1. The Working Party was appointed by the Council of Representatives on 30 May 1962, in accordance with instructions of the CONTRACTING PARTIES, "to conduct the third annual review under Section C of the Declaration of 25 May 1959 on relations between contracting parties and Yugoslavia, including consideration, pursuant to paragraph 3 of Section D of the Declaration, as to whether the arrangements should be terminated, modified or continued, and to report with recommendations to the CONTRACTING PARTIES at the twentieth session". The scope of the review, as defined by the Council, was to be as follows:

I. Implementation of the present Declaration:

(a) Changes and developments in the commercial policy of Yugoslavia;

(b) the extent to which contracting parties apply GATT to Yugoslavia;

(c) concrete and practical problems arising in trade with Yugoslavia.

II. Future arrangements on relations between contracting parties and Yugoslavia.

1. Implementation of the present Declaration

2. This third review covers the period from the conclusion of the second review in December 1961 until the present time. For the purpose of this review, the secretariat was instructed by the Council to prepare, in consultation with the Government of Yugoslavia and with other contracting parties signatories to the Declaration, a background document to serve as a basis for the deliberations in the Working Party. For this purpose contracting parties concerned were requested to supply fresh information on the subjects to be

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1 See C/M/10 and L/1791.

2 BISD, Tenth Supplement, page 61.
covered in the review or to bring up to date the material which they supplied in 1961 for the previous review. The material received was circulated in document L/1877 which contained three memoranda submitted by Yugoslavia on:

(A) Recent developments in the Yugoslav economy;
(B) The new law on foreign trade and recent developments in trade;
(C) The nature and status of Yugoslav enterprises engaged in foreign trade;

as well as information on trade relations between Yugoslavia and the other signatories to the Declaration.

3. The Working Party wishes to place on record its appreciation of the clear and concise documentation supplied by the Yugoslav authorities which greatly facilitated its task. The basic document in L/1877 should be deemed an integral part of the records of this review. The following sections of the report are intended to set out the additional information adduced in the course of the discussions.

(a) Changes and Developments in the Commercial Policy of Yugoslavia

Recent developments in the Yugoslav economy

4. The Working Party noted from the written memorandum (A) and from an oral statement by the Yugoslav representative that the economy of Yugoslavia had developed steadily during the past few years. In 1961, however, there had been some slackening in this development, due mainly to the adjustment entailed by the implementation of the foreign exchange system and also to unfavourable weather conditions which had affected agricultural production.

The expansion in production had been accompanied in recent years by a marked increase in the manpower employed in sectors other than agriculture. However, despite the considerable increase in the number of persons employed, a satisfactory improvement had been recorded in labour productivity in all sectors of the economy in the past few years. Investments in basic equipment and working capital had continued to expand and had absorbed nearly 30 per cent of the gross national product. In the past few years the capital output ratio had become more favourable than in the preceding years.
5. During the first half of 1962 measures to increase credit facilities had been taken in order to stimulate production for the internal market and for export, especially in the housing and consumer goods sectors. Under the impact thereof there had been a revival of industrial production and economic activity by the middle of 1962. A further positive element was the fact that the ratio between total domestic demand and total material production had gradually been brought into harmony, so that the prices of industrial products had been in general stable in 1962. The prices of agricultural products, on the other hand, had risen as a result of a bad crop and as a consequence of the policy aiming at adjustment in the level of agricultural to the industrial prices. The differences between the price levels of industrial and agricultural products were still considerable. In order to further agricultural production, certain internal adjustments had been made, but Yugoslav agricultural prices were still below the world market levels. The cost of living had shown a downward trend during the last few months.

6. In the view of the Yugoslav representative a future favourable development of the Yugoslav economy would lead to a consolidation of the present general trade policy rather than to substantial changes in it. The foreign exchange reform, put into effect on 1 January 1961, had had some unfavourable short-term effects on the economic development but these had now been largely overcome and a stabilizing effect had begun to make itself felt.

