

THIRD COMMITTEE: COMMERCIAL POLICY

SUB-COMMITTEE A (ARTICLES 16, 17, 18, 19)

NOTES OF THE TWENTY-SECOND MEETING

Held on Thursday, 15 January 1948, at 10.30 a.m.

Chairman: Dr. G. A. LAMSVELT (Netherlands)

ARTICLE 18 - NATIONAL TREATMENT ON INTERNAL TAXATION AND REGULATION

1. New paragraph to be inserted after paragraph 3 - (Norway)

In addition to the comments contained in document E/CONF.2/C.3/6/Add.5, the delegate of Norway made the following points in support of this proposal:

1. Although the internal tax on imported products contemplated by the Norwegian price stabilization scheme in periods of deflationary pressure might possibly be contrary to the provisions of Article 18 as now drafted, he did not consider that from an overall, long-range point of view, the arrangements proposed would be contrary to the intention of Article 18.

2. The proposed tax on imported products would involve no element of protection nor would it be imposed for revenue purposes, but merely

(a) to help finance the subsidization of imported products when prices were higher than those of domestic products, and

(b) to prevent or to delay a decline of the price level of domestic products when prices on imported products were lower than those of domestic products.

3. Such a system would presumably be permissible under Article 18 if an internal tax were levied both on domestic and imported products and the domestic product subsidized by a like amount. This procedure would, however, involve administrative difficulties which Norway wished to avoid.

4. The Norwegian delegate cited the example of wheat, of which Norway has a small domestic production, held at a stable level by the subsidization of imported wheat. They wished to apply such

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stabilization arrangements to other primary commodities as well as to certain industrial products.

5. To summarize, his delegation regarded their proposed amendment not as a violation of the principles of Article 18 but more in the nature of an interpretative amendment.

The delegate of Cuba was of the opinion that the stabilization system envisaged by the Norwegian amendment would operate clearly to protect domestic products. Although the dislocation of price relationships during the war had resulted in high prices on imported goods, in more normal times, when prices fell, the proposed system would result in the application of an internal tax on imported products rather than a subsidy. Domestic industries having a higher cost of production than the exporter would be protected by the differential internal tax. While not objecting to such a scheme during the post-war period of adjustment, he would be opposed to it during normal times when its effect would be purely protective. He objected further to this proposal on the grounds that additional provision in the Charter for the use of subsidies would increase further the balance in favour of the richer, industrialized countries, able to use subsidies both from an administrative and financial point of view.

The delegate of the United States did not agree with the Norwegian proposal because (a) while advantageous to Norwegian producers and consumers, it would not take into account the interests of other countries and would, therefore, be contrary to the basic idea of the Charter, i.e., international economic co-operation; (b) the imposition of an internal tax on imports would involve a unilateral increase in the level of protection in the case of items bound in negotiations; (c) so far as the post-war transitional period was concerned, he believed Norway was adequately covered by the provisions of Article 43 and would be covered by Article 44 in the event of injury.

The delegate of France expressed the view that the Charter was somewhat unbalanced in that it permitted stabilization schemes for primary producers and exporters, but not for the stabilization of internal prices in industrial countries. He considered that the problem raised by Norway was a general economic problem and that Norway alone would not be able to isolate itself completely from the effects of business cycles. However, in order to permit Norway to maintain and extend its stabilization arrangements, he would not object to such a proposal, if it were redrafted to provide appropriate safeguards for the protection of the interests of third parties and in such a way that it would not be likely to reduce the
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flow of world trade. He could not agree that Article 43 would provide an adequate solution since this Article would permit such a stabilization scheme only during a transitional period.

The delegate of the Netherlands suggested that the Norwegian proposal was beyond the scope of this particular Sub-Committee since it concerned a number of articles of the Charter. He did not agree that the Charter as drafted provided no scope for price stabilization arrangements, since his interpretation was that anything not specifically forbidden by the Charter was permissible. He felt that the Norwegian proposal would ignore the existing machinery provided for under the Charter in Articles 25, 27, 30 and 31 and Chapter VI. Rather than trying to provide in the Charter for a general scheme such as contemplated by the Norwegian proposal, he believed it would be preferable to attack the problem on a product-by-product, article-by-article basis.

The delegate of Mexico, while sympathizing with the objectives of the Norwegian proposal, could not support the proposal as such. The long-run effect, when present high prices had dropped, would be to increase the level of protection on domestic products by the imposition of heavy taxes on imports in addition to existing tariffs. He agreed with the United States delegate that the proposal would have the effect of aggravating world problems particularly in times of deflationary pressure. While agreeing with the French delegate that business cycle and price control schemes were in principle desirable, he concurred in the Netherlands delegate's view that the machinery provided in the present draft of the Charter was probably as far as it was possible to go in this direction at present. The Mexican delegate suggested adding to the Charter a provision to the effect that internal stabilization schemes, in whatever form, would be acceptable, provided they did not violate the commercial provisions and "national treatment" rule of Chapter IV.

The delegate of the United Kingdom agreed with the Netherlands delegate that a stabilization scheme could be operated under the subsidy articles or under Chapter VI. He considered that (a) the differential internal tax contemplated in the Norwegian scheme would have the same effect as an additional tariff, and (b) to provide that tariff bindings could be varied, subject to certain conditions, would constitute a wide loophole to the provisions of Article 18.

The Chairman concluded that

1. while there was sympathy with the objectives of the Norwegian proposal, there was no substantial support for the amendment as such;
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2. there was considerable support for the Mexican suggestion, and agreed to consult with the Chairman of Committee III as to the appropriate disposition of the Mexican suggestion, which was beyond the scope of this Sub-Committee.

Item 57 (Cuba)

The Cuban proposal to delete the word "transportation" in the first sentence of paragraph 2, and to delete the second sentence, received no support, on the grounds that these provisions were necessary to prevent indirect protection to domestic products by means of differential transportation charges.

Item 58 (Mexico)

There were no objections to the Mexican proposal, but a number of members of the Sub-Committee felt that it was not necessary to specify in the Charter that the Organization shall investigate whether differential transportation charges are discriminatory.

The Chairman called attention to the decision to add a new paragraph 8 to Article 32, subject to review if paragraph 2 of Article 18 was amended, as follows:

"8. Transportation charges on traffic in transit shall not be considered as falling within the purview of this Article but shall be subject to the provisions of paragraph 2 of Article 18." (Notes of the Fifth Meeting of Sub-Committee C, E/CONF.2/C.3/C/W.5).

It was agreed that the Working Party should consider this addition to Article 32 in connection with Article 18, as well as whether it was necessary to include the Mexican amendment (Item 58).
