HUNGARY

In 1996, the U.S. trade deficit with Hungary was $346 million, an increase of $94 million from the U.S. trade deficit of $252 million in 1995. U.S. merchandise exports to Hungary were $331 million, an increase of $36 million (12.2 percent) from the level of U.S. exports to Hungary in 1995. Hungary was the United States' seventy-third largest export market in 1996. U.S. imports from Hungary were $677 million in 1996, an increase of $130 million (23.8 percent) from the level of imports in 1995.

U.S. foreign direct investment (FDI) in Hungary since 1989 totaled more than $5 billion at the end of 1996, in comparison to a total FDI stock of about $14.3 billion. Hungary is the leading recipient of U.S. investment in the region.

Hungary was among the first of the former communist central and eastern European countries to implement capitalist economic reform measures prior to the democratic transition in 1989-90. The government continues to push forward economic restructuring and the establishment of a market economy.

The impact of privatization and direct foreign investment is having positive multiplier effects throughout the economy. Continued foreign investment is a reflection of the government's ability to maintain current economic stability, reduce inflation, and successfully pursue its goal of privatizing at least 80 percent of gross domestic product (GDP) output by the end of 1997.

IMPORT POLICIES

Import policies have been progressively liberalized in an effort to encourage competition and to allow imports of material necessary for restructuring. Over 93 percent of products can be imported without an import license. An import license is required for energy, fuels, precious metals, military goods, and certain pharmaceutical products. The state monopoly on foreign trade has been eliminated.

Hungary's 1997 import quota on consumer and industrial goods will be around $520 million, up from the $500 million quota in 1996 but down from the $750 million quota in 1994. Hungary plans to eliminate quotas on cars, footwear, and household detergent for 1998. Under an agreement with the World Trade Organization (WTO), Hungary will eliminate quotas on textiles, clothing, and other industrial products by 2004. The global system of quotas for import goods will be maintained in 1997, but the quotas for new and used clothing and for fish will be left open, since these quotas have not been fully exploited in recent years.

Hungary's average import duties have been cut from 50 to 8 percent over the past four years. The 8 percent import surcharge introduced in March 1995 has been reduced in stages to 4 percent and is slated to be eliminated totally by July 1, 1997. In late 1994, the U.S. Trade Representative launched a review of Hungary's reverse tariff preferences to the European Union (EU) that was part of a review of all Generalized System of Preferences (GSP) beneficiaries mandated by a statement of administrative action attached to the Uruguay Round Agreements Act. The review did not establish enough evidence to determine that Hungary's preferential treatment of EU imports has had an adverse effect on U.S. commerce. The Hungarian Government announced its new EU harmonized tariff schedule for 1997 wherein tariffs for imports from the EU and CEFTA were lowered.

The Government of Hungary is expected to grant import licenses for 90,000 new cars and 58,000 used cars in 1997, up 6 percent from 1996, but still well below the 200,000 total cars imported in 1991. The steep loss of local purchasing power in 1995-1996 inhibited car purchases. Half of each category was reserved for imports from the EU. The Customs Duty Law of 1995 forbids the importation of used cars over four years old. Specialized older vehicles may still be imported after passing a special technical test. These regulations, combined with standards for used cars which tend to exclude older U.S. models, will effectively curb most U.S. imports in this category. On January 1, 1997, the government eliminated for all WTO member states the previously applicable 2 percent statistical fee and the 1 percent customs clearance fee. These fees, however, are still required of goods coming from non-WTO states.

In January 1995, Hungary increased its border protection by raising many agricultural tariffs to Uruguay Round ceiling bindings and introduced numerous tariff rate import quotas that are assigned to most-favored-nation (MFN) or preferential suppliers.

As part of its association agreement with the EU, Hungary will phase out import fees on EU products by the end of 1997. Hungary will eliminate present import duty drawbacks in the first half of 1997 as it plans to join the Pan-European Free Trade Zone on July 1, 1997.

STANDARDS, TESTING, LABELING, AND CERTIFICATION

Importers must file a customs document with a product declaration and, upon importation, present Hungarian Commercial Quality Control Institute certified documentation to clear customs. This permit may be replaced by other national certification and testing agency documents, such as those of the National Institute for Drugs. Some standards are reciprocal with those of recognized U.S. standard enforcement agencies. Hungary participates in the International Organization for Standardization and the International Electro-technical Commission.

Animal and Plant Health Regulations

Hungarian import regulations limit or delay imports of breeding animals, semen, and planting seeds. Relevant authorities (Institute for Agricultural Qualification and Ministry of Agriculture) set minimum breeding value limits to import semen and require repeated tests before distribution of the import shipment. These measures may restrict imports, increase costs, and expand the duration of the import process. The process of registration and testing of new plant varieties imported is time-consuming and costly as well.

GOVERNMENT PROCUREMENT

Foreign access to government-funded construction and service or supply contracts is regulated by the Act on Public Procurement that took effect in November 1995. The act increased transparency in public procurement. Tenders must be invited for the purchase of goods worth over 10 million forints (currently

165 forints equals one dollar). However, bids with more than 50 percent Hungarian content will be considered equal to non-Hungarian content bids which are up to 10 percent lower in price. Purchases deemed to be related to state secrecy, as well as purchases of gas, oil, and electricity, remain exempt from these regulations.

