This was a fairly good record even in comparison with some OECD countries. The list of exceptions had been drastically shortened. The value of the global consumer goods quota had been quadrupled, and the procedures relating to its administration had become transparent. The State monopoly in foreign trade had been eliminated; the number of economic operators engaged in export

and import operations grew in 1990 by more than 10,000, to a total of over 15,000. While the full impact of these measures was expected to be felt later in 1991, even in the first quarter imports from non-CMEA countries had increased by 85 per cent.

129. However, these favourable developments had to be seen alongside the dramatic collapse of Hungary's trade with the former CMEA countries. Their share in Hungary's foreign trade had fallen from 50 per cent in the mid 80s to 12.5 per cent in 1991. These dramatic changes were inducing great tensions in the Hungarian economy, and increasing its vulnerability. As a result of the drastic loss of eastern European markets, hundreds of Hungarian companies were near to bankruptcy and several thousand persons faced the threat of unemployment. This necessitated a very cautious approach towards further trade liberalizing measures.

130. The tensions were well demonstrated by growing protectionist pressures facing the Hungarian administration. Hundreds of requests had been introduced by domestic industries for the re-establishment of import licensing for products regarded as sensitive by them; pressure was also exercised to increase tariffs and lower the quota for consumer goods; there was a growing number of requests for the initiation of anti-dumping procedures and safeguard actions. For the time being, the Government was successfully resisting these pressures, but nobody could predict what actions might become necessary later this year in the light of further trade developments. Hungary's liberal trade policy had to be seen against this background. It was to be recognized that in these circumstances, the Government could not now engage in further liberalization of trade at least during 1991, though it remained firmly committed to continuing the process in the longer run.

131. Tariffs were the main and, for most products, the only means of import regulation. Eighty-three per cent of Hungary's tariff lines were bound in the GATT; for industrial products, tariff bindings covered some 93 per cent of tariff lines, while for agricultural products, the level of bindings was about 23 per cent. This level of binding was rather high by international comparison, taking into account Hungary's level of economic development. Hungary's simple tariff average was 32 per cent before, and 24 per cent after, its accession to GATT. At present, the average tariff level was 13 per cent. Tariff reductions had been made either on the basis of multilateral or bilateral undertakings or as autonomous measures; at the same time, Hungary reserved its right under Article XXVIII.5 of the General Agreement to modify its tariff schedule. Hungary's average tariff level exceeded that of most OECD countries, but most other countries at a similar level of economic development to Hungary had higher tariff levels. Hungary applied its tariff to all imports except those originating in the least developed countries. Tariffs represented less than 6 per cent of the

budget revenue. Hungary expected that the conclusion of the Uruguay Round negotiations would lead to a further decrease in overall tariff protection. Based on this expectation, Hungary had tabled its initial offer for further tariff reductions and increases in its bindings. Hungary was also in the process of complementary bilateral tariff negotiations with some of its partners. Hungary's final offer would be made on the basis of the assessment of concessions made by all other participants.

132. With respect to charges on imports other than tariffs, he said that imports were subject to a 2 per cent customs clearance fee and a 3 per cent statistical fee. A 1 per cent fee was also levied on products under import licensing. These charges, which were inherited from the previous Government, represented a major element of budgetary revenue. At present Hungary could not renounce this source of revenue because of its serious budgetary difficulties. When the situation improved, Hungary would undertake a considerable reduction of these levies and charges.

133. From Hungary's accession to the GATT until 1 January 1989 all imports had been subject to licensing. By contrast, at present, over 90 per cent in value of Hungarian imports were not subject to a licensing requirement. Remaining licensing was non-automatic, but applied in a liberal manner. This was demonstrated in paragraph 275 of the Secretariat report, which noted that only 27 import licence applications with a total value of US\$5.5 million or less than 0.1 per cent of all convertible currency imports, had been rejected in 1990. Licence applications were rejected if justified for reasons of national security, compliance with international obligations or a situation which jeopardised the supply of basic necessities. Applications were also refused if data provided were misleading; if special authorization prescribed by other legal regulations were not enclosed; or if the applicant was engaged in trade in goods subject to specific authorization but did not conform with the specified conditions. Licensing was applied equally to imports from all sources in a non-discriminatory manner.

