

UNITED NATIONS

NATIONS UNIES

RESTRICTED

ECONOMIC
AND
SOCIAL COUNCIL

CONSEIL
ECONOMIQUE
ET SOCIAL

E/PC/T/174
15 August 1947

Original: ENGLISH

SECOND SESSION OF THE PREPARATORY COMMITTEE OF THE
UNITED NATIONS CONFERENCE ON TRADE AND EMPLOYMENT.

REPORT TO COMMISSION A

BY THE SUB-COMMITTEE ON ARTICLES 14, 15 & 24.

Articles 14, 15 and 24, dealing respectively with General Most Favored Nation Treatment, National Treatment on Internal Taxation and Regulation, and Reduction of Tariffs and Elimination of Preferences, were discussed in Commission A on June 3, 4, 5 and 6 and were referred to a Sub-committee consisting of representatives of Australia, Belgium, China, Cuba, Norway, United Kingdom and United States of America. The Sub-committee was also instructed to consider the proposal of the United States Delegation that a new article, to be numbered 15A, should be added to Chapter V dealing with Requirements Affecting Finance, Shipment and Insurance (E/PC/T/A/PV/7, 8 and 9 and E/PC/T/A/SR/10).

Dr. H.C. Coombs (Australia) was elected Chairman of the Sub-committee and Mr. R.J. Shackle (United Kingdom) was elected Alternate Chairman.

A number of Delegations not represented on the Sub-committee, including the Delegations of Brazil, Canada, Chile, Netherlands, New Zealand and the Union of South Africa, took an active part in the discussion of matters of particular interest to them.

The Sub-committee reviewed all proposals put forward during the debates in Commission A as recorded in E/PC/T/W/179.

and E/PC/T/W/181. The Sub-committee considered also related proposals which were made formally and informally by Delegations subsequent to the debates in Commission A.

The Sub-committee deferred action on certain amendments relating to Article 15 involving questions of economic development pending the completion of action by Commission A on the report of the Sub-committee on Chapter IV to which these proposals were referred in accordance with the decision of Commission A. The Sub-committee also referred certain matters to other interested sub-committees. In particular, the Sub-committee referred to the Sub-committee on Articles 25 and 27 and to the Working Party on the Technical Articles a proposal to transfer certain provisions originally contained in Article 25 to Article 37 in order to render them applicable to all of Chapter V.

In addition, the Sub-committee considered certain proposals referred to it by other sub-committees. In particular, the Sub-committee considered an inquiry from the Sub-committee on Chapter IV as to whether a reference should appear in Article 14 to new preferential arrangements for economic development purposes envisaged in Article 13B. The Sub-committee decided that such a cross-reference was unnecessary. The Sub-committee took note also of a proposal by the Tariff Negotiations Working Party suggesting certain revisions in Annex A to take account of preferential arrangements not effected by the method of a difference in rates of duty (E/PC/T/158). The representatives of Belgium, Brazil and Norway indicated that they would have to reserve the position of their Delegations on the suggested amendments. The Sub-committee decided that, since the suggested addition depended on the outcome of the discussions on the report of the Sub-committee on Articles 26, 28

and 29, it would merely take note of the proposal at this stage and would agree with the suggestion in the report of the Tariff Negotiations Working Party that the proposed amendments could best be considered by Commission A when dealing with the report of that Sub-committee. Concerning another proposal of the Tariff Negotiations Working Party, involving amendments in Article 24 (E/PC/T/136), the Sub-committee agreed with the proposed changes, and incorporated them with a footnote in the text of Article 24 accompanying the present report.

The Sub-committee recommends for the consideration of Commission A the text appended to this report. In presenting these texts the Sub-committee has indicated in footnotes the points which, in its view, or in the view of the Delegations indicated, require special attention by Commission A and which may have to be retained in footnotes to the text to be transmitted to the World Conference. Other observations by the Sub-committee or by individual members are presented in the body of this report in connection with the explanatory notes relating to each article for the information of Commission A.

The changes of substance proposed by the Sub-committee are explained below.

Article 14

The only change, other than in punctuation, in paragraph 1, is in the reference to Article 15 which now refers specifically to paragraphs 1 and 2 of Article 15 as amended, instead of in general terms to all matters "in regard to which national treatment is provided for" in that Article.

In connection with paragraph 1 the Sub-committee considers it to be clear that it is within the province of each importing member country to determine, in accordance with the provisions of

its law, for the purposes of applying the most-favored-nation provision, whether goods do in fact originate in a particular country.

