

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/47

14 October 1952

Limited Distribution

SPECIAL IMPORT TAXES INSTITUTED BY THE GREEK GOVERNMENT

Foreign Exchange Contribution

Reply by the Government of Greece to the Note by the French Government (L/26)

The Finance Minister's Order of 27 November 1951 imposing a tax on certain imported goods - the tax which occasioned the French Government's protest (document L/26 of 27 September 1952) - was repealed on 31 December 1951. Hence the questions arising out of the application of this measure, which was more or less in the nature of a direct tax, are no longer current.

The repeal of this Order was followed by the introduction of a new measure which it was thought would help indirectly to counteract the depreciation of the drachma. This new measure is concerned solely with foreign exchange and was put into effect on 31 December 1951 by a joint order of the Ministers for Financial Co-ordination, Trade and Finance. It imposed a tax on foreign exchange, collected by the Bank of Greece at the time when the imported goods were paid for.

The application of this measure over a number of months enabled the Government to see how it worked and to decide what points should be amended or amplified in order that it could be kept in force solely for foreign exchange.

Following a review of the matter, a new order has just been put into effect, whereby it is hoped to secure the indirect re-adjustment of the drachma, the value of which in terms of foreign currencies has fallen sharply. To this end a tax has been imposed on the foreign exchange allocated for the importation of goods from abroad; this tax is collected when a bank credit is opened for the purchase of such goods and is graded according to the usefulness and necessity of the commodities imported, the rates being 25%, 50%, 100% and 150% of the c.i.f. value of the goods. The highest rate, 150%, corresponds to the domestic depreciation of the drachma caused by the rise in prices. The following table shows the movement of the general cost-of-living index over the last few years:

GENERAL COST-OF-LIVING INDEX IN GREECE

Base 1938 = 100

<u>Year</u>	<u>Index Number</u>
1947	175
1948	274
1949	283
1950	325
1951	395
1952	398

Hence the percentages collected as tax when a bank credit is opened are a counterpart of multiple exchange rates, a system applied in a number of countries with the approval of the International Monetary Fund. The introduction of the latter system, it may be added, was suggested unofficially by the representative of the International Monetary Fund who studied Greece's monetary problem last year.

Greece's preference for the tax system arose from a fear that, in view of the country's economic instability, a direct re-adjustment of the value of the currency by devaluation might cause an immediate dislocation, i.e. a fresh rise in prices accompanied by a parallel increase in wages and daily wage rates, which would have nullified any advantage to be gained from re-adjustment.

In the past Greece has tried to counter the constant depreciation of the drachma by similar means, the chief of which was the "voucher" system. Every purchaser of foreign exchange for the payment of imported goods was obliged to obtain "vouchers", which were a supplement to the official value of the foreign currency. The value of the "vouchers" was originally fixed at 3,300 drachmai per dollar and 5,250 drachmai per pound sterling. Subsequently, as a result of the constant depreciation of the drachma, the value of the "vouchers" was continually increased, as can be seen from the following table:

Year	Dollar Official rate	Dollar Cost of voucher	Total	Pound Sterling Official rate	Pound Sterling Cost of voucher	Total
1947						
Oct.	5,000	3,300	8,300	20,000	5,250	25,250
1948	5,000	4,650	9,650	20,000	9,100	29,100
1949	5,000	6,300	11,300	20,000	14,800	34,800
1950	5,000	10,000	15,000	20,000	22,000	42,000
1951						
June	15,000	-	-	42,000	-	-

In 1951, when the pound sterling was officially devalued in terms of the dollar, Greece proceeded to re-adjust the value of her currency and fixed the value of the dollar at 15,000 drachmai and the pound at 42,000. The value of the "vouchers" was thus incorporated in the rate of the foreign currency.

The "voucher" system was being applied in Greece at the time of her accession to the General Agreement, but no objection was raised by the Contracting Parties at that time, or later when the cost of the "vouchers" went up. This was quite natural since the system applied only to foreign exchange rates.

The present tax is only a variant of the "voucher" system, and is merely a disguised devaluation which in no way affects the selling prices of imported goods; for the latter prices are not based on the c.i.f. value plus customs duties and seller's profits, as in countries whose economies are functioning normally, but are already formed in terms of the real value of the drachma, which has suffered serious depreciation.

To make the point clearer, we provide an example below, showing the elements making up the price of an imported electric refrigerator, the c.i.f. value of which is 200 dollars or 3,000,000 drachmai (200 x 15,000 = 3,000,000 dr.) Under normal economic conditions this refrigerator should sell at 4,800,000 drachmai, i.e.

c.i.f. value 200 dollars x 15,000 Dr.	3,000,000 Dr.
Customs duties 35% on c.i.f. value	1,050,000 "
Seller's profit 25% on c.i.f. value	<u>750,000 "</u>
Total	<u>4,800,000 Dr.</u>

Yet both before and after the imposition of the tax such refrigerators were sold at 12,000,000 drachmai.

In Greece all imported goods have already undergone this increase, for their prices are adjusted to the prices of home-produced goods. Hence since prices are now based not on the prevailing official rate, but on the real value of the drachma, the maintenance of that rate would represent a pointless sacrifice on the part of the State.

Thus the question of the readjustment of the national currency must of necessity be considered in terms of its devaluation by 150%, in other words the value of the dollar should be fixed at 37,300 instead of 15,000 drachmai. In that case the selling price of the above-mentioned refrigerator would be 12,000,000 drachmai, in accordance with the real value of the currency, that is to say the price at which it is sold in Greece.

c.i.f. value 200 dollars x 37,500 dr.	7,500,000 Dr.
Customs duties 35% on c.i.f. value	2,625,000 "
Seller's profit 25% on c.i.f. value	<u>1,875,000 "</u>
Total	<u>12,000,000</u>

Since, as previously stated, an official devaluation is not desirable for the moment owing to the consequential danger of serious disturbances, Greece has preferred the system of a tax on foreign exchange allocated for the payment of imports.

The depreciation of the value of the drachma and the formation of prices on the basis of its real value - not its official value - is even more clearly apparent in the disposal of the foreign exchange received by exporters of home-produced goods exported in exchange for imported goods. Exporters are obliged to sell part of the foreign exchange earned by them to the Bank of Greece at the official rate, but are free to sell the rest to Greek importers at a freely negotiated rate.

The difference between the Bank of Greece's official rate and the freely negotiated rate can be seen from the table below:

Currency	Freely negotiated rate	Official rate	Difference
Dollar	37,500	15,000	22,500
Pound Sterling	104,000	42,000	62,000
Swiss Franc	7,900	3,500	4,400
French Franc	99.50	42	57.50
Belgian Franc	730	300	330
Italian Lira	34	20	14

This table shows clearly that the real value of the drachma is 150% less than the official rate.

It will therefore be seen that the tax system, as at present applied in Greece in its final form, is not in the nature of a surcharge or a tax on imported goods and is thus not contrary to Article III of the General Agreement.