134. The purpose of import licensing was to administer the global quota on consumer goods, to monitor trade of products considered as essential for the economy and to enforce national security considerations. The maintenance of licensing for a limited number of goods was also related to the large-scale liberalization undertaken in the recent period as it could not be assessed as yet what would be the affect of the phasing-out of most non-tariff measures on certain sectors of the Hungarian economy. In addition, licensing was applied to products in which trade was subject to limitations under international agreements and arrangements.

135. Hungary had maintained a number of quantitative restrictions, including a global quota on consumer goods, at the time of its accession to the GATT. Except for the quota on consumer goods, other QRs had been phased-out. The maintenance, administration and the coverage of this quota had been subject of regular discussions in the Working Party on Trade with Hungary. Its value had been continuously increased. In 1985, it amounted to US\$100 million and in 1990 to US\$200 million. Certain consumer goods, licensing requirements on which had been abolished in 1989 and 1990, had also been removed from the quota restriction.

136. From 1991, the management of the consumer goods quota had been substantially reformed. As a consequence of the phasing-out of CMEA trade arrangements from 1991, uniform rules applied to imports of consumer goods. The quota therefore covered imports from all sources, replacing all other former measures. The changes undertaken also served the objective of making the operation of the global quota fully transparent, thereby providing predictability and stability for both Hungarian importers and suppliers. Sub-quotas had been set for a number of product groups, and in some cases country quotas had been established on the basis of traditional shares of supply. The quota was, in practice, applied in a very liberal way; 99 per cent of all applications against the quota established for the first half of 1991 had been approved. In the case of underutilization, there was the possibility of reallocation both among product subgroups and among country quotas. Thus for the first half of 1991, licences corresponding to US\$250 million, worth some 15 per cent more than the original amount, were issued.

137. As a result of liberal rules for imports, there was increased competition on the Hungarian market. As this was coupled with a decline in the purchasing power due to the restrictive economic policies followed, even traditional suppliers faced strong competition, while demand in many product groups dropped. Referring to questions raised by India and Turkey he said that within the 1 per cent of applications rejected, there had been no application relating to products neither of Indian, nor of Turkish origin; all such applications had been fully satisfied. A very substantial increase of consumer goods imports from India could be expected this year as a result of the wide-ranging GSP preferences, which applied to practically all consumer goods. Moreover, the positive effects of GSP treatment could also be felt on major product groups not covered by the quota, such as passenger cars, where Indian Maruti cars were highly competitive on the Hungarian market as a result of the price advantage arising from the favourable GSP tariff rate.

138. The continued process of import liberalization was expected to decrease the product coverage of the quota. During possible negotiations

on the phasing-out of specific provisions in the Protocol of Accession, the question of the global quota would certainly be tabled.

139. The new Hungarian safeguard rule was based on Hungary's Protocol of Accession, which provided for selective safeguard measures. In the present economic situation, Hungary could not exclude the need of having recourse to these measures. It was Hungary's understanding, however, that the question of selective safeguards could be addressed at the negotiations on the phasing-out of the specific provisions from Hungary's Protocol of Accession.

140. Hungary had joined most Tokyo Round Codes, except for the Codes on Subsidies and on Government Procurement. There had been a very substantial cutback in subsidies, in both absolute and relative terms. No production subsidies were provided to industry. Most of the remaining subsidy programmes were concentrated in the agricultural sector. Hungary participated actively in the subsidies negotiations of the Uruguay Round with a view to arriving at such new rules and disciplines reflecting the interests of all participants, including those of the economies in transition. Hungary would decide its participation depending on the outcome of these negotiations. In the meantime, Hungary was studying the existing Subsidies Code to establish what were the possibilities of joining it.