The second paragraph has been amended in several respects. The wording of the preamble has been amended and the sub-paragraphs have been altered. Sub-paragraph (a) has been divided into two parts; the new sub-paragraph (a) relates to the Annex in which appear the names of the territories of the British Commonwealth and Empire, and the new sub-paragraph (b) provides for other Annexes containing lists of other territories which were connected on 1st July 1939 by common sovereignty or relations of protection or suzerainty. In terms of this sub-paragraph the Delegates of France, Belgium, Netherlands and United States of America have submitted lists which now appear in Annexes B, C and D.

The former sub-paragraph (b) is now (c), and the former sub-paragraph (c) - now (d) - has been altered by the deletion of the date, 1st July 1946, and by the provision for Annexes listing the neighboring countries between which exclusive preferences are in force. The Members of the Preparatory Committee which have supplied the lists appearing in Annexes E and F under this sub-paragraph are Chile and Lebanon/Syria.

Finally, a third paragraph has been added to Article 14, in order to define the margins of preference which are to be permitted under paragraph 2. In connection with this paragraph the representatives of Australia, New Zealand and the Union of South Africa, inquired whether the following kinds of customs action, taken in accordance with established uniform procedures, would be considered to be contrary to the provisions binding against increase any margin of preference in force on 10th April, 1947, in cases in which such action would result in an increase of the margin which would have actually applied to products imported on that day:

- (i) the re-application to an imported product of a tariff classification or rate of duty, properly applicable to such product, in cases in which the application of such classification or rate to such product was temporarily suspended or inoperative on 10 April 1947; and
- (ii) the application to a particular commodity of a tariff item other than that which was actually applied to importations on that commodity on 10 April 1947, in cases in which the tariff law clearly contemplates that such commodity may be classified under more than one tariff item.

The Sub-committee considered that actions of the foregoing types would not be contrary to a general binding of margins of preference.

In order to make this perfectly clear, paragraph 3 was amended to refer to preferential margins "existing" on 10 April 1947 rather than to the "margins by which the most-favoured-nation rate exceeded the preferential rate on 10 April". The term "existing" would include rates or margins which had legal existence on the base date but were not actually applied. It was understood that the general provisions relating to the binding of margins would not override specific undertakings in the tariff schedules to maintain particular products under a particular tariff classification.

Article 15.

The first paragraph of the New York draft, providing that internal taxes, laws, regulations, etc., should not be used to afford protection for national products, has been deleted by the Sub-committee and has been replaced in part by the addition of two sentences to the original paragraph 2, which is now paragraph 1.

The first of the additional sentences prohibits where there is no substantial domestic production of like products, the application of new or increased internal taxes on the products of other Members for the purpose of protecting the production of directly competitive or substitutable products. The second new sentence provides that existing internal taxes of the nature described are to be subject to negotiation for their reduction or elimination in the manner provided for in respect of tariffs and preferences under Article 24.

The Sub-committee considered a suggestion by the Sub-committee on Articles 25 and 27 that the expression "directly competitive or substitutable" used in paragraph 1 and elsewhere in the article should conform with the wording adopted for Article 25(2)(c). In view of the difference in significance between the somewhat comparable expressions used in Article 15 and Article 25, it was the opinion of the Sub-committee that there was no necessity for the language of the two articles to be identical in this respect.

~~The~~ The third paragraph of the old draft is now paragraph 2. The first sentence is unaltered except for the deletion of the last four words, which it was thought might lead to some ambiguity, and were not considered essential. The South African Delegation had objected to the inclusion of the word "transportation", but agreed to its retention subject to the addition of a new sentence clarifying the intention that this paragraph should not be construed to prevent differential transport charges which are based on economic operation of the means of transport and not on the nationality of the product carried. The remainder of this paragraph, dealing with mixing regulations, etc., was replaced by the new paragraphs 3 and 4 referred to below.

Since the present paragraph 2 relates solely to the question of differential treatment between imported and domestic goods, the inclusion of the last sentence in that paragraph should not be understood to give sanction to the use of artificial measures in the form of differential transport charges designed to divert traffic from one port to another. /

The representative of the International Monetary Fund inquired whether there is anything in Article 15 which could be construed as preventing a Member from imposing charges in connection with the international transfer of payments for imports or exports where such charges are imposed consistently with the Articles of Agreement of the IMF, having in mind particularly the charges imposed by countries employing multiple currency techniques consistently with the Articles of Agreement of the IMF. The Sub-committee considered that if such charges are imposed on or in connection with imports or exports as such, or are imposed on the international transfer of payments for imports or exports, they would not be internal charges and, therefore, would not be covered by Article 15; on the other hand, in the unlikely case of a multiple currency technique, which takes the form of an internal tax or charge, such as an excise tax on a particular product, then that technique would be precluded by Article 15. It may be pointed out that the possible existence of charges on the transfer of payments insofar as these are permitted by the IMF is clearly recognized by Article 14.

