

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE WORKING PARTY ON RELATIONS WITH YUGOSLAVIA

1. The Working Party was set up by the CONTRACTING PARTIES on 10 November 1960 "to conduct the first annual review under Section C of the Declaration of 25 November 1959 and to report to the CONTRACTING PARTIES". Apart from Yugoslavia, fourteen signatories to the Declaration took part in its work (see W.17/16). The Working Party used as a basis of its deliberations the factual document prepared by the secretariat (L/1337) and a memorandum supplied by the Yugoslav Government (L/1338). In carrying out the review the Working Party followed the programme which had been agreed upon by the CONTRACTING PARTIES, as set out in paragraph 2 of L/1337.

2. In the course of the discussion, the representative of Yugoslavia replied to questions put by members of the Working Party concerning various aspects of Yugoslavia's commercial policy and trade relations and, in the process, clarified various points in the written submissions and supplied supplementary information. The following sections of the report are intended to set out the information made available to the Working Party on the principal subjects of the review. Unless indicated otherwise, the explanations of facts and observations in the following paragraphs reflect the views of the Yugoslav delegation.

I. Evolution of Yugoslavia's Present Commercial Policy and Trading System

3. For a description of recent developments leading to the present commercial policy and trading arrangements, reference may be made to the secretariat document L/1337, as well as to the memoranda submitted by Yugoslavia last year on Foreign Trade and Exchange System in Yugoslavia (L/962) and on Status of Yugoslavia's Economic Organizations (L/961). For the purposes of the present review, attention may be called to: (i) the gradual increase in the number of enterprises engaged in foreign trade; (ii) the reduction in the number of coefficients; (iii) the introduction of the customs tariff; (iv) the relaxation of import controls; and (v) the relaxation of export controls.

Evolution of the trading system

4. In pursuance of a policy of decentralizing trade, the number of enterprises engaged in foreign trade had been steadily increasing in recent years. Since the adoption of the Declaration of 25 May 1959, the number has further increased. The present policy aims at giving the trading system greater flexibility, at endowing

the enterprises with greater responsibility in operational policy and management, and at making more effective use of the forces of the market. There are at present some 500 enterprises engaged in trade in Yugoslavia. The last form of centralized trading in force in Yugoslavia was that for certain agricultural products. The special privileges of Granexport, previously the exclusive importer and exporter of these products were abolished in June 1960. There are now eight additional enterprises dealing in cereals.

5. Economic organizations, or enterprises, wishing to enter into foreign trade and to import are required to register themselves on the Foreign Trade Register. The competent authorities are currently considering a proposal to ease the requirements for registration. These enterprises, within the framework of the Yugoslav economic system, are naturally not owned by private persons or earning profit for shareholders. But, in every other aspect they function essentially like trading firms in market economies. Within the general framework of the Social Plan, they make their own decisions on the products to import, the supplier to choose, and selling prices. The management is essentially independent and has the freedom similar to that enjoyed by their counterpart in the market economies. In fixing selling prices, the importing enterprises, not unlike importers in other countries, aim at covering the c.i.f. cost of importation, any import duty and taxes paid and making a profit, account naturally being taken of the strength of demand.

6. The enterprises' freedom to fix prices is limited only by the price controls which apply to some thirty items of essentials of direct relevance to the cost of living. The tax payable in connexion with importation is in the nature of a turnover tax, which is charged on locally produced as well as imported goods. The rates range as a rule from 5 to 20 per cent, except, for instance, for passenger motor cars of over 1.5 litre engine capacity for which a higher rate is in force. Trading enterprises whose profits exceed a specified amount are assessed a special tax, which is perhaps analogous to the "excess profit tax" in other countries. An excessively high level of export profit for a particular product, on the other hand, might lead to an adjustment of the applicable coefficient. As regards the Social Plan it is more in the nature of a general guidance to the enterprises than a rigid directive. It is, furthermore, subject to review and readjustment in the light of changing requirements and attainments. It involves little limitation to the operational freedom of the trading enterprises in their particular fields of competence.