141. Hungary agreed that Government procurement was one of those areas where detailed legislation was still lacking. The Hungarian Parliament was under tremendous pressure to adopt the legislation needed to underpin the basic political and economic changes, and this had caused a legislative bottleneck. However, preparatory work was started on detailed legislation for Government procurement and Hungary had already certain rules in this area relating to bidding procedures in case of purchases from the State budget. A substantial part of new projects, especially in the field of infrastructure, was financed by loans from international institutions. The usual rules of international bidding were applied in these cases. In the preparation of the detailed legislation, account would be taken of the internationally applied norms of Government procurement and Hungary would also study the possibilities of joining the Code.

142. The future direction of Hungarian agricultural policies was closely linked to the laws on land ownership and agricultural cooperatives, and also to the outcome of current Parliamentary discussions on possible land reprivatization. The policies to be followed might be quite different, depending on whether Hungarian agriculture in the future was based on larger farms or family small-holdings.

143. Domestic support to agriculture had been substantially reduced in recent years from 58 billion forints in 1987 to some 32 billion forints in 1990. Considering the high level of inflation, the decline in real terms had been even more substantial than the nominal 45 per cent decrease. A large number of support programmes had been phased out completely. One of the few remaining forms of assistance was the maintenance of minimum purchase prices for wheat, maize, slaughter cattle and hogs. The relevant legislation authorized the Minister of Agriculture to set minimum prices for these four products only. Any extension of the product coverage of this measure would require Parliamentary decision.

144. Hungary was a traditional producer and exporter of a large number of temperate zone agricultural products. The increasingly distorted state of the international agricultural markets, widespread protectionism and subsidization had caused serious damage to Hungary's farm sector and displacement of its exports in many traditional markets. In order to preserve its trade interest and market share, Hungary was compelled to resort to export subsidies, although only limited means were at its disposal. The amount was fixed in the State budget (27.5 billion Forints - approximately US\$400 million - for 1991). The range of products eligible for support and the rate of assistance was decided by an Agricultural Market Coordinating Committee composed of representatives of the Ministries of Agriculture, Finance, International Economic Relations, Industry and Trade and of interest groups of producers and consumers. The products affected and the respective subsidy rates were contained in Table 9 of the Hungarian Government's report. When adjusting the product coverage or the rates, the Committee considered the prevailing situation on the world market as well as domestic production and demand patterns. Hungary was clearly interested in a successful outcome of the Uruguay Round agricultural negotiations, which should bring about a substantial decrease in trade distortive agricultural support, enabling Hungary also to reduce export assistance.

145. At present, most agricultural products were subject to import licensing in Hungary. Hungary had submitted an offer in the framework of the Uruguay Round negotiations based on tariffication of non-tariff measures, including licensing. The methods of tariffication had to reflect the situation of countries like Hungary, where border measures did not result in domestic prices higher than world market levels. It was Hungary's expectation that in such cases the new tariff would be established on the basis of national offers thereby enabling Hungary to base border protection on tariffs only. There were no farm products banned or highly restricted from entering Hungary. All products which met animal and plant health requirements could be imported.

146. Hungary was engaged in negotiations with the EC and EFTA aimed at establishing free trade with them. Hungary confirmed its intention to conclude agreements which were in full conformity with Article XXIV of the General Agreement. It was Hungary's expectation that these arrangements would cover substantially all trade.

147. Recently, at a high level summit meeting, the leaders of the Czech and Slovak Federal Republic, Poland and Hungary had decided to increase their mutual economic cooperation. Following this decision, Hungary had proposed to start exploratory talks regarding the conclusion of a free trade agreement.

148. As from 1 January 1991, Hungary's trade with all "Annex A" countries had been conducted in convertible currencies. Consequently, customs duties and all other elements of the Hungarian trade regime were applied on imports originating in these countries. New trade agreements had already been signed with Albania, China, the Czech and Slovak Federal Republic, Poland, Romania and the USSR, while negotiations with other countries were still under way. These agreements stipulated that bilateral trade was to be conducted directly among business operators on the basis of world market prices and provided for unconditional m.f.n. treatment. Only the agreement concluded with the USSR contained an indicative export-import list. In this respect, the parties had undertaken solely to provide the necessary administrative permits for trading in such products. Consequently, the list did not represent delivery obligations. Commercial contracts concluded so far, accounted for only a minor share of the trade envisaged in the indicative list. Hungarian companies could not secure market access even by means of compensation trade as this form of trade had been banned in the USSR by Presidential decree. In order to settle the balance on the previously used bilateral transferable Rouble accounts, so-called "liquidation accounts" had been established. Up to a period specified in financial protocols to the new trade agreements (usually by the end of March 1991), the party in deficit might clear it by supplying goods under the 1990 CMEA terms. At the end of the period, the surplus remaining on the liquidation account, if any, was to be converted to convertible currencies.

