

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## 1970 CONSULTATION ON BALANCE-OF-PAYMENTS RESTRICTIONS WITH YUGOSLAVIA

### Basic Document for the Consultation<sup>1</sup>

#### 1. Legal and administrative basis for the restrictions

The basic legal instruments regulating Yugoslavia's foreign trade, foreign exchange transactions and credit transactions with foreign countries as set out in the document for the consultation in April 1968 are still applicable with minor amendments. These are:

The Law on Exchange of Goods and Services with Foreign Countries, published in the "Official Gazette of the SFRY", No.27/62<sup>2</sup>;

The Law on Foreign Exchange Transactions published in the "Official Gazette of the SFRY", No.29/66<sup>3</sup>;

The Law on Credit Transactions with Foreign Countries, published in the "Official Gazette of the SFRY", No.29/66.

These legal instruments lay down the basic principles governing Yugoslavia's foreign trade and foreign exchange transactions for legal and other persons dealing with foreign countries. The Federal Executive Council may, acting on the authority conferred by these laws, take various practical measures to implement those principles.

Under regulations issued by the Federal Assembly and the Federal Executive Council, the Federal Secretariat for Foreign Trade is authorized to deal with regulated imports and exports, i.e. to issue import or export licences, where required, and certificates relating to the global foreign exchange quota or commodity quotas to enterprises entitled under the regulations in force to foreign exchange allocations for the purpose of importing appropriate products. The Federal Secretariat for Foreign Trade is also

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<sup>1</sup>Material and statement supplied by the Yugoslav Government.

<sup>2</sup>Additions to and amendments of the law have been published in the "Official Gazette of the SFRY", Nos.14/65, 28/66 and 54/67.

<sup>3</sup>Additions to and amendments of this law have been published in the "Official Gazette of the SFRY", Nos.54/67, 55/68, 13/69, 20/69, 50/69 and 55/69.

authorized to secure a balanced trade with countries with which Yugoslavia maintains bilateral payments agreements, through controlling individual exports so as to ensure compliance with those agreements.

Analogous regulations governing payments on services and invisibles are formulated by the Federal Secretariat for Finance, which is also authorized to issue subsidiary regulations relating to invisible transactions. In addition to this, under the laws in force it acts as the supreme body responsible for exchange control but is authorized to delegate this task to other bodies.

The National Bank of Yugoslavia is the executive body for exchange control with the responsibility to ensure the implementation of and compliance with the regulations in force. Where authorized under the regulations it issues detailed instructions for implementing certain legal provisions. It also determines methods of effecting payments with certain countries and regions, particularly those with which bilateral payments agreements have been concluded.

The National Bank, as the issuing bank, does not, as a rule, carry out commercial transactions. Such transactions are conducted by authorized commercial banks. The status of these banks is regulated by the Law on Banks and Credit Operations of 1965.<sup>1</sup> Under a law of 1 January 1967, three types of such banks are in existence which carry out, inter alia, foreign exchange transactions as follows:

- authorized banks which dispose of a minimum foreign exchange credit fund of \$2 million and have an annual exchange turnover of at least \$80 million. In addition to normal banking and credit transactions these banks are authorized to effect exchange transactions in Yugoslavia and abroad. There are twenty such banks at present;
- authorized banks which dispose of a foreign exchange credit fund of at least \$400,000. These banks may carry out all foreign exchange transactions in Yugoslavia, but may not deal with foreign countries except through one of the banks in the first category of their own choice. At present, there are twenty-six banks in this second category;
- the third category includes banks which are authorized only to effect purchases of foreign currency. Such authorization may also be given to non-banking enterprises (hotels, travel agencies, etc.).

Exports and imports of goods and services may be carried out by all enterprises registered for such purposes with District Economic Courts. In mid-1970 there were over 1,000 such registered enterprises. Under new legal provisions now in force, producing enterprises need not meet any particular criteria in order to qualify for registration to carry out foreign trade operations, while a trading organization must show evidence that it possesses the necessary minimum funds before it can be registered for the performance of specific types of foreign trade operations.

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<sup>1</sup>For details see Annex II to GATT document L/2488 of 2 November 1965.

## 2. Methods used in regulating imports

An economic reform was introduced in Yugoslavia in 1965. The basic targets of the reform were inter alia: greater reliance on market criteria in price formation and in the allocation of investment funds, and decentralization of economic decision-making, that is to grant enterprises a greater measure of independence in making all decisions relating to their operation, thus giving economic criteria a greater play in such decisions. Import liberalization within existing balance-of-payments possibilities would be a consequence of the implementation of those principles. The process of liberalization was under way, as well as the creation of such a foreign trade system as would be most appropriate for the achievement of the goals set by economic reform.

