RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

L/3447
14 October 1970
Limited Distribution

REPORT OF THE WORKING PARTY ON GREEK TARIFF QUOTAS

1. At its meeting on 28 April 1970 the Council discussed the question of the provisions of the Special Protocol with the Government of the USSR, signed by the Government of Greece in December 1969, which provides for special tariff treatment of certain products imported from the USSR within specific quota limits. At its July 1970 meeting the Council received a formal request by Greece for a waiver under Article XXV:5 to cover tariff quotas granted by Greece to the USSR, and established a Working Party with the following terms of reference:

> "To examine the request of the Government of Greece for a wiaver from its obligations under Article I of the General Agreement in order to reduce the customs duties on certain products manufactured in, and coming from the USSR, as specified in the Special Protocol of 13 December 1969: and to report to the Council."

The Working Party met on 1 and 2 October 1970 (under the chairmanship of Mr. Meere, Australia) and had before it the following documents: L/3384 (Communication from the United States), L/3387 (an unofficial translation of the Special Protocol), L/3406 (the Greek request for a waiver), Spec(70)104 (a communication from the delegation of Greece), reproduced in Annex I, and supplentary information on imports reproduced in Annex II.

2. The representative of Greece explained that the objective of the Special Protocol was to facilitate imports of industrial products from the USSR in order that balance could be restored in the Long-Term Clearing Agreement between the two countries, which at present showed a large credit balance ($6,200,000) in favour of Greece. A continuation of this surplus would make it difficult for the USSR to maintain its purchases of agricultural products of special export interest to Greece through this clearing mechanism. Greece had not been able to find adequate markets for these products, in particular, tobacco, citrus fruits and raisins, in industrialized GATT countries and consequently significant unsold stocks of these products had accumulated, to the great detriment of State finances.

3. The purpose of the tariff quotas was to offset the competitive disadvantage faced by the USSR exports of industrial products, resulting from the reductions of the Greek tariff vis-à-vis the EEC, which had been implemented under the Agreement of Association between Greece and the Community. Arrangements of this kind had been envisaged in Article 21 of the Agreement of Association.

4. The representative of Greece asked the members of the Working Party, when considering the request for a waiver, to take into account the special circumstances of Greece, a country in the process of economic development with an unfavourable balance-of-payments position, but one which, nevertheless, maintained a liberal import régime. Increased imports from the USSR could facilitate the maintenance of Greek exports

and reduce the credit standing in the bilateral account. In this context he referred to the trade figures showing a declining percentage of imports covered by exports, and pointed out that Greece was obliged to depend to an increasing degree on invisible receipts, which did not have the same stability as export earnings.

5. The representative of Greece did not believe that the terms of the Special Protocol would cause any trade diversion. He emphasized that the total amount of the products covered by the tariff quotas was limited to $4,252,000 representing in 1969 only 0.30 per cent of total Greek imports and only one sixth of imports from the USSR. Furthermore, the Protocol would expire on 31 December 1971. He also pointed out that over the first six months of the operation of the Protocol, of the seventy-five products under quota only thirty had been imported from the USSR; the value of these quotas opened was $2,470,000, and the actual imports of these thirty products totalled $1,216,000. No movement had been recorded in respect of the other forty-five products.

6. The members of the Working Party emphasized that in order to consider granting a waiver to Greece, it would have to be determined that the "exceptional circumstances" referred to in paragraph 5 of Article XXV actually existed. While some delegations remarked that the trade figures supplied by Greece differed in some instances from those in their possession, and pointed out that invisible receipts and capital flows were relevant in assessing the balance-of-payments position, it was generally recognized that Greece was in an unfavourable balance-of-payments situation. However, some members stressed that although many other contracting parties were in a similar difficult position, none of them had considered it a justification for a departure from the provisions of Article I. It was brought to the attention of the Working Party that at previous consultations of the Committee on Balance-of-Payments Restrictions, Greece had been urged to reduce its reliance on bilateral agreements not only by members of the Committee, but also by the International Monetary Fund. In the light of the above considerations, it was considered that the Greek bilateral payments position with the USSR did not constitute "exceptional circumstances" in the sense of Article XXV:5.