149. Replying to a question raised by the representative of Yugoslavia, the representative of Hungary confirmed that there had been problems in bilateral trade. His understanding of them was somewhat different from those raised in the question. In the recent period in bilateral trade, which was based on free currency payment, a substantial surplus emerged in favour of Hungary. Due to this situation, Yugoslav companies found it increasingly difficult to get foreign exchange allocation for imports from Hungary; they had to realize imports under countertrade arrangements, i.e. only when parallel exports to Hungary had taken place. From the Hungarian

side, there was no Government regulation or directive whatsoever which forced Hungarian companies to rely on countertrade; considering the substantial positive balance of bilateral trade in Hungary's favour, such a policy would not make sense even in economic terms.

VII. CONCLUDING REMARKS BY THE CHAIRMAN

150. Yesterday and this morning, the Council has reviewed and collectively evaluated Hungary's trade policies and practices. This task was particularly challenging because of the sweeping economic transformation taking place in Hungary. I would like to emphasize that, as in earlier cases, these closing remarks, which again are made on my own responsibility, are not intended to substitute for the appreciation by the Council of Hungary's trade policies and practices, but rather to highlight what I see as some of the salient points coming out of this review. The full details of the discussion, including the complete record of the responses of the Hungarian delegation, will be reflected in the minutes of the meeting.

151. The Council expressed its strong appreciation and support for Hungary's efforts to establish a market economy and the considerable liberalization steps already taken. New measures and policies had recently been introduced, or announced, by the Hungarian Government to accelerate and intensify the reform process. Hungary's determination to pursue these reforms was particularly noteworthy in view of the profound structural changes required and the major problems of economic and monetary imbalances which had to be addressed. The interest of the Hungarian experience for other countries which were seeking a similar transition towards a market economy was emphasized.

152. Major systemic changes had taken place in Hungary's political and economic institutions since 1989. The approach to policy reform was fundamental and comprehensive. It involved trade policy reform; reduction of subsidies; establishment of a capital market; liberalization of the investment régime; and large-scale privatization. The Programme for National Renewal also included the objective of making the forint fully convertible by 1994. These steps were being supported by prudent fiscal and monetary policies.

153. The process of domestic economic adjustment was painful, involving problems of economic growth, unemployment, inflation and debt. The economic difficulties in eastern Europe and the Soviet Union had caused a sharp decline in Hungary's trade with its former CMEA partners. However, the reforms had already shown tangible results, in particular a substantial increase in trade with market economies, an emerging trade surplus and rapid growth in the number of joint ventures with foreign partners since 1988.

154. Members of the Council recognized that a supportive external environment was crucial for the success of Hungary's reforms. Despite recent improvements in access to the markets of some of Hungary's major

trading partners, a number of key export products, such as food, steel and textiles, faced serious trade barriers abroad. A strong open multilateral trading system was of critical importance in view of Hungary's high degree of dependence on trade, and its efforts to diversify markets and to open its economy to international competition in goods and services. In this respect, Council members noted the active and constructive rôle of Hungary during the Uruguay Round negotiations and expressed appreciation of the fact that Hungary was the first eastern and central European country to have submitted its trade policies for review under the TPRM.

155. The Council welcomed the broad thrust of Hungary's trade policy reform, under which non-tariff measures were being replaced by price-related instruments. In particular, substantial reductions in import licensing requirements had been made by Hungary in a very short period of time.

156. At the same time, Council members sought clarification and expressed concerns in a number of areas where further reform would assist in the full integration of Hungary into the multilateral trading system.