7. The Yugoslav memorandum on recent developments in the Yugoslav economy stated that the insignificant increase of Yugoslav exports of industrial products in 1961 was due partly to several reasons including effects of economic integration in Europe. The Working Party noted, however, that the rate of increase of exports from Yugoslavia to the European Economic Community in the period had been greater than the average rate of increase of Yugoslavia’s total exports. In this connexion the view was also noted that increases in exports to these countries could be attributed to their prevailing high levels of national income and economic activity; higher levels of imports from Yugoslavia could reasonably have been expected in the absence of this integration.
Recent developments in commercial policy

8. The Working Party took note of the various changes which had been made in the Yugoslav import and export system since the last review, as described in the memoranda reproduced in L/1877. It was noted that the principal changes included the adoption of a new "Law on the Exchange of Goods and Services with Foreign Countries", a "Law Regulating Business Relations on the Market", and a new "Decree on the Provisional General Customs Tariff". The principal purpose of these, especially of the two Laws, was to strengthen and develop the principle of the independence and business freedom of commercial enterprises in the sense already explained to the Working Party in 1961, which was considered by the Yugoslav Government to be one of the basic principles of the Yugoslav economic system.

9. As regards the customs tariff, the Working Party noted that in the light of the experience acquired after the abolition of the system of coefficients and the introduction of customs duties, the Yugoslav Government had introduced in January 1962 some modifications to the Provisional General Customs Tariff, by raising the duties on certain items and reducing those on others. The Yugoslav delegation explained that the Tariff being experimental in nature, and introduced for the first time after the war, modifications from time to time were naturally inevitable, and future modifications were to be expected. In other words, the provisional customs tariff would be further elaborated and the rates would continuously be adjusted as steps towards evolving a definitive tariff, which would be used as the basis for tariff negotiations in connexion with the eventual accession of Yugoslavia to GATT. The Yugoslav Government accepted that the customs tariff should be the sole means of protection of domestic production against foreign competition; import restrictions would not be relied upon for this purpose and those applied at present for balance-of-payments reasons would be removed as and when they become unnecessary.

It was also noted that the customs "recording duty" of 2 per cent was the only import fee that was imposed in addition to the rates of duty.
10. With regard to import restrictions, the Working Party noted that the system remained essentially unchanged as described in the documents pertaining to the 1961 review (L/1494 and BISD, Tenth Supplement, pp. 64-65). As noted in the relevant memorandum, there had been certain adjustments in the various lists of products subject to the different control methods; the lists of free imports and imports under liberal licences had been extended somewhat, but, owing to adverse developments in the balance of payments giving rise by various unfavourable factors (which have been discussed in paragraphs to above) the Yugoslav Government had found it necessary to make other adjustments in the import control lists. The Yugoslav delegation stressed that such changes had been dictated by the deterioration of the balance-of-payments position, and further liberalization would be undertaken as and when it became practicable.

11. The Working Party noted that in comparison with the situation last year, the restrictions seemed, on balance, to have been somewhat intensified as might be seen from the following figures:

<table>
<thead>
<tr>
<th>Proportion of Estimated Imports in 1961</th>
<th>Proportion of Present Imports (1961 Import basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free imports</td>
<td>25</td>
</tr>
<tr>
<td>Liberal licensing</td>
<td>2</td>
</tr>
<tr>
<td>General licence</td>
<td>17</td>
</tr>
<tr>
<td>Individual quotas</td>
<td>35</td>
</tr>
<tr>
<td>Restrictive licence</td>
<td>0.6</td>
</tr>
<tr>
<td>Special régime for capital goods</td>
<td>20</td>
</tr>
</tbody>
</table>
12. In further clarification of the Yugoslav system of import restrictions, the Working Party was advised by the Yugoslav delegation that licences for imports under "liberalized licensing" were granted automatically and the necessary foreign exchange was ipso facto made available, although a short delay might happen in the actual provision of the foreign exchange. For imports under restrictive licence, on the other hand, no foreign exchange was being made available, the possession of the necessary exchange being a prerequisite for imports under this category. In the case of imports subject to individual quotas, the quotas were divided in two main groups for the convertible currency zone and for countries with bilateral payments arrangements.

13. In respect of the Yugoslav export régime the Working Party noted that the export premiums were to be considered as a provisional measure only. These premiums of a monetary nature had been introduced as a measure of adjustment for the period of transition from the multiple exchange rates system to the unified rate. Yugoslavia had undertaken in an agreement with the International Monetary Fund to abolish them within five years. The export restrictions were also of a temporary nature and were only intended to protect the domestic supply of a limited number of products.

14. The Working Party was advised by the Yugoslav delegation that Yugoslavia had bilateral payments agreements with twenty-three countries; in addition there are five agreements with transferability clauses. It was the intention of the Yugoslav Government to abolish these agreements whenever this became possible and was agreed to by the partner country concerned.