7. While it was generally recognized that the trade involved was not large, several members of the Working Party did not share the views of the representative of Greece that no trade diversion had, nor would, occur. One member pointed out that he was being asked to approve a waiver in a situation in which his country's exports faced discrimination because Greece, as a result of protectionist agricultural policies, felt compelled to grant preferences to the USSR on products of interest to his country.

8. In the course of the discussion, it was recalled that at the April Council meeting the Greek Government had been urged to consider appropriate ways for bringing the arrangement into conformity with the rules of the General Agreement. Some members of the Working Party stated that two such courses were open; to rescind the Protocol, or to place the tariff quotas on a most-favoured-nation basis. Most members favoured the latter course as it was thought that the abrogation of the Protocol could present some difficulties for the Greek Government.

9. The representative of Greece pointed out that to place the tariff quotas on a most-favoured-nation basis would reduce the possibility of achieving the desired balance of trade with the Soviet Union. The renewal of Greece's trade agreement with the USSR had been made conditional on achievement of this balance. Furthermore, as regards the bilateralism to which certain delegations had referred, Greece had had to adopt this approach because of the need, during the current transitional period of its economic development, to face problems deriving from its trade with the planned economy countries.

10. Pointing to the information supplied by the Greek delegation to the effect that the trade results had been negligible - imports by Greece of Soviet-produced machinery, for instance, were unlikely to reach the limits of the tariff concession - some members of the Working Party were of the view that placing the tariff quotas on a most-favoured-nation basis could not damage Greek interests. The representative of Greece observed that having regard to the small size of the quotas and their limited use, they were not likely to justify any extension of the concessions. Furthermore, those concessions had been granted to the Soviet Union regardless of whether or not one or other party would have the possibility of making use of them; any extension of the tariff quotas to the contracting parties would run counter to the desired objective, which was to limit the trade deficit.

11. A major objection of principle was raised by most members of the Working Party to the granting of a waiver to cover preferential tariff treatment. The Protocol was not compatible with Greece's obligations under Article I of the General Agreement. Approval of the provisions of the Protocol, through a waiver, would set a serious precedent which could then be invoked by any contracting party. It could also encourage pressure from non-GATT countries for similar arrangements in connexion with bilateral trading agreements. Furthermore, it would constitute a serious erosion of order in international trade, as formulated in the General Agreement. Such a waiver, even if granted in a case with limited trade effects, could not fail to create a serious precedent, which could well be used in cases involving large trade effects.

12. In reply to this last point, the representative of Greece recalled the numerous waivers granted to other countries in economic circumstances which, in his opinion, had been far from presenting the gravity and exceptional character of those cited by Greece in support of its request. The fear that a serious precedent might be set was not well founded in logic, taking into account on the one hand the practical results of the application of the tariff concessions granted to the Soviet Union, and on the other hand, the inauspicious reception which the Council and the Working Party had given to the Greek request.

Conclusions

13. The Working Party, with the exception of one member, expressed serious concern over the action taken by Greece which had led it to request a waiver from its obligations under Article I. The members concerned considered that the question of principle and precedent was of utmost importance. While expressing sympathy for and understanding the difficulties encountered by Greece, they were not convinced that

exceptional circumstances as required under Article XXV:5 existed and therefore were opposed to granting of a waiver. In their view Greece should consider terminating the Special Protocol or extending the tariff concessions on a most-favoured-nation basis, at an early date.

14. One delegation shared the general concern over the question of principle regarding discriminatory preferential agreements, including the special agreement concluded between Greece and the Soviet Union; because of the concrete aspects of the problem, however, this delegation was of an open mind regarding all solutions.

15. One delegation was of the view that exceptional circumstances, within the meaning of Article XXV:5, did exist. In order to take account of the fear expressed by the Working Party that the grant of a waiver would set a precedent, as well as of the fact that discriminatory tariff quotas were inconsistent with the provisions of the General Agreement, and to take into consideration the economic and political problems with which Greece was confronted, that delegation suggested that the Working Party consider a waiver, limited in time - until June 1971 - not renewable and drafted so as clearly to exclude its possible use as a precedent. It should be clearly stated that the sole purpose of such a waiver of limited duration would be to enable Greece to bring the Special Protocol into line with the provisions of the General Agreement. No other member of the Working Party expressed support for this proposal.