157. Several members noted that Hungarian legislation still gave wide discretion to the Government in trade matters and that, in a number of areas, such as import licensing, the consumer goods quota, Government procurement and the operation of State enterprises, criteria and guidelines for decisions by the authorities did not seem clear. Increased transparency in these areas, backed up by an appropriate institutional framework, could serve as a counterweight to the discretionary powers of the Government. Members also noted the importance of transparency with respect to the reform process and encouraged Hungary to provide detailed information on a continuing basis.

158. A number of questions were asked about sectoral policies, including the forms, timing and trade impact of possible changes in sectoral protection. Details were sought on the new agricultural import régime to be implemented in the near future. Concern was expressed about the selective approach taken by Hungary in its new safeguards legislation.

159. A number of points were made regarding the remaining import licensing measures and the global quota on consumer goods. Information was sought on the size and the allocation of quotas. It was noted that the consumer goods quota affected some products of particular export interest to developing countries. Hungary was asked whether it could provide a schedule for the phase-out of these measures.

160. Some members noted that the combined effect of charges on imports into Hungary other than tariffs, notably the customs clearance fee, the

statistical fee and the import licensing fee, was substantial and that these charges discriminated against imports.

161. Questions were asked about Hungary's current subsidy policies and practices, in particular export subsidies for agricultural products. Some members noted that export subsidies were often used as a means to counter such measures by trading partners and expressed the hope that this issue would be resolved in the framework of the Uruguay Round negotiations. Hungary was encouraged to consider acceding to the Tokyo Round Subsidies Code.

162. Several Council members called attention to the continuing high level of State participation in the Hungarian economy. Clarification was sought regarding the share of imports effected by State-owned enterprises and the influence of the Government on decision-making in such firms. While recognizing the transitional adjustment problems which might result, the importance of moving ahead with a progressive reduction in the rôle of State-owned enterprises was emphasized.

163. A number of members felt that Hungarian Government procurement policies and practices were not sufficiently transparent. Clear regulations in this important area would promote efficiency and help to develop trade. It was suggested that Hungary should consider joining the Government Procurement Code.

164. In view of the sharp decline in Hungary's trade with other former CMEA members, questions were asked regarding the economic impact of the decline on Hungary and the future of cooperation with countries of eastern and central Europe and the USSR. Information was sought on the conditions under which such trade was now carried out, including the coverage of the indicative list of products established in the trade agreement with the USSR. Details were requested regarding the proposed free-trade area among Hungary, Poland and the Czech and Slovak Federal Republic.

165. It was noted that substantially all of Hungary's trade was conducted on an m.f.n basis. Questions were raised concerning the possible trade effects of the association agreement which Hungary intended to conclude with the European Communities and of the free-trade area agreements Hungary intended to sign with the member countries of the EFTA. Hungary was encouraged to maintain and strengthen its trading relations with other contracting parties.

166. Attention was drawn to the low and declining level of Hungary's imports from developing countries, despite the very liberal GSP scheme maintained by Hungary. Members asked for further information on these trade flows and the reasons for the relatively low level of trade.

167. In reply to these questions and comments, the representative of Hungary thanked the Council members for their recognition, encouragement and support for his country's trade policies. The statements made would help to enhance the confidence of the international business community in Hungary.

168. Hungary's general reform approach relied on deregulation, liberalization and privatization. The rôle and influence of the State in the economy was being drastically reduced. Based on the experience of the past nine months, he was confident that State ownership would be less than 50 per cent of the economy within the predicted three-year period. Together with trade liberalization, wages and prices were being liberalized, within the constraints of macro-economic policies aimed at curbing inflation. Price controls now covered only 10 per cent of prices in the economy; wages were generally established in free collective bargaining. The move towards full currency convertibility was to be completed by 1994; the forint was in practice already convertible for payments for imports, profit transfers and capital repatriation on the dissolution of joint ventures.

169. Concerning the rôle of State-owned enterprises, the representative of Hungary said that the Constitution provided for the full independence of all economic operators, including State-owned enterprises, and for equality in treatment of public and private property. State-owned enterprises acted strictly according to commercial considerations. No preferences were given to them in terms of subsidies, credits and the like; rather, the private sector would get some preferential treatment, for example in the form of some concessional credits.

