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FOREIGN TRADE SYSTEM OF YUGOSLAVIA AND THE DEVELOPMENT OF TRADE IN 1976/77

1. In the SFR of Yugoslavia, during the past two-year period (1976-1978), since the latest consultations up to now, there has been a process of substantial transformation in the field of foreign economic relations. This process began first with constitutional amendments, to find its broadest basis for transformation in the new Constitution (1974). The adjustment of the system of foreign economic relations to the principles of the new Constitution has been made through the enactment of new laws, which lay down all essential features of the system, built up on the basis of self-management.

2. The system of foreign trade and foreign exchange operations with foreign countries is laid down by three basic laws: the Law on Exchange of Goods and Services with Foreign Countries, the Law on Foreign Exchange Operation and Foreign Credit Relations and the Law on Performing Business Activities Abroad. These laws were passed in 1977 and are applicable from 1 January 1978. They contain the principles of foreign trade and foreign trade operations, further elaborated by numerous accessory regulations announced in "Official Gazette of SFRY".

Beside these three basic laws, the following laws and regulations are of significance in this field: the Customs Law, effective from 1 September 1976; the Law on the Customs Tariff with the Customs Tariffs, effective from

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1 July 1978; the Law on the Principles of Banking and Crediting System; "The Official Gazette of the SFRY" No 2/77; the Regulation on the long-term production cooperation and business-technical cooperation, as well on the acquiring and ceding of material rights on technology between home organizations of associated labour and foreign persons, "The Official Gazette of the SFRY" No. 18/78; the Law on foreign investments into home organizations of associated labour, "The Official Gazette of the SFRY", No. 17/78.

3. The policy of international economic relations and joint foreign exchange policy in each year is established by the Assembly of the SFR of Yugoslavia. The joint foreign-exchange policy includes particularly: the policy of promotion and stimulation of exports of goods and services as well as of other forms of economic relations with foreign countries; the import policy; the policy of the protection of home production; the policy of Dinar exchange rate; the policy of foreign-exchange reserves; the policy of foreign credit relations; the policy of coordination of mutual relations between the republic and provincial communities of interest for foreign economic relations and the policy of balance of payments restrictions

4. For the implementation of the joint foreign exchange policy the Law provides that the Federal Executive Council, Executive Councils of Assemblies of Republics and Autonomous Provinces as well as self-managing communities of interest for foreign economic relations take care of the realization of the established foreign exchange policy and to establish within their competence their programmes of measures for its realization. As the constituent part of the foreign exchange policy, the projection of the balance of payments and the projection of foreign exchange balance are established.

They represent the aggregate balance of all financial and other economic transactions between home and foreign persons (balance of payments), or the balance between the inflow and outflow of foreign exchange (foreign exchange balance). Projections of the balance of payments and foreign exchange balance are subject to the adoption by the Assembly of the SFR of Yugoslavia.

5. The projections of the balance of payments and foreign exchange balance of Yugoslavia, contain the projections of balance of payments positions of all Republics and Autonomous Provinces as well as their obligations and responsibilities for carrying out the aggregate balance of payments and foreign exchange balance of Yugoslavia. The projections of the balance of payments and foreign exchange balance of Yugoslavia include inflow and outflow of foreign exchange for the needs of the Federation, such as the needs of federal authorities, Yugoslav Army, reserves etc. Greater role of republics and autonomous provinces in foreign exchange system results from the position of republics and autonomous provinces in the whole social, economic and political system of the country, established by the Constitution. Within their competence, republics and autonomous provinces should be actively engaged in realization of these projections particularly when the projections of a more long-term character are in question, established by long-term plans for the whole economic development as well as for the development of foreign economic relations. The republics and autonomous provinces act particularly in the field of the policy of development, monetary and credit policy, policy of indirect taxes and contributions, price policy, encouragement of combining resources among the organizations of associated labour within one republic or province as well as among the organizations of associated labour from different republics or autonomous provinces. In case of departures from the projections of balance

of payments, or balance of foreign exchange position established for a republic and autonomous province, such republic or autonomous province is obliged to undertake the appropriate measures for the readjustment of disturbed positions. Criteria for the adoption of such measures are established in advance by the Federal Executive Council on the basis of the agreement among the republics and autonomous provinces.

6. In conformity with the social, economic and political system based on principles of self-management, it is the associated labour which in the framework of communities of interest for foreign economic relations, established at the level of republics and autonomous provinces as well as at the Federation level, takes decisions on significant questions regarding establishment and implementation of the foreign economic relations policy. Previously the decision-taking in this field was in the exclusive competence of the governmental bodies. The association with republican and provincial communities of interest for foreign economic relations is binding for all basic and other organizations of associated labour, other self-managing communities of interest and other organizations, banking organizations, cooperatives and other social juridical persons.

