1. The Working Party was appointed by the CONTRACTING PARTIES on 17 November 1961 "to conduct the second annual review under Section C of the Declaration of 25 November 1959 and report to the CONTRACTING PARTIES". The scope of the review, as defined by the Council (C/M/1), was as follows:

(a) development in the possibilities for progress towards the application of GATT by Yugoslavia;

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

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

This second review covered the period from the conclusion of the first review in November 1960 until the present time.

2. For the purpose of this review, the Government of Yugoslavia supplied a number of documents and the secretariat also prepared certain material. Those which were most directly relevant for the subject matter under review were:

(a) a notification by Yugoslavia on changes in its exchange and trade control measures L/1494

(b) a memorandum supplied by Yugoslavia on developments in Yugoslavia's economic and trade policy L/1494/Add.2 Part I

(c) a secretariat note containing mainly information on the treatment of trade of Yugoslavia by other signatories to the Declaration L/1594/Add.1

Other documents made available by Yugoslavia were those contained in L/1494/Add.1 and L/1494/Add.2, Parts II and III. A statement made by the Yugoslav delegation at the Working Party has been circulated as L/1494/Add.3.
3. The Working Party wishes to place on record its appreciation of the ample documentation supplied by the Yugoslav authorities which greatly facilitated its task. The review was carried out on the basis of this material, supplemented by additional information supplied by the Yugoslav delegation in the course of the Working Party's deliberations. Certain members of the Working Party and other contracting parties took the opportunity to clarify points of particular interest to their countries. The following sections of the report are intended to set out the information available to, and discussed by, the Working Party which was of direct relevance to the subject of the review as indicated in paragraph 1 above.

I. Developments in the Commercial Policy and Trading System of Yugoslavia

4. According to the submissions by Yugoslavia, important changes had taken place in the foreign trade régime of Yugoslavia since the time of the first review last November. These had been made possible or facilitated by the rapid growth of the Yugoslav economy and the rapid expansion of production, particularly in the industrial sector. These changes had laid the foundation for a further strengthening and enlargement of Yugoslavia's commercial and economic relations with other countries.

5. At the time of the first review in November 1960, the Yugoslav authorities had indicated that substantial changes would be made in Yugoslavia's foreign exchange and external trade system early in 1961. These changes were made following the enactment of a new Decree on Foreign Exchange Control which came into effect on 1 January 1961. The changes, which were introduced by regulations which came into full effect in March 1961, included principally the following:

(a) the simplification of the exchange rate structure including the elimination of the system of coefficients and the total abolition of multiple exchange rates;

(b) the introduction of a new provisional tariff applicable to all commercial imports; and

(c) the simplification and liberalization of the system of import and export controls.

In addition, there had also been a further increase in the number of economic enterprises engaged in foreign trade and a strengthening of their autonomy in the conduct of business through the introduction of a new system of income distribution.

Simplification of the exchange rate structure

6. With effect from 1 January 1961 all payments on foreign trade transactions were placed on the basis of a single rate fixed by the Federal Executive Council. This new rate, amounting in effect to 750 dinars per United States dollar, replaced all the old multiple rates resulting from the use of
coefficients applying to trade transactions. For the time being a separate rate of 600 dinars to the dollar was retained for tourist transactions but this would be abolished by the beginning of 1962. The old official rate of 300 dinars per dollar had not been officially abolished but it was no longer used in connexion with any international transactions. (Certain temporary premiums of a monetary nature affecting exports will be discussed in a later section.)

The customs tariff

7. Since the adoption of the Declaration of 25 May 1959, Yugoslavia had taken two important steps in the field of customs tariffs. As noted in the first review, a provisional customs tariff, established under the authority of the Customs Law of 17 September 1959 was put into force on 1 July 1960, covering some 127 items of capital equipment and component parts. On 15 March 1961 there came into force a new "Provisional General Customs Tariff" applicable to all imports. This was considered by the Yugoslav authorities as one of the most important measures of the new foreign trade régime. Upon the entry into force of the new provisional tariff all the coefficients previously applied to imports and exports were abolished.

8. The Working Party noted the following features of the new provisional tariff:

(a) it is based on the Brussels Nomenclature;

(b) the rates are expressed in ad valorem terms calculated on a c.i.f. basis;

(c) valuation will be based on invoice value;

(d) the c.i.f. value is converted into local currency on the basis of the unified exchange rate of 750 dinars per United States dollar; and

(e) it is a two-column tariff with general rates ranging up to a maximum of 84 per cent and most-favoured-nation rates ranging up to 60 per cent.