16. A large majority of the members of the Working Party does not recommend that a waiver be granted as requested by the Government of Greece.

Annex I

TARIFF QUOTAS GRANTED BY GREECE TO THE USSR

Communication from the Delegation of Greece

The exceptional circumstances which justify the grant by Greece of tariff quotas to the Soviet Union and the approval by the CONTRACTING PARTIES of a waiver from the provisions of Article I:1 of the General Agreement, as requested by Greece under Article XXV:5 of that instrument, can be stated as follows:

Greece is a developing country constantly faced with serious economic problems resulting from its substantial trade deficit, as well as from difficulties in maintaining balance-of-payments equilibrium. The figures below indicate the trend in the trade balance of Greece over the period 1961-69 in millions of United States dollars.

Year	Imports	Exports	Deficit	Percentage coverage of imports by exports
1961	561.2	234.3	- 326.9	41.75%
1962	608.5	242.6	- 365.9	39.87%
1963	731.6	295.9	- 435.7	40.44%
1964	863.4	308.4	- 555.0	35.72%
1965	1,016.5	330.9	- 685.6	32.55%
1966	1,148.9	403.5	- 745.4	35.12%
1967	1,149.4	452.6	- 696.8	39.38%
1968	1,236.8	464.9	- 771.9	37.59%
1969	1,418.5	530.3	- 888.2	37.38%

In order to offset the substantial trade deficit, Greece is obliged to draw on receipts under the heading "Invisibles" which do not have the same stability as export earnings and in addition are unduly sensitive to fluctuations in the level of international economic activity. It is, therefore, necessary to follow closely and methodically the problems deriving from this situation, in the light of which the CONTRACTING PARTIES have already authorized Greece to maintain quantitative restrictions in pursuance of Article XVIII of the General Agreement.

As part of its effort to maintain equilibrium in its foreign trade balance, Greece has signed bilateral trade agreements with certain countries, in particular with State-trading countries. Under those agreements, Greece is able to ensure balanced development, in terms of volume, for a substantial percentage of its trade with those countries.

In the event, account should be taken of the special situation of Greece in that it constitutes the rather exceptional case of a country that, despite a deficit situation in the trade balance and undoubted difficulties in the economic development process, nevertheless maintains a liberal import régime, without having recourse to restrictions, and that by concluding bilateral agreements with planned-economy countries, Greece ensures outlets for surplus agricultural production that it is unable to sell to the market-economy countries.

It is precisely in this way that Greece is able to maintain a liberal import régime under which the Greek market is broadly accessible to products from the contracting parties.

From the data available to the National Statistical Service as regards the geographical composition of Greek foreign trade, it appears that for the year 1969 the countries with which Greece has bilateral agreements, including the Soviet Union, together accounted for 25 per cent of overall Greek exports.

So far as the Soviet Union is concerned, this percentage is considerably greater in respect of Greek exports of certain agricultural products, as may be seen from the table below showing, product by product, the percentage of exports to countries with which Greece has a bilateral agreement, in particular the Soviet Union, in relation to the total Greek exports of those products.

	1967			1968			1969		
	Total exports (million dollars)	Percentage exported under bilateral agreements	Of which percentage to Soviet Union	Total exports (million dollars)	Percentage exported under bilateral agreements	Of which percentage to Soviet Union	Total exports (million dollars)	Percentage exported under bilateral agreements	Of which percentage to Soviet Union
Tobacco	137.3	23.6	9.2	99.8	17.6	6.9	102.7	26.8	11.3
Citrus fruit	16.7	63.4	39.4	17.4	54.2	28.2	20.5	63.7	31.6
Cotton	41.2	67.9	9.1	34.5	57.4	13.6	30.0	89.9	15.4
Raisins and sultanas	17.6	49.2	21.6	19.0	46.4	14.9	26.6	42.4	13.0
Olives	8.2	29.0	5.7	10.0	30.4	-	9.1	21.4	-
Figs	2.0	46.6	18.6	2.0	33.8	9.4	2.1	40.8	16.2
Colophony	2.4	30.2	-	3.0	26.5	-	2.4	25.5	-
Bauxite	7.5	40.4	35.4	8.5	42.8	39.2	9.7	43.3	39.8
Hides and skins	10.8	75.2	7.7	9.7	68.7	2.5	15.6	57.6	2.2

It should also be noted that despite the outlets available in countries with which Greece has bilateral trade relations, substantial quantities of tobacco and raisins which cannot be taken up by the market-economy countries are held in stock by the State. The result is that tobacco declines in value considerably and raisins have to be distilled into spirits, implying a heavy financial burden for the State.

