

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## CZECH REPUBLIC

### Communication from the Czech Republic

The following communication, dated 5 July 1993, has been received from the Government of the Czech Republic for circulation to contracting parties.

#### The Trade and Economic Régime of the Czech Republic

On 15 April 1993 the Czech Republic became the one-hundred and eighth contracting party to the GATT, completing thus its accession procedures based on the assumption that it would take over the rights and obligations of the former Czech and Slovak Federal Republic as the original contracting party to the General Agreement.

The terms of the Protocol of Accession are contained in document L/7181 of 19 March 1993.

In the joint communications circulated as documents L/7212 of 30 April 1993 and L/7212/Add.1 of 12 May 1993 the Government of the Czech Republic, together with the Government of the Slovak Republic, notified, in accordance with Article XXIV:7(a), the Agreement establishing the Customs Union between the Czech Republic and the Slovak Republic and the Agreement on Cooperation in Agriculture between the two parties.

The Working Party to examine these agreements was established by the Council at its meeting on 12 May 1993.

With reference to the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance adopted on 28 November 1979, the Government of the Czech Republic presents a short description of some basic areas and elements of the trade and economic policies of the Czech Republic.

#### 1. Demonopolization of Foreign Trade

The process of demonopolization of foreign trade was accomplished in 1991. At present no enterprises have exclusive rights to carry out import and export transactions. The former Foreign Trade Corporations were

transformed into the joint stock companies and their dominant rôle has rapidly diminished. Simultaneously, the number of new private entities entering into foreign trade operations has increased considerably.

More than 30,000 companies were engaged in foreign trade activities on the territory of the present Czech Republic by the end of 1992 compared to less than 100 State-owned companies in Czechoslovakia in 1989. The share of private enterprises in the total value of the Czech trade rose from practically zero in both exports and imports in 1989 to approximately 48 per cent in exports and 56 per cent in imports in 1992.

## 2. Tariffs

The obligations by the Czech Republic under the GATT provide a very high level of tariff concessions granted to the contracting parties. The degree of binding of the conventional rates is equal to 97 per cent and weighted average is less than 6 per cent (based on 1992 figures). The tariff concessions of the Czech Republic are contained in Schedule XCII. The Czech Republic applies the Combined Nomenclature as its national tariff classification.

## 3. Tax system

In the former Czech and Slovak Federal Republic the turnover tax was a key element of the system of internal taxation. The same tax rates were applied to imported goods as well as to the similar domestic goods. This structure of taxes was abolished on 31 December 1992.

On 1 January 1993, a new taxation system was introduced being based on the following types of taxes: value added tax (VAT), consumer tax and income tax. The tax system of the Czech Republic, including the rates applied, is identical to that of the Slovak Republic.

The value added tax is levied on all products at the level of 23 per cent, with the exception of foodstuffs for which VAT amounts to 5 per cent. An additional consumer tax is applied in respect of cigarettes, alcoholic beverages, hydrocarbon fuels and lubricants. The taxes applied do not provide for discrimination between domestic and imported products.

## 4. Charges and fees

The application of a balance-of-payments measure in the form of 10 per cent temporary import surcharge by the CSFR was abolished on 31 December 1992. It has not been extended to the Czech Republic.

The Czech Republic continues to apply the variable levies to imports of a selected number of agricultural products, the customs rates of which are not bound in the GATT. Depending on the developments in the Uruguay Round and contributions made by other participants, the Czech Republic intends to offer respective market access commitments and bind them.

5. Non-tariff measures

The Czech Republic applies the same system of import licensing as the former CSFR. This system was notified to GATT in October 1992 and is contained in document L/5640/Add.38/Rev.1. The product coverage remains unchanged. The main purpose of licensing is to monitor imports, regulate trade in some specific goods and protect public health, environment, safety and security.

The list of items subject to import quotas has been significantly reduced and is limited to certain energetic raw materials (uranium ores or concentrates, coal), waste and scrap-paper and paperboard and of some ferrous and non-ferrous metals. Licensing requirements are also applied to armament, ammunition, military materials, poisons, narcotics and psychotropic agents. Some agricultural products and raw materials are subject to automatic licensing.