7. The republican and provincial communities of interest together with the Community of Interest of Yugoslavia for the Promotion of Foreign economic relations, take direct part in the preparation of acts pertaining to the formulation of the policy for foreign economic relations, as well as in the preparation of projections of the balance of payments and foreign exchange balance of Yugoslavia and, in their framework, projections of balance of payments positions of republic and autonomous provinces. They participate in the carrying out of the joint foreign exchange policy and the policy of balance-of-payments and foreign exchange as well as in taking measures

for their implementation. In the framework of the republican and provincial self-managing communities of interest, organizations of associated labour and other social-juridical persons conclude self-management agreements in conformity with the projections of the balance of payments and foreign exchange balance position of a republic or a province. These self-management agreements establish the following: the mode and procedures for the realization of the stipulated volume of imports of goods and services and other outflows of foreign exchanges which could be realized by domestic persons on the territory of a republic or a province; the self-management agreements determine criteria and procedures for obtaining right to purchase foreign exchanges on the foreign exchange market by those organizations and other social-juridical persons which do not acquire foreign exchange by their activity or acquire them insufficiently; the self-management agreements also lay down conditions for restricting the use of foreign exchange. Also the self-management agreement concluded within the framework of the republican and provincial community of interest determines in conformity with the policy of foreign credit relations, criteria and procedure for the realization of the rights of indebtedness abroad to a specified volume and the volume of crediting abroad which is determined for republics and provinces in the projection of the balance of payments of Yugoslavia. These self-management agreements are to be concluded on the basis of the uniform criteria determined jointly by republican and provincial communities of interest within the framework of the Yugoslav Community of Interest and are subject to the approval of the Federal Executive Council.

8. In conformity with the basic principles of the economic system and with the principles of creating uniform

conditions for the economic activities within an uniform economic area, the customs system is regulated by the two laws:

- The Customs Law, of September 11, 1976, which contains basic principles of the customs system. This new law does not differ very much from the previous one from 1973; major differences refer to the strengthening of the role of the organizations of the associated labour as well as of the competent bodies of the socialist republics and socialist provinces in determining and implementing of the common customs policy.

- The Law on the Customs tariff and the Customs Tariff, which represents the main instrument for the protection of the home production. The Law was passed by the Assembly of the SFRY on March 30, 1970 and came into force on July, 1, 1978.

The feature of the new law is that the structure of the tariff protection shifts towards stronger protection of the agricultural and primary production, with reduction of the level of tariff duties for products of final production. The rates of duty for products falling within chapters 1-24 of the Customs tariff (agricultural products) are from 0 to 25%.

The need to secure and accelerate the development of activities of particular significance, fixed in the Social Plan of the SFRY, has resulted in increased protection for a number of primary products (ores, iron, bauxite, etc.) which are produced in Yugoslavia.

The level of the protection for products falling within chapters 84-90 of the Customs tariff (equipment) has been

to a certain measure changed, and these changes depend on the criteria for the protection of the domestic production; for the objects of equipment which is not produced in the country the tariffs have been reduced to the level from "free" to 15%; for other final products from the same chapters, the tariffs are going from 10% - 25%, depending on the estimated degree of necessary protection of domestic production. According to the new Law on customs tariff (in force from July 1, 1978), the highest rate of duty of 50% has been reduced to 25%. The Law on customs tariff - article 49 of the Law - provides also the authority for the Federal Government to reduce annually the tariff rates up to 40% for the import of specific equipment needed for reconstruction or construction of new capacities in the sectors or activities considered by the development policy as being of particular importance to the development of the country.

9. In order to reduce the balance of payments deficit and remove or alleviate balance of payments difficulties appearing in recent years, beside measures taken for the stabilization of movements on the internal market (so called long-term stabilization programme), an import tax of 10% has been introduced on majority of imports. Exceptionally, on imports of specific equipment the tax is 7%. This measure remained in force in 1978 since in 1977 there has been a very high deficit not only in commodity trade but also in the balance of payments. Products exempted from the customs duty are also exempted from the import tax.

10. In Yugoslavia, the majority of goods of domestic production is subject to special charges like the levy for the development of economically insufficiently developed republics and provinces, or the levy for the alleviation of the consequences of natural disasters etc.

In order to put the imported and domestic goods on the same footing, a majority of imported goods is subject to a special tax of 6% of the value of the imported product. Products exempted from custom duties are also exempted from this tax. A special equalization tax of 1% for customs evidence is collected on the importation of all goods, except of those exempted from custom duties.