At the end of the 1969-1970 production season, unsold stocks amounted to 44,000 tons of tobacco and 12,000 tons of raisins.

It is because of the significance of so-called sensitive agricultural products in the structure of the Greek economy that provision is made in Article 21 of the Association Agreement between Greece and the European Economic Community for Greece to grant tariff concessions in specifically limited cases in order to facilitate the smooth operation of bilateral trade agreements.

The reason is that under bilateral clearing agreements with Greece, the signatory countries are committed to purchase Greek products and to cover the value of such purchases by exporting products of equivalent value, while meeting the cost of any difference in customs duties. Consequently, any adverse effects on Greek imports from countries with which clearing agreements are in existence would also have unfavourable repercussions on the volume and structure of exports by Greece to those countries.

One fact worthy of attention is that the Greek trade balance with State-trading countries at present shows a credit in its favour of approximately US$32 million and that, in order to reduce that amount, Greece must increase its imports from those countries. This credit balance stood at only $18 million at the end of 1967, and reached $23 million at the end of 1968. The value of the tariff quotas granted to the Soviet Union under the Special Protocol of 13 December 1969 should therefore be appreciated in the light of such considerations. And the latter confirm the exceptional character of the circumstances of which the Greek economy must take account at a time when, from the twofold aspect of the volume and the structure of Greek exports, the Soviet Union is in first place among the planned-economy countries. The value of trade with the Soviet Union is of the order of $25 million on each side, and under the clearing agreement Greece is assured of exporting to the Soviet Union sensitive agricultural products (tobacco, citrus fruit, raisins) which represent 60 to 70 per cent of its total exports of these products, the value of these sales being covered by imports from the Soviet Union of products such as timber and fuel.

Consequently, the tariff quotas granted to the Soviet Union under the Special Protocol of 13 December 1969 tend to facilitate imports into Greece of certain industrial products, in addition to the raw materials already imported. These concessions became necessary because Greece had accumulated a credit balance of $6,200,000, which fact confirms the difficulties of disposing of Soviet products in the Greek market.

The Protocol is due to expire on 31 December 1971 and the total value of the products on which tariff concessions have been granted is limited to $4,252,000, representing only one sixth of total Greek imports from the Soviet Union and 0.30 per cent of its overall imports in 1969.

This arrangement is not designed to cause, and still less could it imply, any diversion of Greek foreign trade. It is intended simply to maintain trade flows between Greece and the Soviet Union at their existing level and to ensure better equilibrium in the operation of the trade agreement existing between the two countries.

Evidence that no diversion has occurred as a result of this Protocol may be found in the real importance of the flow towards Greece of Soviet products for which tariff quotas have been granted. Over the period 28 January to 14 August 1970, for which detailed data are available, the flow can be seen to have been very limited, in absolute figures as well as in products.

Thus, out of a total of seventy-five products under quota, representing an overall value of $4,252,000, only thirty products were imported and for these the value of the quotas opened is $2,470,000. There has been no movement in respect of the remaining forty-five products, for which the quotas represent a value of $1,782,000. Furthermore, imports of the thirty products under quota as mentioned above represented a value of only $1,216,000, in other words, 28 per cent of the total value of the quotas opened, and 9.8 per cent of overall Greek imports from the Soviet Union which reached a value of $12,343,000 for the period February-July 1970.

In order better to be able to judge the limited significance of the tariff concession for which Greece is today requesting a waiver from the provisions of Article I of the General Agreement, one should bear in mind that during this same period February to July 1970, total imports by Greece reached a value of $837 million, of which the sum of $1,216,000 represents only 0.14 per cent.