9. At present Yugoslavia was applying most-favoured-nation rates to imports from all sources. The situation was, however, under review and a list was being drawn up of countries according de jure or de facto most-favoured-nation treatment to Yugoslavia.

10. The Working Party noted the provisional nature of the present tariff and the intention of the Yugoslav Government to consider in due time, in the light of experience of the application of the present provisional tariff and taking account of the economic conditions and commercial relations at that time, the adoption of this, or a modified, tariff on a permanent basis. The Yugoslav Government considered that the question of tariff negotiation with contracting parties to GATT would, of course, depend on the future status of Yugoslavia with respect to the General Agreement, and would have to await the availability of the permanent tariff.
Import and export controls

11. The Working Party noted the new system instituted early in 1961 for the control of imports and exports which replaced the old system discussed in the first review. The new system of import controls, as described in paragraphs 20 to 24 of document L/1494, divides imports into five main groups as follows:

(i) **Free imports**

This list (Annex I to L/1494) comprises mainly raw materials, semi-manufactured goods and some consumer goods. For such imports enterprises can purchase the necessary foreign exchange without limitation. This category at present accounts for 25 per cent of total imports.

(ii) **Imports under liberalized licensing**

For this short list of products (Annex II to L/1494) licences are being granted freely. Foreign exchange needed for payments for such imports is sold automatically to the importing enterprise upon presentation of the import licence. This category of imports at present accounts for 2 per cent of total imports.

(iii) **Imports under general licence**

No list exists for imports of goods in this category, since this covers all imports other than those covered by the other four categories. For each licensing period an amount of foreign exchange is allocated to each economic enterprise engaged in imports which it can use for the importation of any products in this category. For 1961, for example, the exchange allocated to individual enterprises has been fixed at 80 per cent of the foreign exchange used by them for this group of imports in 1960. Imports in this category represent 17 per cent of total imports.

(iv) **Imports subject to individual quotas**

This list (Annex III to L/1494) comprises some fifty items of raw materials, semi-manufactured goods and some consumer items. Quotas are set for individual items within the limit of the foreign exchange available. The quotas are divided among the individual enterprises engaged in trade by joint decision of the enterprises themselves. The necessary exchange is sold to the enterprises in the light of the individual quotas they obtained. Such imports at present represent 35 per cent of total imports.
(v) Imports under restrictive licence

This list (Annex IV to L/1494) comprises goods which do not appear on the other lists but which are to be subject to discretionary licensing. The possession of the necessary foreign exchange is a prerequisite for the issue of such licences. Imports in this category at present account for 0.6 per cent of total imports.

12. In addition to these five categories of imports, the import of capital goods is subject to a special régime, as described in paragraphs 22 and 24 of L/1494. Imports in this category of goods and certain other sundry imports account for the remaining 20 per cent of Yugoslavia's total imports.

The use of bilateral agreements

13. The Working Party was advised by the Yugoslav delegation that Yugoslavia had at present bilateral arrangements with some twenty-eight countries, including those in Eastern Europe. Such agreements had been entered into with certain less-developed countries, which were short of foreign exchange, in order to enable the opening up or the expansion of trade. With some countries bilateral agreements were a necessary means for the conduct of trade. Most of the agreements entered into by Yugoslavia were of a short-term nature with a validity of one year, although there were some longer-term agreements valid for three or five years. Most of the agreements contained lists of quotas showing the amounts up to which the partner countries undertook to issue import licences. These agreements generally contained payments clauses or were accompanied by payments agreements providing that payments were to be made through clearing accounts using the United States dollar, the pound sterling or a local currency as accounting unit. There were also provisions for the final settlement of balances. The texts of all bilateral trade and payments agreements entered into by Yugoslavia were published in the Official Gazette and details of all agreements including payments provisions had been supplied to the International Monetary Fund. The Yugoslav delegation stated that it was the general policy of the Yugoslav Government not to encourage the conclusion of new bilateral trade agreements, but that a practical approach had to be pursued. Since the last review certain agreements had been terminated while a few new ones had been concluded.

