

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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Communication from the USSR

The following communication has been received from the delegation of the Union of Soviet Socialist Republics.

In accordance with the statement of the USSR observer made on 3 October 1990 at the Council meeting (C/M/245, page 33), and also referring to Item 2 of the provisional agenda of the 46th Session of the CONTRACTING PARTIES (Annex to document L/6760 - "USSR - Ongoing Economic Reforms"), I have the honour to send you herewith the paper entitled "Economic Reforms in the USSR" for official distribution among the contracting parties.

I regret to communicate that Mr. E. Obminsky, USSR Deputy Minister of Foreign Affairs, will not be able to attend the Session due to unforeseen circumstances. Therefore I request you to arrange the postponement of his statement on the issue until one of the subsequent meetings of the Council.

ECONOMIC REFORMS IN THE USSR

1. Major objectives of the reforms

On 19 October 1990 the Supreme Soviet of the USSR approved "The Main Guidelines for the Stabilization of the National Economy and Transition to a Market Economy". In the course of the transitional period basic conditions for effective operation of a market economy should be created, including:

- Maximum freedom of economic activity. Free enterprise is the basis of the economy.
- Complete responsibility of economic organizations, enterprises, all subjects of economic activity for its results based on equality of all kinds of property including private property.
- Competition among producers, demonopolization of the economy.
- Free price formation on the basis of demand and supply.
- Withdrawal of the State from direct participation in economic activity (except for a few specific areas) and transition to macro-economic methods of economic regulation.
- Development of market relations in those areas where they reveal higher effectiveness as compared with the administrative forms of control. Preservation of a non-market sector in those fields which cannot be subject to exclusively commercial criteria (defence, public health, education, science, culture).
- Openness of the economy, its integration into the system of world economic relations. The right of any economic organization to carry out foreign economic activities. National treatment of foreign firms at the internal market.

2. Measures aimed at the creation of a market economy involve supporting entrepreneurship, denationalization, privatization and encouragement of competition. The implementation of such measures would benefit from financial, technical and consultancy assistance on the part of Western countries and multilateral economic institutions.

II. SEQUENCE OF REFORMS: FOUR STAGES

3. First stage - a programme of special measures

Improvement of the financial situation including, and money circulation through, the reduction of the State budget deficit and restructuring of the banking system, protection of savings of the population, stabilization of supplies and prevention, to the extent possible, of a decline in production, denationalization and privatization of property, land reform and stabilization of the foreign economic relations.

4. Second stage - strong financial restrictions combined with a flexible system of price formation

Transition to free market prices for a broad range of industrial and consumer goods while preserving fixed State prices for not less than one third of all commodities - fuels, raw materials and first-priority consumer goods, establishment of a State contract-based system with the aim of maintaining production and economic ties, continued denationalization and privatization of small-scale enterprises.

5. Third stage - the emergence of a market

The establishment of a housing market, restructuring of the labour remuneration system (abolition of restrictions and the setting up of minimum wages for enterprises regardless of the kind of property), the formation of a labour market, gradual removal of financial and credit restrictions, modification of taxes and interest rates with the aim of encouraging business activity.

6. Fourth stage - the completion of the stabilization period

Accelerated establishment of competitive markets demonopolization, free convertibility of the rouble.

III. UNION TREATY

7. A common economic space will be formed via the all-union market, which will integrate all republics and regions comprising the Union. President Gorbachev has submitted a draft of a new Union Treaty which envisages to entrust the Union, inter alia, with the following powers: the elaboration and implementation of the Union's foreign policy; the conclusion of international agreements; the representation of the Union in relations with other States and international organizations, the regulation of foreign economic activities of the USSR and the co-ordination of republics' foreign economic relations; customs activities; the determination, jointly with the republics, of the country's economic development strategies and creation of conditions for the development of an All-Union market; the pursuit of a common financial, credit and monetary policy based on a common currency; the compilation and execution of the Union budget; the safekeeping and utilization, in agreement with the republics, of the gold reserve and diamond fund; joint control with the republics over the unified fuel and power system, railway, air, and manifold pipeline transports, of the Union system of communications, information and standardization; the establishment of basic principles for natural resources utilization and environment control, the execution of a co-ordinated ecological policy. At present the draft is being considered by the republic legislatures.