170. Monopolies had been eliminated in all areas including international trade. Even for products which required special authorization, any company meeting the requirements might be granted import authorization. He emphasized that more than 15,000 operators were now engaged in foreign trade. Hungary would provide, in its next Article XVII notification, information on trade by State-owned and private enterprises benefiting from special authorization.

171. The transparency of Hungary's trade policy decision-making was supported by the open nature of the Parliamentary and advisory process. A new Administrative Court was being established, in which any administrative decision could be challenged. Hungary's economic policies were also subject to regular examination by international agencies and had been examined earlier in GATT working parties.

172. The representative of Hungary outlined trade liberalization undertaken since January 1991. Import licensing now covered less than

10 per cent of imports. The global consumer product quota had been substantially increased, now covered imports from all sources, and its operating procedures had been made more transparent.

173. In the first quarter of 1991, imports from non-CMEA sources had increased by over 85 per cent. This, together with the collapse of CMEA trade, had created great tensions in the Hungarian economy. Pressures for protection were becoming intense. In these circumstances, the Government would not be able to go further with trade liberalization this year but maintained its firm intention to continue with the process of liberalization in the long run. The tariff was now the main, and in some cases the only, instrument to regulate imports. Its level had been substantially reduced and Hungary had made an offer in the Uruguay Round for further cuts in tariffs and increases in bindings. Tariffs accounted for six per cent of budget revenue. Other levies and charges were admittedly substantial, but could not be reduced at present in view of their major contribution to the budget.

174. Remaining import licensing was liberally applied on a non-discriminatory basis. It was mainly applied for reasons relating to national security, monitoring of essential imports and the administration of the global quota on consumer products. This quota would be a subject for discussion in the negotiation on the elimination of the specific provisions of Hungary's Protocol of Accession.

175. Hungary's new safeguards regulations provided for the selective application of safeguards, in line with the provisions of its Protocol of Accession.

176. Concerning subsidies, the representative of Hungary confirmed that there were no production subsidies to manufacturing in Hungary. Hungary was an active participant in the Uruguay Round Subsidies negotiations and hoped for a successful outcome of these negotiations. It was also studying the possibilities of joining the Subsidies Code.

177. Domestic support for agriculture had been substantially reduced. Minimum purchase prices now applied only to wheat, maize, cattle and hogs for slaughter. Export subsidies were still necessary, partly because of the distortions in world agricultural markets. However, the resources available to Hungary for subsidizing exports were very limited. Most agricultural imports were subject to import licensing; however, Hungary's Uruguay Round offer envisaged the tariffication of such measures.

178. New legislation regarding Government procurement was being drafted. This would cover bidding procedures. He emphasized that many Government

contracts were based on international loan finance, in which case the appropriate tendering procedures applied.

179. In its negotiations with the EC and EFTA countries for free-trade arrangements, Hungary would be seeking to cover substantially all trade. Increased economic cooperation with the Czech and Slovak Federal Republic and Poland was a logical step. All trade with the former socialist countries was now conducted in convertible currencies under a unified trade régime. It was only in trade with the USSR that an indicative import-export list was applied; even in this case, there were no delivery obligations, and barter trading had been prohibited by the USSR.

180. In conclusion, the Council, while noting that further movement could be expected, commended Hungary on the progress already achieved in moving towards an open market-oriented trading system and expressed its strong support for the Government's intention to pursue the process of reform vigorously. This was also seen as an important contribution to the strengthening of the multilateral trading system. The hope was expressed that the momentum of trade liberalization would be maintained. Members welcomed Hungary's intention to initiate negotiations for the elimination of all specific provisions contained in its Protocol of Accession to the General Agreement.

181. Members of the Council recognised the responsibilities of the international community in supporting Hungary's progress towards a market economy. Favourable conditions in international trade and finance were essential for the success of Hungary's reforms. In this connection, members also emphasized the important contribution that a successful Uruguay Round would make to Hungary's reform efforts.