The Yugoslav Trading System

15. As relevant for item I (a) of the review, the Working Party, on the basis of the relevant memoranda in L/1877, discussed with the Yugoslav delegation the nature and status of Yugoslav enterprises engaged in foreign trade. It was noted that the new Law on the Exchange of Goods and Services with Foreign Countries and the Law on Business Relations on the Market, of July 1962, were both codifications of the existing laws and regulations, undertaken in the light of the experience gained in their implementation.
In some respects, however, they contained more rigid criteria than the ones formerly applied; e.g. for the registration of enterprises, where it had been found necessary to impose more rigid rules in order to create stronger and more stable enterprises. It was also the intention of the new Law to facilitate the registration of producing enterprises to engage in foreign trade transactions in order to bring them in a direct contact with foreign markets. The new legislation also contained, for the first time, rules about "unfair competition", comprising such practices as the misuse of names and trade marks, the diffusion of untrue information about an enterprise or its products and other malpractices.

16. The Working Party discussed with the Yugoslav delegation the ways in which the general economic guidelines fixed by the Government were to be transformed into actions by the enterprises. The Yugoslav representative stressed that the Yugoslav economy was no longer "centrally planned" as it had been until 1951. Governmental influence on the activities of the individual enterprises could now be exerted only through measures of financial and credit policy. The Government had no way of giving the enterprises detailed or rigid instructions as to what they should produce or deal in. The Yugoslav trading system was therefore not a rigid one; to the extent possible, the Government encouraged the development of a free market economy within the general framework of the Yugoslav economic system. Except for certain items subject to price control, prices were determined by the forces of supply and demand. There was no limitation as to the number of enterprises that could be established in any particular branch. Normally the importing enterprises also engaged in wholesale activities. Any citizen was allowed to import for his personal use any product, except those subject to import restriction, provided that he had the necessary foreign exchange available.

17. As to the establishment of enterprises, the Working Party noted that this could be done by a commune or district authority, by an existing enterprise, by co-operatives or social organization, as well as by group of citizens. There were no legal requirements as to the number of people forming such group. As far as foreign trade enterprises were concerned, there were certain criteria that had to be fulfilled in order to obtain the registration of the enterprise.
18. With respect to business funds and income, the Yugoslav representative explained that the usual sources for the initial capital required for the formation of an enterprise were bank loans and subscriptions by the founders. There were several banks in Yugoslavia but an important rôle, from the point of view of financing enterprises, were played by the communal banks. In granting loans the banks had to follow the credit and monetary guidelines fixed by the National Bank in accordance with the economic policy of the Government.

19. Concerning the special rules for enterprises engaged in foreign trade, the Working Party noted that there were no limitations as to the number of enterprises that were allowed to establish themselves in any particular branch of activities. Monopolies were, furthermore, prohibited by law. At present there were between 500 and 600 enterprises engaged in foreign trade activities. The same enterprises often were engaged both in import and export business.

20. As regards the position of foreign enterprises in Yugoslavia, the Yugoslav delegation explained that, although only Yugoslav enterprises were allowed to represent foreign companies in Yugoslavia, foreign companies could send their own representatives to the country as often as they wanted to. They had, of course, also the possibilities of arranging advertising campaigns in Yugoslavia.

(b) The Extent to which Contracting Parties Apply GATT to Yugoslavia

21. The Working Party took note of the material supplied by contracting parties and contained in Part II of document L/1877 and addenda thereto. The representative of the United States recalled that the United States were currently according most-favoured-nation treatment to imports from Yugoslavia. However, the Trade Expansion Act of 1962 (Section 231) required the President to withdraw trade agreement benefits from Yugoslav products as soon as practicable. The President had already made public his intention of asking Congress to reconsider this section of the Act early in 1963. Meanwhile, under the terms of the Convention on Commerce and Navigation with the Kingdom of Serbia, the denial of the most-favoured-nation treatment to Yugoslavia would not become effective until twelve months after notification was given by the United States.
22. The Working Party noted that, in preparation for this review, contracting parties had been invited to supply information on any concrete or practical problems arising in their trade with Yugoslavia. No such case was mentioned in any of the submissions received from them.

II. RECOMMENDATIONS CONCERNING THE PROVISIONAL ACCESION OF YUGOSLAVIA TO GATT

23. At the meeting of the Council in May 1962 the representative of Yugoslavia announced the intention of his Government to seek for a solution which would constitute a substantial advance on the Declaration of 25 May 1959, in the form of provisional accession which would serve as a basis for a final solution of its relations with GATT (see L/1800). A formal request by the Government of Yugoslavia for provisional accession to GATT, dated 17 October 1962, was circulated to contracting parties in L/1868.