Simplification of the Exchange Rates Structure

7. In the past reliance was placed on multiple exchange rates partly because of the discrepancy between domestic and foreign prices and anomalies in the price structure and partly because of the absence of conventional trade policy devices such as the customs tariff. As the price differences narrowed, there was a gradual reduction in the number and magnitude of such coefficients applicable to imports and to exports. On the import side the coefficients have been abolished for the 127 items covered by the provisional customs tariff,

The provisional customs tariff

8. Since the Declaration of 25 May 1959, Yugoslavia has enacted a Customs Law, which came into force on 17 September 1959. As a first step in the implementation of this legislation, a provisional customs tariff was put into force on 1 July 1960. This covered 127 items of capital equipment and component parts. The contracting parties were informed of this provisional tariff in a memorandum circulated in document L/1261.

Import controls and restrictions

9. The principal controls affecting imports have operated through (a) the requirement of advance approval of imports; and (b) a detailed allocation of foreign exchange to specific sectors or "circles" of the economy. The advance approval requirement was abolished in January 1960 for consumer goods and, with the entering into force of the provisional customs tariff in July 1960, for capital equipment and component parts. Thus the system of advance approval of imports is completely discontinued. The system of rigid allocation at the "circle" level was terminated in September 1960.

Export controls and restrictions

10. Since the adoption of the Declaration, export prohibitions have been abolished and the number of products subject to export licensing has been reduced. At present some fifty items remain under export licensing and thirty other items subject to export quotas.

II. Plans and Prospects for the Future Development Yugoslavia's Commercial Policy

11. Following, and on the basis of, the modifications and improvements already made, the Yugoslav Government intends to introduce further extensive reforms and ameliorations of its foreign trade and exchange system. On the assumption that the requisite conditions materialize, the intention is to introduce the new measures in 1961. As indicated below, some of the measures have been scheduled for the beginning of 1961, while certain other measures are expected to come into force early in 1961 at dates yet undetermined. The timing will depend on the development of events, the resources available and the legislative programme. Generally speaking, upon the completion of the reforms, the customs tariff will become the principal, if not the sole, means of commercial policy. Quantitative import restrictions may be resorted to in relation to any difficulties in the balance of payments, and export subsidies may be used for a transitional period to compensate for discrepancies between the domestic and world market prices of certain goods.

The customs tariff and import coefficients

12. The present provisional tariff covers 127 items of capital equipment and component parts. The rates shown in the present provisional tariff may have to be revised so as to be more in line with the sections of the tariff which are now being drawn up. When completed the customs tariff would cover the whole field of imports. The present intention is to introduce the remaining sections

of the tariff at the beginning of 1961. As and when the customs duties are imposed on particular sectors of imports; exchange coefficients applying to these products would be discontinued, the ultimate objective being to adopt a single exchange rate applying to all imports (as well as to all exports).

13. The new tariff is being drawn up on the basis of the present economic structure and requirements of Yugoslavia. In so far as there have been significant changes in these factors in the past years, the incidence of the customs tariff may not correspond in all cases closely to the incidence of the coefficients previously applying to the same imports. The Yugoslav authorities believe that the general or average incidence of the new tariff would be somewhat lower than that of the coefficients.

Quantitative import restrictions

14. It is the intention of the Yugoslav Government eventually to abolish the present system of exchange allocations for imports, and to limit the use of import and exchange controls to specific items only. A certain percentage of raw materials, semi-manufactured goods and other products for further processing would be included in a free list. Other imports would be subject to controls and restrictions, in the following ways:

- (a) Certain goods imported for further processing, would be subject to quota and/or individual licensing.
- (b) Equipment goods could be imported under:
 - (i) a global quota for all non-bilateral payments countries,
 - (ii) global quotas open for bilateral payments countries, and
 - (iii) by investors, subject to limitations in relation to their amortization funds position, from any source.
- (c) Consumer goods would be imported under:
 - (i) a global quota open for all non-bilateral payments countries, and
 - (ii) global quotas open for bilateral payments countries.

15. The detailed lists of the products falling in the various categories are being considered by the Yugoslav Government and, pending the Government's final decision, they cannot be published nor regarded as definitive.