It therefore becomes clear that the tariff quotas granted to the Soviet Union are far from threatening Greek imports from contracting parties, particularly taking into account the ease of access and the disposal facilities which the Greek market offers to products from contracting parties, and this is borne out by the trade balance of Greece with those countries.

On the other hand, it seems very doubtful that imports by Greece of Soviet-produced machinery will reach the limits of the tariff concessions provided for by the Protocol of 13 December 1969, because of keen competition by like products from other sources as well as because of the fact that, whether because of trading traditions or because of their own opinion regarding their interests, purchasers in Greece tend to place their orders in the markets of contracting parties.

In the last analysis, it is clear that, having to face trade balance problems as well as balance-of-payments problems in exceptional circumstances, Greece has assured itself, at the cost of minimum concessions, of market outlets for certain agricultural products which cannot readily be disposed of in the markets of contracting parties and in so doing, has made practical arrangements covering the transitional period of its economic development, providing for the maintenance at a normal level of its trade with planned economy countries, and in particular the Soviet Union.

Annex II

IMPORTS EFFECTED BETWEEN 28.1.70 AND 14.8.70 OF THIRTY PRODUCTS COVERED BY THE SPECIAL PROTOCOL CONCLUDED BETWEEN GREECE AND THE USSR

Greek tariff item No.	Description of products	Quota	Imports	% of quota
37.02	Film in rolls, sensitized, unexposed, perforated or not	50,000	11,997	24.0
82.05 I	Interchangeable tools, etc., of base metal	50,000	20,261	40.5
82.05 II	Interchangeable tools, etc., of metallic carbides	10,000	1,247	12.5
84.06 DIIc	Parts for the above engines, (84.06 Ala) not elsewhere specified	10,000	10,000	100.0
ex 84.23 D	Parts of excavating, levelling, boring and extracting machinery	160,000	320	0.2
84.34 DI	Type-founding and type-setting machinery and apparatus, etc., such as monotype, linotype, etc., machines	50,000	32,385	64.8
84.35 Al	Printing presses	18,000	16,965	94.1
	- parts	2,000	828	41.4
84.45 AI	Lathes of all kinds	80,000	23,283	29.1
84.45 CIII	Planing machines	15,000	13,932	92.9
84.45 CIV	Shaping machines, sawing machines, etc.	60,000	10,321	17.2
84.45 CV	Drilling and boring machines	30,000	3,595	11.9
84.45 CVIb	Other sharpening, etc. machines	20,000	1,198	6.2
84.45 CIX	Presses	15,000	950	6.3
84.45 CX	Coiling, bending, etc. machines	10,000	10,000	100.1
84.47 C	Other machine-tools for working wood, etc.	50,000	5,820	11.6
84.62	Ball, roller or needle roller bearings	120,000	87,866	73.2
85.21 Ic	Other valves and tubes	25,000	2,790	11.2
87.01 AII	Wheeled agricultural tractors	1,000,000	784,222	78.4
87.02 Alb	Motor vehicles for the transport of persons, weighing each more than 800 kgs. and of an f.o.b. factory value not exceeding $1,400	300,000	89,034	29.7

Greek tariff item No.	Description of products	Quota	Imports	% of quota
87.06 A1	Parts and accessories for agricultural tractors	150,000	25,905	17.3
87.09 A1	Motorcycles of a cylinder capacity of 250 cc. or less	50,000	1,500	3.0
90.07 A	Photographic cameras	60,000	44,626	74.4
90.08 A2	Other cinematographic cameras	15,000	2,065	13.8
90.14	Surveying instruments, etc.	40,000	950	2.4
90.17 A	Diagnostic and therapeutic instruments (electro-cardiographs, etc.)	20,000	2,992	15.0
90.28 A	Electrical or electronic instruments and apparatus for measuring electrical quantities	15,000	1,957	13.2
91.01 D	Watches of base metal, silvered or gilt	20,000	2,376	11.9
91.02 AII	Other watches	10,000	1,790	17.9
94.02	Medical dental, surgical or veterinary furniture (for example operating tables, etc.)	15,000	4,767	31.8
		2,470,000	1,216,000	