IV. REFORMS IN MAJOR SECTORS OF DOMESTIC ECONOMY

1. Pricing

8. The transition to free market prices will be carried out by gradual release of the administrative control. At the first stage, the control over retail prices for lower priority goods is to be removed. In 1992, the control is expected to be retained over the prices for only a narrow range of first-priority consumer goods. Wide use of negotiated wholesale prices is envisaged already in 1991. The formation of market prices should be encouraged through commodity exchanges and fairs.

9. Commodity exchanges already operate, though not without difficulties, in a number of cities of the country. A part of agricultural and industrial products in retail trade is realized at negotiated prices. The complete lifting of control over prices for luxury items and a number of other consumer goods is being currently considered.

2. Taxation

10. The Law on Taxes on Enterprises, Associations and Organizations will come into force on 1 January 1990. The Law envisages a combination of direct and indirect taxes. The major ones are as follows:

- (a) The profit tax within a certain established range of profitability amounts to 45 per cent for a substantial majority of enterprises. In a number of cases, including joint ventures with foreign participation and foreign companies, a lower tax rate (30 per cent) is applied. Besides, certain tax incentives are granted with the aim of promoting R and D, capital investments, ecological measures, development of co-operatives and small-scale enterprises and foreign investment.
- (b) Turnover tax rates are imposed as a percentage of the turnover liable to tax or as a fixed amount per unit of goods. The tax is levied depending on the difference between the centrally-fixed wholesale and retail prices, where relevant. Provision is also made for some tax incentives.
- (c) Export and import taxes are imposed on net income gained from the difference between foreign trade prices and domestic prices for some types of goods.
- (d) Taxes on income gained from shares, obligations and other securities, and from share participation in joint ventures is levied at the rate of 15 per cent.

11. Double taxation is not permitted.

12. It is expected that with the shift to free market prices, the rôle of turnover tax, and import and export taxes will diminish.

3. The banking system

13. It is envisaged to establish a two-level banking system. The State Bank of the USSR, whose superior body will include the heads of the republican Central Banks, will perform the functions of a reserve system that will retain the monopoly on the emission of money and will supervise the banking system.

The second level - a system of commercial banks. It is planned to commercialize the State specialized banks which should become independent joint stock companies. New banks may be set up. In accordance with the draft laws "On the State Bank of the USSR" and "On banks and banking", which passed the first hearing at the Supreme Council of the USSR, commercial banks will be entitled to independently perform operations on foreign exchange and securities markets; to open branches and bureaus; to act as founders and shareholders of banking institutions; to set up foreign exchange funds and use them for investing at home and abroad. Foreign banks in the USSR will enjoy similar rights.

14. By the end of November 1990, the number of commercial and co-operative banks reached about 1,000. Their aggregate stock capital exceeded 5.5 billion roubles and total volume of transactions amounted to 40 billion roubles. Their relations with the Central Bank are based on the same principles as in the countries of Western Europe. The minimal reserve requirements for commercial banks are 10 per cent of their liabilities, excluding inter-bank credits. The granting of licences to commercial banks to perform foreign exchange transactions has been started. A new structure of interest rates has been introduced with a marked increase in their average level so as to limit credit and money in circulation.

V. FOREIGN ECONOMIC RELATIONS

15. The transition to a market economy calls for the creation in the USSR of an open economy developing in interaction and in competition with the world's economy. The State regulation of the USSR foreign economic relations is being switched over to new legal and economic principles. The basic instruments for the State foreign trade regulation should become the exchange rate and the Customs Tariff. Measures are being taken to attract foreign investment to the USSR.

1. State regulation of foreign trade

16. The restructuring of foreign economic relations of the USSR has started the process of decentralization of foreign trade and encouraged independent activities of enterprises in foreign markets. The main instruments which are designed to regulate the foreign economic activities are: registration of participants of foreign economic relations of the USSR; the Customs Tariff; the licensing of exports and imports of individual goods for national purposes; operative regulation of imports and exports, and declaration of goods crossing the State border of the USSR. These measures are applicable to all participants in foreign economic relations and to all types of foreign economic activities. As a result of the planned changes, the Customs Tariff should become the main instrument of foreign trade regulation.

(a) Registration

17. Registration is obligatory and is carried out by the USSR Ministry of Foreign Economic Relations. To date, nearly 22,000 participants of foreign economic relations have been registered, including over 8,000 production enterprises, 4,000 co-operatives, over 2,500 joint ventures and 189 foreign economic associations.

18. As the Harmonized Commodity Description and Coding System will be introduced in 1991, all participants in foreign economic relations are subject to re-registration.