16. The whole system of import restrictions would be closely related to Yugoslavia's foreign exchange reserve position. The Yugoslav Government intends at a later stage, within the limits allowed by its balance-of-payments and reserves position, to reduce the coverage and incidence of the restrictions described above. The measures envisaged are the extension of the free list and the enlargement of the global and other quotas.

17. Yugoslavia will endeavour to move towards multilateral trade. However, the use of bilateral arrangements by Yugoslavia is and will be the consequence of her geographical position and, among other things, of the possibilities and willingness of her trading partners. At present, 51.5 per cent of Yugoslavia's total imports is covered by bilateral trade agreements including agreements with some GATT countries. About 60 per cent of Yugoslavia's total imports come from GATT countries.

18. As noted in paragraph 14 above, separate quotas for the same products would be established for bilateral and non-bilateral payments countries. The precise way in which quotas for the bilateral payments partner countries would be made available to the individual participants has not been decided upon. It is possible that the present bilateral quotas for certain products may be combined to form global quotas applying to the bilateral payments countries as a group. The quota (either global or country-by-country) for the bilateral partners are not to be given priority over the same quotas opened for non-bilateral payments countries. Importers would not be forced to import from bilateral countries first, although credit facilities will be an important factor in deciding the size of the quotas.

Export coefficients and subsidies

19. With the abolition of all exchange coefficients, at present contemplated for the beginning of 1961, certain products would be exported at lower effective rates of exchange. Given the same internal production costs and prices, these products would have to be sold at higher prices in terms of foreign currencies on the foreign market. In order to offset the adverse effects of this, the Yugoslav Government contemplates the introduction, as a temporary measure, of export incentives for certain products, either in the form of subsidies or of tax abatements. Such subsidies should be on a modest scale and gradually be eliminated.

20. The need for such action might arise, however, mainly in relation to certain manufactured goods. As regards agricultural products, Yugoslav internal prices being generally lower than world prices, the coefficients at present used are generally lower than unity, tantamount to an export tax on such products. The abolition of the coefficients for agricultural exports would therefore, subject to possible exceptions, require no compensatory recourse to subsidies.

21. Any subsidies that may be introduced will be published by the Yugoslav Government and notified to the CONTRACTING PARTIES under Article XVI of the General Agreement as envisaged in paragraph 6 of the Working Party report of the fourteenth session (BISD, Eighth Supplement, page 65).

III. Application of GATT Provisions by Other Signatories to Yugoslavia

22. In Part II of L/1337 and in L/1337/Add.1, there are reproduced notes supplied by eighteen of the thirty signatories to the Declaration on the treatment they are according to their trade with Yugoslavia. In addition, the following information has been supplied by the countries concerned:

Turkey: A bilateral agreement between Turkey and Yugoslavia provides for the exchange of most-favoured-nation treatment. Payments have been changed from a clearing basis to a new system of 50 per cent clearing and 50 per cent convertible currency. Turkey hopes it will be possible to change to a 100 per cent convertible currency basis in the near future.

France: France applies the minimum tariff to Yugoslavia. A bilateral agreement is being negotiated.

23. The available information shows that most of the signatories to the Declaration apply to Yugoslavia most-favoured-nation treatment in the tariff field.

IV. General Observations

24. The Working Party considers that the information shows that considerable progress has been made, or is planned, by Yugoslavia in the direction of the formation of a trading system under which Yugoslavia will be able to move into closer association with the GATT. Most of the important measures are, however, still being formulated and will not come into force until next year. The Working Party feels that after the coming into force of those measures a more definite picture will be available of the general lines of the Yugoslav commercial policy and trading system.

25. The Working Party welcomes the statements by the Yugoslav representatives that the customs tariff will have a general incidence somewhat lower than the incidence of the present coefficients, that the use of quantitative restrictions will be limited to those needed to safeguard the balance of payments, that export subsidies will be used sparingly and on a temporary basis, and that the multiple exchange practices affecting trade will be abolished.

26. The Working Party has called the attention of the Yugoslav Government to the understanding set forth in paragraph 6 of the Working Party report adopted at the fourteenth session, that Yugoslavia will submit to the CONTRACTING PARTIES such reports and notifications as contracting parties are required to submit under the provisions of the General Agreement, to be taken into account in the annual reviews under the Declaration.