The present foreign trade system came into being on 1 January 1967. Since then it has been modified in many aspects but has not been changed basically. The main features of the present system are as follows:

(a) Free imports (LB list). For products in this list all enterprises may purchase without restriction the foreign exchange needed for payment. For such imports an enterprise gives payment orders to an authorized bank whereupon payment is automatically effected by the latter. Only in the case of importation from countries with which Yugoslavia maintains bilateral payments relations will the import be contingent on the availability of funds on the bilateral account. In implementation of the process of liberalization some goods which in the past were subject to restriction have been transferred to this category, and these include not only raw materials and other production materials, but also certain semi-manufactures, manufactures and articles of personal consumption. Out of a total of 4,503 items included in the Yugoslav nomenclature of Foreign Trade Statistics, 1,845 have been included on this LB list. In 1969, the value of imports under this régime accounted for 21 per cent of total imports.

(b) Conditionally liberalized imports (LBO list). This category was introduced in order to ensure the realization of importation of goods included in bilateral commodity lists from countries with which payments are made under bilateral arrangements, mainly East European countries. Enterprises having fulfilled their obligations undertaken by them to import certain goods from these countries are then free to import such goods from countries in the convertible currency area. This régime is in fact of a transitional character and the number of basic items covered is constantly diminishing as products were being transferred from this list mainly to free importation (LB). The number of items subject to this régime had been reduced from 279 in 1969 to 137 at present. The value of imports involved accounted for 14 per cent of total imports in 1969.

(c) Imports under global exchange quota (GDK list). For this category of imports each enterprise is free to import the goods up to the amount of foreign exchange funds allocated to it from the global exchange quota. The global exchange quota is allocated to individual enterprises on the basis of the amount of foreign exchange each of them used in the preceding year for such imports. Goods under this régime are mainly raw materials and production materials.

Four industrial sectors (metal-working, shipbuilding, electrical and textile industries) receive shares of the global exchange quota for payment for the import of raw materials and production materials which vary with the amount of their export proceeds in foreign exchange. This device of obligatorily linking exports with imports has been introduced on balance-of-payments considerations, these exporters being big importers of raw material and semi-processed products.

Consumer goods not covered by the régime of free imports are imported under the GDK régime, the global exchange quota being fixed at the beginning of each year. The enterprises involved seek mutual agreement, within the Federal Chamber of Economy, as to the distribution of the quota among individual importers. When the agreement has been reached, the Federal Secretariat for Economy issues certificates to the importers for their respective shares in the GDK. This certificate entitles the enterprise concerned to import any of the product subject to the GDK régime.

Two thousand and fifty-seven items are at present covered by the GDK régime. In 1969, the value of imports under the GDK régime accounted for 45 per cent of the total imports.

(d) Retention quota. Out of their export proceeds, exporters are entitled to retain a portion for their own use, including for payments for imports of raw materials and other production materials appearing on the GDK list. The retention quota is fixed, as a rule, at 7 per cent, but in some cases at 10 to 100 per cent of the export proceeds, depending on the category<sup>1</sup> of goods and services exported and the share of the exports in overall proceeds.

(e) Major exporters. Enterprises which make at least 51 per cent of their sales in the convertible currency area may retain the total amount of the foreign currency export proceeds and use it for payment for imports of raw materials and other production materials on the GDK list destined to meet their own needs.

(f) Enterprises developing long-term production co-operation with foreign partners may use 100 per cent of the foreign exchange proceeds from their exports of the products arising from the production co-operation in question, for the import of component parts needed.

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<sup>1</sup>The main retention quota rates for various exports are:

- agricultural, industrial and handicraft goods and services (basic rate)	7%
- machines, plants and pharmaceutical products	12%
- services at international fairs and catering services	20%
- agents for foreign firms; sales of stamps for philatelic purposes	50%
- tourist agents	60%
- printing and publishing services	100%
- execution of investment works abroad	100%

(g) Imports of equipment. Imports of equipment are made in the following way:

Equipment for safety and protection at work in enterprises, institutions or other places may be imported freely.

Imports of other kinds of equipment are covered by the GDK régime and there are several ways of obtaining foreign exchange to pay for such imports, viz:

(i) Use of retention quota

Retention quotas may be used to pay for imported equipment, as well as free borrowing abroad on the basis of the retention quota. It is chiefly used for this purpose at present, since the import of numerous raw materials and other production materials has been liberalized. The possibility of free borrowing abroad on the basis of the retention quota constitutes another aspect of liberalizing credit relations with foreign countries under the Yugoslav foreign trade and foreign exchange régime and is designed to permit enterprises to meet their needs in expanding reproduction themselves, to modernize and rationalize production and show better performance in competing with foreign competitors at home and abroad.