EXPORT SUBSIDIES

Hungary maintained agricultural export subsidies in excess of its WTO commitments during 1995 and 1996 and is budgeted to exceed its commitments again in 1997. Hungary has sought to modify its WTO commitments based on the claim that its base-period calculations underestimated actual export subsidies in terms of value and specific product coverage. Hungary proposed a revised schedule which would substantially surpass its original commitments in the number of items covered and monetary level. New Zealand, Australia, Argentina, Japan, Thailand, the European Union, Canada, and the United States conducted informal consultations on the Hungarian export subsidies issue under the sponsorship of the chairman of the WTO Committee on Agriculture starting in the fall of 1995, followed by formal Article XXII consultations. These consultations failed to resolve the problem. In January 1997, the United States, Argentina, Australia, and New Zealand requested establishment of a WTO dispute settlement panel to judge this issue.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Patent Protection

Protection of intellectual property rights (IPR) in Hungary was strengthened following the conclusion of a comprehensive U.S.-Hungary Bilateral Agreement on Intellectual Property Rights Protection in 1993. Under this agreement, Hungary agreed to provide product patent protection; under prior law, patents were limited to industrial processes. The IPR agreement also provides transitional protection for U.S. pharmaceutical products otherwise ineligible for new product patents in Hungary; provides that patents are available and patent rights are enjoyable regardless of whether products are imported or locally produced; and provides limitations on the use of compulsory licenses. Legislation to provide the protection called for in the IPR agreement was passed by the Hungarian Parliament and entered into force on July 1, 1994.

Copyright Protection

Hungary has copyright laws which largely conform to international standards. The 1993 IPR agreement requires an exclusive right to authorize the public communication of work, including to perform, project, exhibit, broadcast, transmit, retransmit or display; it also requires that protected rights be freely and separately exploitable and conferrable (contract rights), and requires an exclusive right to authorize the first public distribution including importation for protected works.

In previous years, some U.S. companies complained about widespread video piracy in Hungary. In May 1993, Hungary added stiff penalties for copyright infringement to its criminal code. Despite the law, limited enforcement resources allow piracy to continue in the thriving underground or grey economy. A media law passed in late 1995 links broadcast transmission licenses to respect for intellectual property rights.

The 1993 IPR agreement also requires Hungary to protect all types of computer programs as literary works under the meaning of the Berne Convention; protect collections or compilations of data where the selection and arrangement of the contents constitute copyrightable authorship; and grant an exclusive right to authorize or prohibit the commercial rental of a computer program. Counterfeited computer software is reported to be widely used in Hungary. Nevertheless, the Hungarian Government stepped up enforcement in 1996, notably with several convictions and fines to businesses using pirated software. Protection is also provided for sound recordings, trademarks, semiconductor layout designs, and trade secrets.

Hungarian IPR laws permit numerous challenges and appeals in the adjudication process, thereby delaying judgement on IPR cases. Injunctions on offending parties are rarely employed. The Hungarian Government, however, is studying ways to modify the legal code to strengthen the use of injunctions on IPR cases in the future.

SERVICES BARRIERS

A liberalized currency convertibility law took effect on January 1, 1996. The Hungarian Government further liberalized the capital account as of January 1, 1997, eliminating the tourist allowance and making the forint fully convertible. Hungary, when it became a member of the OECD in May 1996, committed to allow bank branching by the beginning of 1998. A large number of bank subsidiaries and insurance companies with foreign ownership operate in Hungary. Screening of most investments will be eliminated under Hungary's Uruguay Round services schedule.

While there are currently no film quotas for private television, Hungarian film quotas in the 15 to 20 percent range apply to public television. Excluding advertising, news, sports, game and quiz shows, public television is also required to fill 70 percent of its air time with European production, 51 percent of which must be Hungarian. If one were to assume that 30 to 40 percent of all broadcast time is spent on the excluded categories, then the maximum amount of time available for non-European, non-film programming on public television is in the 20 percent range. These quotas are not currently seen as cutting actual U.S. market share and further privatization of the television industry should boost the overall U.S. market share.

INVESTMENT BARRIERS

The Hungarian Government passed a new privatization law in May 1995 that reduces to 25 percent from 50 percent the average amount of permanent ownership the government would retain in the 163 companies it identified as requiring permanent state participation. This opened a significant number of companies to foreign investment. Small portions of other privatized firms are being reserved for Hungarian citizens, for employee stock ownership programs and/or management buyouts.

After a sharp increase in privatization efforts in late 1995, privatization continued into 1996, notably in the banking and energy sectors. The decision in October 1996 to delay energy price hikes until January 1, 1997, and not to allow price hikes to match all claimed costs affected U.S. energy companies which invested in power companies in 1996. These investors believe the set price hikes do not equate to costs plus an eight percent profit, a stipulation of the 1995 privatization law. The foreign energy companies hope to gain further price increases in separate agreements with the government.

Hungary terminated its blanket tax incentives on foreign investment as of January 1, 1994, and replaced them with incentives open to all large investors, based on export promotion, reinvestment of profits, and job creation in areas of high unemployment. A customs law, passed in late 1995, eliminated duty free importation of capital goods by foreign-owned companies. This law was intended to “level the playing field” for domestic investors, but it eliminated a prior incentive to invest in Hungary.

Hungary