(b) Customs tariff

19. For the time-being the basis of State Regulation of foreign economic activity remains planned assignments and export limits for specialized State-owned foreign economic associations and enterprises. Therefore the strengthening of economic methods of regulating foreign economic activities, which are designed to become the main instrument of the State regulation, is acquiring special importance in the economic reform in the USSR. These measures include first of all the Customs Tariff that should come into force in 1991.

20. The Supreme Soviet of the USSR has finished the first hearing of the Draft Customs Code of the USSR and the Draft Law on the USSR Customs Tariff.

21. The Customs Code of the USSR sets up the principles of organizing customs activities in the USSR on the basis of common customs territory, customs duties and customs fees and is to ensure the adherence to the rights and obligations in the field of the customs activity by the customs authorities and other government bodies as well as by enterprises, organizations and persons.

22. It is for the first time that the Customs Tariff of the USSR would become a law. The Draft Law on the Customs Tariff establishes the procedure for the formation and application of the Customs Tariff which is a system of customs duties applied to importation and exportation of goods and other items and of the rules for levying these goods and items with the customs duties.

23. The sphere of application of the Law according to the Draft is the common custom territory of the USSR.

24. The Customs Tariff is developed in structure in accordance with the internationally accepted standards and principles of customs practice and is based on the Harmonized Commodity Description and Coding System.

The draft Customs Tariff incodes 5,019 items and comprises the following:

- (1) an introductory part, containing norms, principles, rules and tariff structure;

- (2) a systemized list of commodities indicating rates of duties on the basis of the Harmonized Commodity Description and Coding System;
- (3) regulations for preferential treatment for the commodities originating from developing countries and preferential rates of customs duties attached to the Customs Tariff.

25. Internal structure of the tariff is as follows: the first column indicates digital code of a commodity, the second - names of commodity items, the third - minimum rates of duties (first sub-column), fourth - maximum rates of duties (second sub-column).

26. The minimum rates of duties are applicable to the countries which granted the most-favoured-nation treatment to the USSR. The maximum rates of duties are applicable to the countries which have not granted the most-favoured-nation treatment to the USSR.

The minimum rates of customs duties are calculated on the basis of the difference between import prices and existing domestic prices using the commercial exchange rate of the rouble.

27. Transformation of the Customs Tariff into an effective instrument of foreign trade regulation will take place as the difference in the mechanisms of price formation between the domestic and the world markets decreases. The Draft "Foundations of Legislation of the USSR and the Union and Autonomous Republics on Price Formation in the USSR" submitted to the Supreme Soviet of the USSR provide for substantially expanded application of negotiated prices and prices fixed by enterprises and introduce free market prices for new products.

28. The USSR stands up for the expansion of economic co-operation, encouragement of free enterprises, expansion and diversification of trade in accordance with the GATT regulations. The GATT requirements are taken into consideration by the USSR when concluding the Agreements on economic co-operation (e.g. USSR-EEC Agreement, USSR-USA Agreement).

29. The Supreme Soviet of the USSR accepted, on 9 October 1990, the proposal of the Council of Ministers of the USSR to join the Convention establishing the Customs Co-operation Council.

(c) The licensing of exports and imports of individual goods for national purposes

30. Information on the lists of goods which are licensed is published by the Ministry of Foreign Economic Relations of the USSR in the central press and is also transmitted through the TASS channels.

31. In 1989-1990, export licensing has been applied to twenty-seven groups of goods of national importance and covered up to 70 per cent of export value. The need for such measure is caused by the necessity to balance demand and supply of the respective goods. As to imports, seven commodity groups are licensed (6 per cent of import value).

32. The licences are issued for a specific volume or value of supplies and are sub-divided into the GENERAL and SINGLE ones. As a rule, specialized foreign economic organizations receive General Licences for annual plan assignments in respect of exports or imports of products concerned. Enterprises, associations, production co-operatives and other Soviet organizations are granted licences for each individual transaction. In case an application for license is refused, the applicant is entitled to receive a justification for such action.

(d) Operative regulation of export and import

33. Measures of operative regulation of foreign economic relations of the USSR are designed to limit exports and imports, for certain periods of time, in respect of some commodities, countries or groups of countries, whenever it is required by the payment situation or other economic and political conditions.

34. Individual licensing of transactions for all commodities and services imported from Finland, Yugoslavia, Arab Republic of Egypt, Hungary and those exported to the People's Democratic Republic of Korea was introduced in 1989 for the period up to 1991. The Soviet Union has a clearing system with the above-mentioned countries with obligations to balance the trade turnover.