(ii) Part of the depreciation fund

As a general rule, all enterprises may use 10 per cent of their depreciation funds to purchase foreign exchange necessary for equipment purchases. Exceptionally, maritime and inland waterway transport enterprises, copper mines and air companies may use 30 to 100 per cent of their depreciation funds for such imports. Funds from this source may also be used for repayment of borrowing from foreign organizations for the purchase of equipment, etc.

(iii) Allocations by the Federal Assembly for imports of equipment

Under a separate law, the Federal Assembly may fix the amount of GDK for the imports of equipment, particularly for major investment projects deemed particularly important for the further economic development of Yugoslavia as a whole.

(h) Imports under commodity quotas (RK and DK list). The products the importation of which is restricted in terms of quantity so as to harmonize with the domestic production are imported up to a determined quantity (commodity quota - RK) or only up to a certain determined amount (foreign exchange quota - DK) for each individual product. These quotas are fixed at the beginning of each year and are published in advance. The funds for payment of imports under the quotas are fixed separately for convertible currencies and bilateral currencies. Certain products falling within this category (sugar, rice, salt and coffee) are imported by enterprises offering best conditions at a bidding organized by the Direction of Reserves of Agricultural Products. There are 281 items subject to this import régime. In 1969, imports under this régime accounted for 13 per cent of total imports.

(i) Imports subject to licensing (D List). The régime of import licensing is applied mainly to the following products:

- armament materials
- narcotics (in conformity with international conventions)
- certain kinds of equipment and means of transportation.

There are 133 items subject to imports licensing. In 1969, the imports under the licensing régime in the total imports accounted for 7 per cent.

(j) Import taxes. In view of the fact that the Yugoslav production is burdened with special levies (such as the levy for the development of under-developed regions, the levy for the alleviation of the consequences of natural disasters, etc.) while imported goods are not subject to them, a special tax on imported goods has been introduced in order to offset the tax burden, at the rate of 3 per cent ad valorem for all products. In addition there is a 1 per cent tax for customs statistics.

In order to secure a stable domestic market for agricultural producers and to improve agricultural production a levy has been introduced on imports of agricultural products. The Federal Executive Council determines which agricultural and food products will be subject to this levy. The rate of the levy is fixed in the light of the trends of import and market prices of the products in question, and represent the difference between the normal market price and the lowest import price.<sup>1</sup>

(k) Barter operations. Under existing foreign trade regulations barter operations may be carried out in exceptional cases only. A Government decision has further tightened the conditions for approval of such operations. In order to narrow the scope of such operations the authority to approve such transactions has been transferred from authorized banks to the National Bank. The total value of all barter operations amounted to 0.7 per cent of the total value of imports in 1969.

### 3. Treatment of imports from different sources

There are no regulations providing for special treatment for particular areas with regard to imports, except for imports from bilateral countries. The importers are generally guided by commercial considerations (price, quality, terms of delivery, etc.) in determining the source of supply for their imports.

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<sup>1</sup>A temporary import tax of 5 per cent has been introduced on all dutiable imports as from 24 July 1970 and it will remain in force until 30 June 1971. This tax has been introduced in order to ease the present balance-of-payments situation. (cf. L/3419)

4. Commodities or groups of commodities affected by various forms of import restrictions

Restrictions under the import régime are maintained primarily on balance-of-payments considerations, especially in regard to imports in the GDK category.

Apart from military supplies and narcotics, products subject to the individual licensing régime comprise chiefly motor vehicles, electric locomotives, railway coaches, and telephone exchanges.

5. Use of State-trading and Government monopoly in restricting imports

Under the Yugoslav economic system there are no State trading or public monopolies or any other monopolies affecting imports or exports. The legal status of Yugoslav enterprises is explained in detail in Annex I to G.D.T. document L/2488 of 2 November 1965.

6. Measures in relaxing restrictions

As part of the general process of trade liberalization adjustments have been made from time to time in the régime governing the importation of goods, usually by way of transferring products from a less liberal to a more liberalized régime of imports. Notwithstanding the considerable increase in imports, the number of liberalized imports has not been reduced but rather increased. The changes in the lists of imports made up to 1967 were primarily aimed at grouping together within one single category all raw materials, production materials and final products pertaining to one whole technological complex. In addition, changes were also made to meet certain dislocations in the economy and in the balance of payments, and were designed to protect domestic production.