6. MTN codes and arrangements

The Czech Republic accepted the following codes negotiated under the auspices of the General Agreement: the Agreement on Technical Barriers to Trade, the Agreement on Implementation of Article VII of GATT, the Agreement on Import Licensing Procedures and the Agreement on Implementation of Article VI of GATT. These instruments entered into force for the Czech Republic on 1 May 1993 by virtue of decisions of the respective Committees. The Czech Republic became also signatory to the Arrangement Regarding International Trade in Textiles and its Protocols of Extension on 15 April 1993. Moreover, the Czech Republic is an observer in the Committee on Trade in Civil Aircraft and in the Committee on Subsidies and Countervailing Measures.

7. Price system

The share of regulated prices has substantially decreased in a relatively short period of time. At present more than 90 per cent of prices are fully liberalized. Regulated prices in the form of maximum prices are fixed for coal, gas, electricity, water, post and telecommunication tariffs, passenger and cargo tariffs, rents in the State apartments, prices of sanitary goods and pharmaceuticals and of health services.

Substance-based price regulation (ex-post inspection of cost and profit) covers prices of gasoline and heat oil, central heating, water-from-surface sources and urban public transports.

## 8. Subsidies

One of the principal goals of the economic transformation has been to reduce the level, intensity and coverage of subsidization. There were very substantial cutbacks in subsidies in 1991 and 1992. No production subsidies were provided to industry in 1992, i.e. in the former CSFR, and the Czech Republic is pursuing the same policy.

## 9. Features of State-owned enterprises

The State-owned enterprises operate in a competitive environment, in a non-discriminatory manner regarding the conditions under which goods are procured and marketed, and in accordance with commercial considerations as far as the conditions under which the goods are procured and marketed are concerned.

The State-owned entities have no advantages over other forms of ownership. They are autonomous risk-taking entities with a management acting independently from the State bodies. These enterprises have no ability or statutory powers by their buying and selling to influence the level or direction of imports and exports.

The detailed and exhaustive list of State-owned or State-operated enterprises is not yet available as the process of "large-scale privatization" has not been completed yet.

In agriculture, the State Fund on Market Regulation as a State-trading entity within the meaning of GATT Article XVII intervenes in the domestic market. Its main purpose is to encourage more stable supply/demand relations and to limit excessive agricultural price fluctuations.

The Fund engages in purchases, sales and stock management and its financing is limited to US\$ 100 million in 1993. The Fund intervenes in the following commodities: butter, skimmed milk powder, condensed milk, white cheese, beef cattle and pigs raised for meat, wheat and sugar.

## 10. Privatization

One of the principal cornerstones of the economic reform in the Czech Republic is a change in ownership of the State-owned enterprises and cooperatives in practically all sectors, with the exception of State administration property, natural resources, social network education and a part of infrastructure (e.g. mail services, railways).

The intensive process of huge and massive privatization is being carried out at two levels. In the framework of so-called small-scale privatization, the State-owned shops, restaurants, hotels, workshops and other establishments are being sold through auctions to individuals or to private firms whose partners are individuals.

Since January 1991, when the first auctions were held, more than 21,000 establishments of the total of 25,000 units to be privatized have been auctioned off in the Czech Republic. Auctions continue also in 1993.

The Small-Scale Privatization Act (No.427/1990 Coll.) forms a legal basis of the above-mentioned process.

The second channel of privatization has the form of a so-called large-scale privatization. The first wave of this process took place in 1992 when 2,727 State-owned enterprises with a total value of CSK 650 billion (approx. US\$ 22 billion) were designated to privatization in the first wave. More than 11,252 privatization projects have been presented in respect of these enterprises.

The second wave of large scale privatization which is expected to start in mid-1993 covers 911 state-owned enterprises to a total value of CSK 380 billion (approx. US\$ 12 billion). Up to now, more than 5,400 privatization projects to these enterprises have already been submitted.

As a rule, enterprises included in the large-scale privatization have to prepare privatization projects for a multi-stage approval process. Moreover, counter-proposals can be submitted by any other party.

In the process of large-scale privatization, both standard (direct sale or tenders) and innovative non-standard methods are applied. The non-standard methods have a form of so-called voucher schemes under which nationals of the Czech Republic can obtain shares in privatized enterprises subject to the voucher privatization. In the first wave of privatization, assets to a value of CSK 330 billion (approx. USD 11 billion) are designed for privatization by coupons.