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Additional Questions and Replies to the Memorandum on the Foreign Trade Régime (L/7466)

The following additional questions and replies to the Memorandum on the Foreign Trade Régime have been received from the Republic of Croatia.

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II ECONOMY AND FOREIGN TRADE

II.1 Economy

QUESTION 1:

Concerning Croatia's statement regarding developing country treatment in Appendix 1 (WT/ACC/HRV/4): We appreciate Croatia's statement. We are prepared to look at specific situations in the context of the negotiations where Croatia seeks assistance in meeting WTO provisions. We cannot, however, agree that it is appropriate for Croatia to claim automatic recourse to all provisions in the WTO Agreement related to special treatment for developing countries, or to engage in a debate on labels at this stage of the negotiation. Croatia should make every effort to meet WTO provisions prior to accession, and should be prepared to discuss with the Working Party and to justify any departures from these norms.

II.1(b) Main Directions of Ongoing Economic Policies.

QUESTION 2:

Concerning the response to question 1, which government ministry oversees the setting of utility prices in the event that it should be deemed necessary? Under what conditions would price controls be allowed? (WT/ACC/HRV/3)

ANSWER:

According to the Law on the System of Price Controls, local governments may apply price controls on local utilities such as central heating, water, gas, sanitary services, public transportation, etc.

However, public utilities of strategic interest extending the following services: electricity, petroleum and petroleum products, railways, television, post and telecommunications, etc. set prices according to market conditions. In the event of price increases, these public utilities inform the Ministry of Economy within 3 days.

Indirect price controls (price ceiling, decreasing prices, and establishing prices) are allowed in order to prevent market disturbances with regard to price fluctuations; direct price controls are set by the Government of Croatia, on the proposal of the Ministry of Economy, and only last for a six month period. The Law on the System of Price Controls lists the conditions which must be fulfilled in order to extend the six month period.

II.1(b)1 Privatization

QUESTION 3:

The present law on privatization does not concern public enterprises, banks, insurance companies, cooperatives, ports, marinas, hospitals and schools. Does Croatia plan to define special provisions for such entities? If so, what are these provisions? (L/7466, page 14)

ANSWER:

Banks are not privatized within the privatization program of the Ministry of Privatization or the Law on Privatization, rather, by the financial founders of the banks indirectly privatizing their shares or by the Agency for Bank Rehabilitation and the Law on the Agency for Bank Rehabilitation (for those banks in financial troubles). The privatization of public enterprises and joint-stock companies (including insurance organizations), 100 percent owned by the Government, is regulated by the Privatization Act. The Law on Sea Ports provides for the privatization of port services and activities

by means of concessions; whereas the actual port is regulated by the port administration. The privatization of public educational facilities is foreseen for the near future. As for the privatization of the health system, the Ministry of Health (in accordance with the Statute of Conditions for the Lease of Medical Facilities for Primary Medical Care (clinics) and Hospitals) regulates the privatization of medical services and activities within hospitals and clinics, but not the infrastructure and property. The Statute stipulates exactly under what conditions a clinic or hospital may be privatized, who approves the privatization, the standard of the equipment used, the conditions a doctor must fulfil (3 years of experience in that particular clinic or hospital) in order to participate in privatization, etc.

QUESTION 4:

Please provide an update on the Government of Croatia's privatization program. What is the future plan for continuing privatization?

ANSWER:

Croatia submitted, in March of 1996, a comprehensive up-date of the privatization program in Croatia, distributed in document WT/ACC/HRV/5.

II.1(c) Current Economic Situation

QUESTION 5:

We gathered from the information provided on page 3 and 4 that the share of the informal sector in the economy is quite high. Please provide an information, what is the estimated share of the informal sector in the foreign trade activities? Please elaborate what other measures are undertaken in order to reduce tax evasion and the importance of informal sector in the economy? (WT/ACC/HRV/3, Question 3)

Please provide detailed information on the "grey-area" economy of Croatia and its influence upon Croatia's foreign trade.

ANSWER:

An exact estimation of the share of the informal sector in foreign trade is not available. However, we assume that informal employment in the service sector is not substantial in comparison to domestic employment in retail trade and other labour intensive activities. As mentioned in our previous answer, recovery of all economic activity coupled with the rising standard of living was attributed to the reduction of the informal sector. The measures used to decrease the informal sector of the Croatian economy were the development of an effective tax system, the reduction of taxes, the improvement of labour relations and regulations, and the implementation of a functioning labour inspection.

QUESTION 6:

What steps are being taken to adapt the tax system to prevent the widespread tax evasion cited in the response to question number 3? (WT/ACC/HRV/3)

ANSWER:

Croatia has enacted the Profit Tax Law and the Income Tax Law. Further steps taken to increase financial discipline and combat tax evasion have been through intensified efforts by the financial police (sector of the Ministry of Finance).

II. 1(d) Division of Authority Between Central and Local Governments

QUESTION 7:

Per the description in L/7466, please outline the responsibilities of subnational entities such as counties, municipalities, towns and self governing districts in the enforcement of trade policy.

For example, do these subnational entities apply taxes to goods and services on their own authority? Do they have the authority to restrict commerce?

Will these subnational units collect VAT taxes on imports? In the collection of the tax on vehicles and vessels, is a distinction made between imported and domestic goods? Have imports of vehicles or vessels paid this tax at the time of importation?

ANSWER:

The Law on Financing local self-government and local government (Official Gazette of the Republic of Croatia, No. 117/93) governs the income of local self-government and local government units as well as the allocation of joint revenues. According to the provision of Article 45 of the Law revenues from profit tax and income tax are allocated between the state, county, the municipality, and town.