35. No licences are required and no quotas are fixed for joint ventures in the territory of the USSR, when they export their own products and import products for their needs. This regulation has been cancelled by the State Foreign Economic Commission of the Council of Ministers of the USSR only in respect of textile goods exported to the EEC countries. Draft new law on foreign investments in the USSR provides for the procedure of defining of "own" products, according to the rules of origin, according to international practice. Instruments of operative regulation also include measures, applicable to individual participants in foreign economic relations. The State Foreign Economic Commission of the Council of Ministers of the USSR is authorized to suspend operations of participants in foreign economic relations in case their activities are detrimental to the interests of the State.

36. Such decisions are taken in the following cases:

- violation of Soviet legislation, infringement of the provisions of international treaties of the USSR, as well as violation of foreign legislation that caused economic or political damage to the USSR;
- accomplishment of foreign economic transactions in excess of authorized legal capacity, as well as in the case of unauthorized barter operations;
- exports from the USSR at unreasonably low prices or imports to the USSR at excessive prices;
- repeated exports or imports of deficient products;
- deliberate submission of false data in advertising, customs, financial and registration documents.

(e) Declaration

37. In order to monitor the movement of goods, to make the customs duties mechanism workable and to keep the State statistics of foreign economic activities, mandatory declaration of goods and other property, that cross the state border of the USSR, was introduced on 1 April 1989.

2. Foreign exchange regulations in the USSR

38. The Soviet rouble is not convertible. All settlements on foreign economic operations, including those under clearing agreements are carried out in convertible currencies, tied currencies of developing countries and transferable roubles and national currencies of CMEA - member countries. As from 1 January 1991, there will be no payments in transferable roubles. As soon as appropriate arrangements are made, the clearing system will gradually be dismantled.

39. Official rate of exchange published weekly by the State Bank is based on the adjustment of the rouble value to a basket of currencies, which consists of US Dollar, Deutsche Mark, Pound Sterling, French Franc, Italian Lira, and Japanese Yen. Its application is confined exclusively to settlements of state and other credits in roubles, granted by the Soviet Union to developing and Eastern European countries.

40. The first steps to liberalize the currency policy were the holding of foreign currency auctions on a regular basis, the introduction of the special rouble rate for non-commercial payments, and the abolition of over two thousand differential currency coefficients and the introduction of the State Bank's commercial rate.

41. The State Bank's commercial rate was introduced by the President's Decree and has been used since 1 November 1990 for all payments for foreign trade operations, foreign investments in the territory of the USSR and for Soviet investments abroad, as well as for non-commercial payments, carried out by juridical persons. The calculation of the commercial rouble rate is based on the official rouble rate devaluated three times, the objective being to make the Soviet exports profitable without budget subsidies. Today the introduced commercial rate (1 US dollar equal to 1.7-1.8 roubles) ensures the profitability of over 90 per cent of exports, including such a key industry as engineering, where previously only 30 per cent of exports was profitable. As from 1 January 1991, the Decree grants to all juridical persons the right to sell and purchase hard currency for roubles at the rate, that prevails in foreign exchange transactions in the form of interbank operations, in the currency markets, or at auctions.

42. The special rouble rate for non-commercial payments in foreign currency was introduced on 1 November 1989, by devaluating the official rate ten times. The State Bank adjusts this rate depending on changes in the official rouble rate and other factors.

43. Market rate for exchange operations between Soviet enterprises depends entirely on the supply and demand of foreign exchange at the currency auctions, held by the USSR "Vnesheconombank".

44. Decentralized foreign exchange funds, which are made of parts of export earnings of enterprises, have been established since 1986 to ensure currency self-financing of enterprises. The amounts of allocations to the funds depend on industries. Beginning from 1991 they will be set in relation to groups of products. The amount of foreign currency allocations will determine the enterprises' use of centralized foreign exchange funds for import payments.

45. In order to expand the capacity of self-financing of enterprises in terms of hard currency, domestic currency market is being established: the regularly held foreign exchange auctions serve as an institutional basis. The auctions will be developed by involving a growing number of participants (apart from State enterprises, organizations and collective and State farms, joint ventures and co-operatives have been granted access to such auctions) and by holding them more frequently.

46. The institutional infrastructure of the currency market will be developed through the creation of foreign exchange markets and subsequent transition to an interbank market.

47. The primary goal is to make the rouble internally convertible, which would allow all domestic enterprises and foreign companies, operating in the territory of the USSR, to freely purchase and sell foreign currency at the market rate.