Export restrictions

14. The Working Party noted that the export of certain products continued to be subject to control or restriction. Certain exports continued to be subject to export quotas (see paragraph 25 and Annex V of L/1494) or subject to export licence (see paragraph 27 and Annex VI of L/1494). As regards the foreign exchange retention system described in paragraph 28 of the document, the Working Party understood from the Yugoslav delegation that the right given to exporters to re-purchase a small portion (3 to 7 per cent) of their foreign exchange earnings was intended to enable them to cover ordinary business expenses abroad and for the purchase of goods necessary to the conduct of their business. It was, therefore, not a system used for the stimulation of exports.
Export subsidies

15. The Working Party noted that following the unification of exchange rates the Yugoslav Government had found it necessary to retain certain measures of export subsidization. As noted in paragraphs 29 to 30 of L/1494, the purpose was to enable the economic enterprises to adjust themselves to the new conditions and to overcome the difficulty of placing Yugoslav products on foreign markets on account of the new exchange rate which was lower than the previous multiple rates applying to the product in question. Apart from tax exemptions, there were certain export premiums applicable to a list of specified products (Annex VII to L/1494). The rates of such export premiums had been fixed at 10, 22 and 32 per cent. The Yugoslav delegation re-confirmed the assurance which it had given at the last review that these measures were of a temporary nature; and that they would be gradually eliminated.

Organization of the trading system

16. The Working Party recalled the description of the evolution of the trading system in Yugoslavia in the last review (cf. paragraphs 4 to 6 L/1378). It noted that there had since been a further increase in the number of economic enterprises engaged in trade, and that their autonomy had been further increased, especially as a result of the introduction of the new system of income distribution in enterprises. In this connexion, the Working Party took note of Part II of L/1494/Add.2 which described the nature of the enterprises, and the way they function, in the specific context of the Yugoslav economy. In the view of the Yugoslav Government, the Yugoslav system was of a special nature; although there existed no private traders since there was no place for the concept of private ownership of means of production or of objects of commerce in the Yugoslav social system, the system could neither be described as a monopoly nor as State trading.

II. The extent to which contracting parties apply the GATT to Yugoslavia

17. The Working Party understood that the Yugoslav Government was still in the process of reviewing the submissions made by contracting parties which were included in L/1594, Part II and Add.1. The Yugoslav delegation felt that these submissions were somewhat brief and did not provide the details required for an effective examination of the situation, and expressed the hope that contracting parties which had not yet provided information on this subject would do so in the near future. The Working Party consequently took note of the contents of Part II of L/1594 and agreed that a detailed discussion of this information might be held on the occasion of the third annual review under the Declaration (cf. paragraph 20 below).

III. Practical problems arising in trade with Yugoslavia

18. The Canadian and the Netherlands delegations brought to the attention of the Working Party a press report of last summer describing certain Yugoslav regulations which, if true, would make it impossible for foreign firms to participate in trade fairs held in Yugoslavia. The Yugoslav delegation stated
that not only foreign firms were free to participate without restriction in all trade fairs held in Yugoslavia, but they were encouraged to do so. There were no special rules or regulations governing participation in trade fairs other than those normally existing in other western countries. Contrary to the information referred to, a firm participating in a Yugoslav trade fair was not required to have stocks available to fulfill orders on the spot, nor was there any limitation on the type of goods that could be displayed.

IV. General observations

19. In examining the progress that had been made by Yugoslavia towards the formation of a trading system under which Yugoslavia would be able to move into closer association with GATT, the Working Party noted in particular the introduction of the new Provisional General Customs Tariff covering the entire range of imports, the abolition of the multiple exchange rates, the simplification of trade controls and the policy of reducing reliance upon bilateralism. The Working Party welcomed these advances. It agreed with the statement by the Yugoslav Government that "the full effect of the changes will become apparent only in future years and only then will it be possible to make a more valid assessment of the result of the reform". It also noted the statement that "on the basis of that assessment, it will be possible to take further decisions regarding the future development of the foreign exchange and external trade system" (L/1494/Add.2, page 5). These future changes would presumably include the adoption of a definitive customs tariff, the gradual transfer to the liberalization list of products now subject to restriction, the reduction and abolition of the export premium system, and further reductions of the reliance on bilateralism. The Working Party expressed the hope that progress along these lines would be made in the near future.

20. The Working Party noted that, in accordance with the provisions of paragraph 3 of Part D of the Declaration of 25 May 1959, the CONTRACTING PARTIES would have an opportunity, in the course of the third annual review, to consider whether the present arrangement on relations between contracting parties and Yugoslavia should be terminated, modified or continued. The Working Party was of the opinion that more ample time should be allowed for that review so that the important question of future position of Yugoslavia in relation to GATT could be adequately examined. To this end, the Council might be instructed to take up the matter well in advance of the 1962 autumn session of the CONTRACTING PARTIES at which the third review would presumably be concluded.