11. For the promotion of agricultural production and in order to provide greater security to the agricultural producers, as well as to stabilize the prices of agricultural products, a special levy has to be paid on imports of some agricultural products. These special levies represent the difference between the normal market price and the lowest import price. Details concerning this taxation are given in "Official Gazette of SFRY" No. 11/73, 20/74, 18/73 and subsequently up to No. 56/77.

12. Export and import of goods are subject to the following forms of foreign trade regime: free import and export, commodity quotas, foreign exchange quotas, licences and accordances. The form of import or export regime is indicated against each product, classified on the basis of CCC Nomenclature, which serves also as the basis for the customs tariff of SFRY. The complete list of goods, with indications of the appropriate import and export regime is published in "Official Gazette of SFRY No. 63/77.

13. Export of goods can be done freely or against an export licence.

For export of goods subject to export licences, the organization of associated labour must obtain an export licence issued by the Federal Secretariat for Foreign Trade. Regime of export licences covers certain goods, the export of which has to be kept under control, in conformity with the obligations resulting from the international conventions of trade or other international agreements (e.g. the objects of armament), as well as some agricultural products of significance for the home market.

Out of the total number of tariff items, 5.508 items or 95,6% are subject to free export, while 252 items or 4,4% are on the regime of export licences.

14. On the basis of the import regime the importation of goods can be done either freely or in the framework of quotas or against an import licence.

Importation of goods to which liberalized regime (LB) is applied, can be done freely without any administrative restrictions. The list of free imports contains mostly raw materials and reproduction material, then consumer goods and equipment. Besides, the free import treatment is applied to all products which are not classified into any other category of the import regime.

The free import list contains 3.527 tariff items or 61,3% out of the total number of items of the tariff nomenclature and covers 50,4% of total Yugoslav imports (figures from 1977.).

15. Imports of goods to which the regime of quotas is applied can be done either through a quota fixed in quantities (commodity quotas) or a quota fixed in values (foreign exchange quotas).

Quotas are fixed for a certain period, most often for one year. This import category covers the products significant in the development policy of Yugoslavia; this category can also be applied as a measure of balance-of-payments protection in case other measures of the economic policy cannot remove serious disturbances in the balance of payments and on the market.

Import quotas are fixed by self-management agreements concluded among organizations of associated labour belonging to three categories: manufacturers, consumers and importers, taking into account balance sheets of the given product.

Quotas cover 2.151 tariff items or 37,3% out of the total number of items from the customs tariff. In the total imports (basis imports in 1977), the imports quotas participate with 38,3%.

16. For the importation of goods subject to import licences the organization of associated labour must possess the import licence issued by the Federal Secretariat for Foreign Trade.

This import category covers 82 tariff items or 1,4% out of the total number of items from the customs nomenclature. In the total imports (in 1977) this category participates with 11,3%. A relatively high percentage of these imports is a result of greater imports of oil and oil derivatives.

17. With the aim of promoting trade with the developing countries, particularly of increasing imports of products originating in these countries, a measure of accordane has been introduced, which means that certain goods have to be purchased directly from these countries. The accordane is granted by the Federal Secretariat for Foreign Trade. They are granted for the following products: tropical fruits and spices, cocoa, some vegetable fats, cotton, jute, sisal, exotic wood etc.

18. In Yugoslavia there is no state trade. There are no governmental agencies for purchases. If there is a need for state purchases, such purchases will be done through the organizations of associated labour, registered for foreign trade in products which are to be purchased. According to the most recent data available there are 1.546 such organizations ("The Official Gazette of the SFRY", No 37/76). This number will probably change by the current new procedure of registration of such economic organizations. The new procedure, introduced on the principles of the new Law ends on December 31, 1978.

19. Development of foreign trade does not depend only on the export and import of goods and on crediting. In recent years between Yugoslav organizations of associated labour and their foreign partners, various types of long-term cooperation in production have been developed. This relates to long-term production cooperation, investments of foreign persons in home organizations of associated labour and vice versa, business-technical cooperation, purchase and ceding of licences and technical know-how. In order to develop as much as possible such a form of cooperation, the appropriate legal regulations

were passed, stipulating the procedure for putting into practice each of the forms of such cooperation, granting some facilities for their encouragement and providing security of cooperation for foreign partners; in joint investments furthermore these legal regulations provide assurances to foreign partners as to the right to participate in income, the right to establish a joint business body, the right to transfer the profit or the invested resources etc.

20. Basic and other organizations of associated labour acquire foreign exchange in one of the following manners: by the sale of goods and services on foreign markets, by a long-term production cooperation with foreign countries, by performing economic activities abroad, by taking credits abroad, by emission of securities and by other forms of business activities with foreign countries.