48. In November 1990, the USSR Supreme Soviet held the first hearing of the draft Law "On Currency Regulation in the USSR". The draft contains foundations of the currency legislation in the Soviet Union and the basis for the transition to the convertibility of the rouble.

3. Foreign investment in the Soviet Union

49. The activities of joint ventures are guided by the laws with providing generally more favourable than those in respect of Soviet enterprises and organizations (for instance, in respect of taxation, currency payments to the state).

50. The current Soviet legislation envisages broad opportunities for foreign investment in various sectors of the economy, although it restricts the setting up of joint ventures in insurance, auditors business and commercial intermediary operations. Joint ventures need a special permission for such activities.

51. Joint ventures in the Soviet Union are being set up at a very rapid pace: in 1987 the USSR Ministry of Finance registered twenty three joint ventures, in 1988 - 168, 1989 - 1080, and over eleven months in 1990 more than 1600 joint ventures have been registered. Aggregate assets of joint ventures amount to almost 4 billion roubles, including at least

1.5 billion roubles accounted for by foreign capital investments. An average foreign share in a joint venture is 41 to 42 per cent. The majority of joint ventures have been set up by firms from Germany, Finland, USA, Italy, Austria, France, and Great Britain. Firms of the same countries are also leading in terms of invested capital.

52. The registration of joint ventures will be decentralized in the near future. As from 1 January 1991, the procedure of the joint ventures' registration will be determined independently by Union Republics.

53. The Decree of the President "On Foreign Investments in the USSR" dated 26 October 1990, authorizes foreign investors to establish enterprises where foreign investment accounts for 100 per cent. Foreign investments are granted a treatment not less-favourable than the one national enterprises enjoy. Profits gained in Soviet currency may be freely reinvested and utilized otherwise in the USSR territory. Free repatriation of profits gained in foreign currency as well as of profits in roubles through transfers at the market exchange rate is guaranteed.

54. At present, the legislation "On Foreign Investments in the USSR" and corresponding draft laws of Union Republics, which will systematize numerous legislative acts are being finalized. The Union legislation provides for foreign investments in the USSR in foreign currency and in roubles by way of:

- (a) share participation;
- (b) setting up of enterprises and branches fully owned by foreign investors;
- (c) acquisition of property, shares and securities, and
- (d) acquisition of the right to use land and other property.

It will provide to foreign investors additional legislative protection and guarantees for secure and successful functioning of their investments.

55. Additional guarantees are granted to foreign investors in agreements on promotion and mutual protection of capital investments concluded between the Soviet Union and foreign countries. Twelve such agreements have been signed with Finland, Belgium, Luxembourg, Great Britain, Germany, France, the Netherlands, Spain, Canada, Austria, China, Italy, and Switzerland.

VI. ASSESSMENT OF REFORM

56. It can be stated that the country is already in the state of transition, the essence of the latter being profound transformation of the entire economic mechanism. Structural change in any country is impossible without considerable cost. Nowadays the USSR faces significant economic difficulties: national income has declined by 3 per cent during ten months of the current year, industrial output - by 0.8 per cent, labour productivity - by 2 per cent. Exports go down, while imports grow. The consumer market is unbalanced, inflation is growing and so does external debt, difficulties occur in the settlement of current accounts. The

industry is acquiring new skills of commercial activities with great difficulty. Availability of skilled personnel still poses a serious problem. For instance, in order to satisfy the needs of the foreign economic complex it is necessary to train or retrain at least 50,000 persons. Foreign investments in the Soviet economy are still of low efficiency. At present joint ventures mainly originate from foreign initiatives, they are small in size and are concentrated in the services area.

57. Stabilization of the economy is impeded by complicated political situation in the country.

58. Nevertheless it would be premature to draw even tentative conclusions since actual transition to a market economy has just started, and the complete effect of measures taken is yet to come. In the meantime, the dismantling of the old system of managing the economy to a certain extent outstrips the establishment of new economic relations. At the same time, a decisive movement in practice towards market economy is obvious and it will further accelerate in the forthcoming year as a whole package of important laws come into force. The establishment of basic market structures is estimated to take two to five years. Though everything possible is being done to mobilize internal resources, a significant rôle is assigned to external economic factors. Accelerated integration of the USSR into the world economy will, no doubt, contribute to the success of transformation of the national economy. Since trade still remains the main channel of the country's interaction with the rest of the world, an early integration of the Soviet Union into the world trade system is of fundamental importance to economic growth of the country.