The municipality share and the town share of the profit tax amounts to 20% , whereas the country share totals 10% .

The municipality and town share of the income tax totals 20% , the county share is 5% and the share of the town of Zagreb is 45% .

The local self-government units and government units are allocated joint taxes at fixed percentages which have been realized on their territory.

VAT taxes are collected at importation and there are no distinctions between domestic and foreign vehicles and vessels. The excise tax on imported vehicles and vessels is applied according to kW power.

II.2(c) Foreign debt of the Republic of Croatia

QUESTION 8:

Have the negotiations concerning the foreign debt of former Yugoslavia and the succession thereto been concluded? If so, what is the exact situation now as far as Croatia is concerned? (L/7466, page 20)

ANSWER:

The Republic of Croatia rescheduled the external debt with the Paris Club of Official Creditors in March of 1995. The Republic of Croatia assumed 28.49 percent of the non-allocated debt, as set by the International Monetary Fund. Negotiations with the London Club of commercial creditors are under way. The succession process has yet to be finalized because the former Yugoslav Republics of Serbia and Montenegro do not recognize the succession process.

QUESTION 9:

On page 5 of the document WT/ACC/HRV/3 it is stated that the unallocated debts of the former Yugoslavia must be divided between the successor states according to the pre-defined system. Please indicate what is the share of Croatia in the total debt of the former Yugoslavia?

ANSWER:

The Republic of Croatia assumed 28.49 percent (calculated by the International Monetary Fund) of the non-allocated debt of the former Yugoslavia.

III. INSTRUMENTS AND MEASURES OF THE FOREIGN TRADE SYSTEM OF THE REPUBLIC OF CROATIA

III.1 The Law on Foreign Trade Operations

QUESTION 10:

It is stated that the Law has made null and void all previous provisions regulating the details of foreign trade operations and operators licensed to perform, as well as any previous approval of such operations by the Ministry of Economic Affairs. Could Croatia explain the meaning of the nullification of any previous approval of the operation? Will the operation that has been approved also be made null and void by such measure? (WT/ACC/HRV/5, page 3)

ANSWER:

The new Law on Trade does not provide for any import and export restrictions nor special conditions for foreign trade. Contrary to the former Law on Foreign Trade Operations, companies performing foreign trade do not have to register separately with the Commercial Court; hence there are no distinctions between foreign and domestic operators and foreign trading activities are performed freely with no restrictions like in the Croatian market. For example, companies re-exporting, investing, importing, etc. may do so as they wish and they are no longer obliged to seek an approval from the Ministry of Economy.

QUESTION 11:

The amendments to the law on foreign trade activities of November 1993 expanded the previously existing law without delving any deeper into the overall system of foreign-trade activities. What does expansion without deepening signify? In what specific areas have these changes been made? (WT/ACC/HRV/3, Question 5)

ANSWER:

The former Law on Foreign Trade Operations was replaced by the Law on Trade. A copy of the Law on Trade was Submitted to the WTO Secretariat on March 21, 1996. The amendments to the Foreign Trade Act, which was superseded by the Law on Trade were aimed at following free importation of equipment and vehicles by traders, farmers and other physical persons who are not registered for foreign trade, if they import such items for their own use. Furthermore, the legal provisions forbidding imports of used vehicles into the Republic of Croatia by traders and individuals has been annulled.

QUESTION 12:

Regarding the response to question 124 (page 59), does the Government of Croatia intend on rewriting the Law on Foreign Trade Operations, which was inherited from the former Yugoslavia to adapt it to the needs of a market economy? If so, when would this occur? (WT/ACC/HRV/3)

ANSWER:

When the Law on Trade entered into force in February of 1996, the Law on Foreign Trade Operations was abolished, null and void.

QUESTION 13:

Croatia has recently provided the "Law on Foreign Trade for Working Party review. We will submit additional questions on this later.

ANSWER:

No need to submit questions on the Law on Foreign Trade Operations because it is no longer enforced.

QUESTION 14:

Croatia provided a draft "Law on Trade" bill in Appendix 8:

- (i) What is the status of this Law? It is intended that it should fully replace the Law on Foreign Trade Operations? If not, what portions of the old law are intended to remain in effect?**
- (ii) Please comment on the impact of Articles 5-8 of the draft Law, i.e., is this a confirmation that the State will not restrict the right of persons or entities to import and to export in Croatia? (WT/ACC/HRV/3)**

ANSWER:

(i) The Law on Trade was submitted to the WTO Secretariat in March of 1996. This law has fully replaced the Law on Foreign Trade Operations.

(ii) The Law on Trade entered into force on February 17, 1996; at this moment the Law on Foreign Trade Operations (which was assumed from the former Yugoslavia) was effectively abolished.

The Law on Trade provides for free trade, in addition, the State does not regulate foreign trade or prohibit foreign trade for those companies registered to perform such activities.

The criteria that a foreign or domestic individual or enterprise must meet to register in order to import or to export in Croatia are in Article 4, which provides for free trade and equal market conditions.

Presently, there are approximately 70,000 trading registrations (wholesale trade, retail trade and intermediation) in Croatia, and no special requirements or conditions are required for traders (foreign and domestic), thus, the State does not restrict the right of persons or entities to import and to export.

III.1(c) Special Forms of Foreign Trade Operations

QUESTION 15:

Please outline for the Working Party any situations where the Government of Croatia remains involved in the "special foreign trade operations" referred to in this section: e.g., long-term production cooperations, compensation deals with foreign countries and re-exporting arrangements with foreign countries.

Do any of these agreements retain any/any state-to-state elements?

Please list the firms authorized to conduct this trade and indicate the lists of goods that are traded under such agreements.