

THIRD COMMITTEE: COMMERCIAL POLICY

REPORT OF WORKING PARTY 7 (ARTICLE 18)

1. Terms of Reference

Committee III, at its forty-first meeting held on Friday, 20 February, established Working Party 7 to give consideration to the provisions of Article 18, requiring the elimination of existing internal taxes which afford protection to domestic production, in the light of the remarks of the delegates of Argentina and Brazil particularly with respect to the difficulties of transferring the protective element of such existing taxes to the customs tariff, and to report by Monday, 23 February.

2. Membership

The Working Party consisted of the representatives of Argentina, Brazil, Ecuador, France, Norway, Philippines, United Kingdom, United States, with Mr. Lawsvelt, Chairman of Sub-Committee A, as Chairman.

3. Explanation of Difficulties

(a) The delegate of Argentina explained that his Government was concerned with existing differential internal taxes on certain luxury items, e.g., alcohol, alcoholic beverages, beer and silk. Experience had shown that, due to the length of Argentina's frontiers, tariffs on such items were evaded and a contraband traffic developed. Internal taxes were therefore imposed in order to facilitate collection. In addition, these items were still subject to import duties, but so low as not to encourage evasion.

(b) The delegate of Brazil explained that his Government had imposed differential internal taxes on certain items for as long as forty years. Experience had shown that, in view of Brazil's long sea and land frontiers and few centers of consumption, it was in certain cases preferable to collect internal taxes in these centers rather than attempting to collect customs tariffs on the frontiers. Mainly, however, there were administrative, constitutional and even political difficulties involved.

(c) The delegate of the Philippines explained that his Government wished to maintain an existing protective internal tax imposed to encourage the development of a low-priced rubber shoe industry. In his opinion, this item was not bound in the Philippines-United States Trade Treaty and therefore paragraph 3 of Article 18 would not apply. He preferred that

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the Philippines-United States Trade Treaty be revised; otherwise that a transitional period be provided to permit the Philippines Government to readjust its internal tax structure. The Philippines delegation provisionally reserved its position.

4. Proposals

(a) The delegate of Ecuador suggested that Article 18 be amended to provide for a transitional period of six months to one year after ratification of the Charter by the Member concerned. If after such period had elapsed the Member was still unable to comply with the provisions of Article 18, the Organization should be so notified and the internal taxes in question continued only with the Organization's consent;

(b) The delegate of Norway was of the opinion that the period of time which was likely to elapse before the Charter comes into effect, say two years, would be sufficient to permit the necessary adjustment of existing internal tax systems. Nevertheless, he would be willing to accept as a compromise amending Article 18 to provide for a transitional period of six months after ratification of the Charter by the Member concerned, during which period all existing protective internal taxes would have to be eliminated.

5. Summary of Views

The Working Party was not able to reach any agreed conclusions and therefore notes the members' views as follows:

(a) All members of the Working Party accepted the principles of Article 18, and most members recognized that a considerable period of time, say one to two years, would elapse before the Charter came into force during which the readjustment of internal taxes required by Article 18 might be effected;

(b) Four members, however, favoured the retention of existing differential internal taxes, subject to negotiations pursuant to Article 17 for their elimination;

(c) Of these four:

(1) One accepted the principles of the Ecuadorian or Norwegian proposals;

(2) One accepted the Norwegian proposal;

(3) One accepted the Ecuadorian proposal;

(4) One maintained his original position in view of the division of opinion in the Working Party;

(d) Four members did not feel that sufficient evidence of technical difficulties had been adduced;

/(e) Of these

- (e) Of these four:
- (1) Two were willing to accept as a compromise the Norwegian proposal;
 - (2) Two were not in favour of any change in Article 18.