Foreign firms have been allowed to establish agencies in Yugoslavia subject to prior approval of the Federal Secretariat for Foreign Trade when a long-term investment of funds is made by a foreign firm in a Yugoslav enterprise or when an agreement is entered into for commercial or technical co-operation with a Yugoslav (producing) enterprise. A foreign firm may also be permitted to set up an agency in Yugoslavia for the purpose of checking the quality and quantity of goods, to control the quality and classification of ships and to handle agency transactions pertaining to inland waterway and air transport.

The process of the foreign trade liberalization is also reflected in the appreciable increase in the number of foreign trade enterprises.

However, liberalization of foreign trade as well as the increased number of foreign trade enterprises necessarily call for a closer co-operation and co-ordination between all sectors dealing with foreign trade. To this end a mechanism for seeking agreement between the enterprises concerned has been introduced into the foreign trade system, and this applies to a number of specified products as indicated in the import lists.

Endeavours have been made to improve and further develop the foreign exchange and foreign trade system with a view to its further liberalization. To this end the number of goods subject to export licensing has also been reduced; at present no more than seventy-five items are still subject to this requirement.

#### 7. Effect of restrictions on trade

In view of Yugoslavia's adverse balance-of-payments situation, certain import restrictions have been maintained, although the main feature of Yugoslav foreign trade and foreign exchange system is the continued endeavour to achieve the maximum possible liberalization, and the aim is to include most imports in the liberalized category as soon as the balance-of-payments situation permits. Total abolition of all restrictions at this stage of her economic development could place the country in an untenable balance-of-payments situation, or considerably slow down the rate of its economic growth. All the more so, since the country's total foreign currency reserves are hardly sufficient to cover two months' import requirements. Despite the existence of restrictions, the ratio of imports to exports is about 100:70. In its endeavours to introduce in its foreign trade system as many elements of liberalization as possible, Yugoslavia has considerably narrowed the category of conditionally liberalized importation (LBO) and increased the number of items freely imported.

With most of her chief foreign trade partners Yugoslavia is effecting payments in freely convertible currencies, on a non-discriminatory basis. Efforts are being exerted to expand the convertible-currency area and to narrow the bilateral payments area with the ultimate aim of terminating all bilateral payment agreements.

The existing restrictions allow the import of all commodities; there are no regulations precluding the import of any particular commodity except where health, educational, moral or general national security considerations are involved.

Likewise, there are no regulations precluding the import of samples or rendering impossible the fulfilment of obligations in connexion with patents, samples or copyrights. On the contrary, the regulations governing these matters are very liberal.

#### 8. The general policy with regard to the application of restrictions for balance-of-payments considerations

As mentioned above, restrictions for balance-of-payments reasons are deemed to be but a transitional measure, and the policy is to move toward full liberalization of trade and payments as soon as the balance-of-payments situation permits it. The existing adverse balance of trade is covered partly by invisible transactions and partly by borrowing abroad. On the other hand, it is also necessary to build up the foreign currency reserves; for it is only when foreign currency reserves are adequate that a bolder expansion of the category of free imports and/or narrowing of the restricted categories becomes possible.

Proceeding from the general policy as described above, Yugoslavia has been endeavouring to achieve its goals in spite of a certain lagging behind, brought about in the course of 1968 as a consequence of imports which were much above the planned level. One must also bear in mind that most of the deficit in the trade balance is with the convertible currency area. In spite of this the process of liberalization is steadily progressing.

One of the transitional forms of trading still practiced in Yugoslavia is trading on the basis of bilateral agreements. About 50 per cent of total Yugoslav imports at present come from the bilateral area, mainly East European countries. In the context of its policy of trade liberalization and of developing closer relations between its economy and those of other countries, Yugoslavia is endeavouring to terminate its bilateral payments agreements. This has already been achieved with some countries whilst with some other countries negotiations are going on. This process calls for a great deal of patience and caution in order that harm is not inflicted on the existing mutual trade. It is believed, nevertheless, that it will be possible to arrive at adequate arrangements in this regard in the foreseeable future with most countries with which bilateral payments are at present in force.

In the context of its general policy of improving the structure of the country's balance of payments and of accumulating more adequate currency reserves Yugoslavia intends, parallel with the gradual improvement in regard to both of these aspects, to proceed with the relaxation and/or abolition of the existing import restrictions. Present trends have shown a rather high level of imports in all the categories. This testifies to the fact that the import régime is sufficiently flexible to enable a rather liberal development of imports.