Basic organizations of associated labour may use the acquired foreign exchange for direct needs of their business operations i.e. for payments of imports of goods and services and for other payments abroad. They may combine their foreign exchange with those of other organizations of associated labour, or sell them on the foreign exchange market provided that they may again buy them. Payment of goods, the import of which is regulated by commodity or foreign exchange quotas will be effected with the foreign exchange acquired in one of the above mentioned ways or otherwise.

Besides foreign exchanges acquired through their business operations with foreign countries, the organizations of associated labour and other domestic persons may pay imports of goods and services with foreign exchange acquired otherwise. That means that they can pool their resources with those of other organizations of associated labour, buy foreign exchanges on foreign exchange market, take credits abroad, bring foreign exchange into Yugoslavia on the basis of the investment contract between foreign persons and domestic organization of

associated labour, obtain foreign exchange from citizens, by issuing of bonds; they may also acquire foreign exchange by transfer of profits or by withdrawal of invested means or by other activities abroad.

All payments in foreign exchange are made in conformity with self-management agreements concluded between organizations of associated labour and other social-juridical persons within the framework of self-managing communities of interest for foreign economic relations at the level of republics and provinces.

21. New solutions of the foreign trade system give a possibility to foreign firms to establish their representations in Yugoslavia. The Federal Executive Council issued provisions on the establishment and of the work of these representations in the Regulation on the establishment and activity of foreign firms representations in Yugoslavia "Official Gazette of SFRY" no.30/77). This Regulation provides enlarged possibilities for the opening of foreign firms representation in Yugoslavia. A foreign firm may establish its representation if it has invested on a long-term basis into a Yugoslav organization of associated labour, with the aim of carrying out joint business or if it has concluded a contract on long-term production cooperation with Yugoslav producing organizations or if it has concluded a contract on commercial and technical cooperation with Yugoslav producing organizations of associated labour. In the case of joint venture and contracts on long-term production cooperation the representation can be engaged in production and financial activities while in the case of contracts on commercial and technical cooperation a representation can be engaged in the activities of the technical cooperation. A foreign firm can open the representation in the field of trade for exports of Yugoslav

goods and imports of goods into Yugoslavia. The approval for the opening of representation will be granted by the competent authority if the foreign firm has established more permanent relations with the organizations of associated labour in Yugoslavia and in it makes it probable that out of the total turnover with Yugoslavia a proportioned volume of exports of Yugoslav goods will be carried out.

A foreign firm can also obtain the approval to open its representation for the following economic activities: experts control in the cases where the qualitative and quantitative takeover of goods has been contracted: supervision of the construction or the qualitative control of ships for the classification; agency activity in the field of maritime, road, river and air transportation and in tourism (preparation, conclusion and implementation of a contract signed between a domestic organization of associated labour and a foreign firm which opens a representation). The new regulations allow the possibility also to foreign banks and other financial organizations to open their representation.

For the establishment of foreign firms representations in Yugoslavia it is necessary to obtain the approval by the Federal Secretariat for Foreign Trade.

22. Foreign trade and the current balance of payments of Yugoslavia in the period since the latest consultations show the following unfavourable features:

- in million dollars -

	1974.	1975.	1976.	1977.
Export of goods	3.805	4.073	4.878	5.254
Import of goods	7.520	7.697	7.367	9.634
Trade balance deficit	3.715	3.624	2.489	4.380

	1974.	1975.	1976.	1977.
Invisibles with net workers remittances	3.299	3.567	3.851	4.002
Invisible expenditures with net interest rates	792	990	1.197	1.358
Foreign exchange net inflow from invisible transactions and workers remittances	2.507	2.592	2.654	2.644
Balance of payment	- 1.208	- 1.032	+ 165	-1.756

Although the mentioned period recorded higher rate of growth of exports, expressed in current prices (the average annual growth rate 8,6%), trade deficit increased considerably because of the increase of imports in relation to the insufficient increase of export. The degree of the coverage of imports by exports, in these years, was as follows, 1974: 50,4%, 1975: 52,9%, 1976: 66,2% and 1977: 54,5%.

23. Unfavourable trade flows and significant increase of the balance-of-payment deficit are the result of both internal and external factors. Among internal factors the most important are a relatively high rate of economic development, especially in industry, a relatively high level of internal prices, as well as a dynamic internal consumption, which were leading to the high import pressures. Externally, in the field of foreign trade, the limiting effects of the protectionist policies of the developed countries affect primarily the exports of agricultural products, of textile products as well as the products of iron and steel industry and a series of products such as: electro and electric industry, wooden products, leather products, non-ferrous metals, ferro-alloys, certain chemical products. In the circumstances when there is an accentuated orientation for import from the regions which permanently participate highly in Yugoslav economic development, inadequate exports to such regions become a growing factor of limitations of the overall trade flows.

Belgrade, Octobre 31, 1978.