The suggestion of the Sub-committee to substitute the new paragraphs 3 and 4 for the comparable provisions in paragraph 2 of the Drafting Committee's report involves some significant changes as well as a rearrangement. The present draft is

aimed at preventing only those internal quantitative regulations which are clearly directed against imported products for the purposes of protecting domestic products. The new text removes the requirement that existing internal quantitative regulations not expressly approved by the Organization should be terminated at the expiration of one year after the entry into force of the Charter. The revised draft would permit the continuation of regulations in force on 1 July 1939 or 10 April 1947, whichever date the Member selects, subject to the requirement that such regulations as are retained shall be negotiable and shall not be altered to the detriment of imports. The alternative dates were thought desirable by the Sub-committee in order particularly to take account of the departures from normal pre-war practices rendered necessary by war-time or post-war emergencies. As indicated in the footnote to paragraph 4 in the appended text, the Sub-committee did not reach final agreement on the retention or deletion of sub-paragraph (b) to paragraph 4.

The Sub-committee is of the opinion that paragraph 3 as now drafted would not prohibit the continuance of a tariff system which permits the entry of a product at a rate of duty lower than the normal tariff rate, provided the product is mixed or used with a certain proportion of a similar product of national origin. The Sub-committee considered that such a provision would not be regarded as an internal quantitative regulation in terms of this paragraph for the reason that the use of a percentage of the local product is not made compulsory nor is the importation of the product in any way restricted.

The Sub-committee was also in agreement that under the provisions of paragraphs 3 and 4 regulations would be permitted

which, while perhaps having the effect of assisting the production of a particular domestic product (say, butter) are directed as much against the domestic production of another product (say, domestic oleomargarine) as they are against imports (say, imported oleomargarine).

In connection with paragraph 5 of this article it will be observed from the footnotes to the present text that the Sub-committee did not arrive at any conclusion concerning this paragraph, or a substitute article, relating to cinematographic films.

In paragraph 6 of the present draft the Sub-committee has made certain drafting changes and has also amended the paragraph to bring it into harmony with Article 30 relating to subsidies. There was some question whether the term "governmental" as used in this paragraph might be open to misinterpretation. It was agreed by the Sub-committee that the word was intended to include all governmental bodies, including local authorities. The Sub-committee felt that the Legal Drafting Committee should be asked whether the word "governmental" by itself conveys the full meaning intended in the light of similar references elsewhere in the Charter (e.g. in Articles 19, 88, etc.)

Article 15 (A)

The proposal of the United States Delegation to add a new article on requirements affecting finance, shipment and insurance was withdrawn by that Delegation in view of the difficulty encountered by the Sub-committee in agreeing to an appropriate text for such an article. Accordingly, the Sub-committee decided not to recommend the text of any article on this subject to the Commission.

Article 24

As indicated previously, the Sub-committee has accepted the changes proposed by the Tariff Negotiations Working Party in Document E/PC/T/136. In accepting these changes the Sub-committee has added a general footnote concerning bilateral agreements outside the General Agreement. In addition, as a result of the introduction of the changes suggested by the Tariff Negotiations Working Party, the Sub-committee has made related changes which are referred to below in connection with the explanatory notes on the paragraphs in which those changes appear.

In the preamble of paragraph 1 the Sub-committee has deleted the words "other than a Member subject to the provisions of Article 33" in view of the fact that it is not intended to make any provision at this stage for the special cases covered by the original version of Article 33 (see note 19 in Document E/PC/T/160 as adopted by Commission A). The words "reciprocal and mutually advantageous" have been moved to a later point in the paragraph in order to relate them to the objectives of the negotiations. The words "and carry out" have been added after "enter into" in order to avoid the impression that the paragraph is concerned only with the initiation of negotiations and not with their continuation. Finally, a specific reference has been inserted in the paragraph relating the negotiations concerning preferences to paragraph 2 of Article 14.

Some delegates objected to sub-paragraph (a) as drafted in New York, because the latter part might be interpreted in different ways. Other delegates felt that it was essential to retain the whole sub-paragraph, since in their view the omission of any part of it would cause serious obscurity. As will be noted from the footnote to the appended text of this article the Sub-committee did not reach agreement, although certain drafting changes were made.

In paragraph (b) an attempt has been made to define in some detail the intended effects of negotiated reductions in preferential and most-favoured-nation rates. One member of the Sub-committee suggested that the words "and no new contractual right to preferences shall be created" should be added after the word "increase" at the end of sub-paragraph (iv). The Sub-committee felt that this proposed addition should be reserved for consideration in Commission A.

In sub-paragraph (c) the only change suggested consists of the deletion of the words "or consolidation" on the assumption that the word "binding" rendered these additional words unnecessary. The Sub-committee suggests that the Legal Drafting Committee might consider whether both "binding" and "consolidation" should appear in the text or whether one of these terms alone would be sufficient.

The Sub-committee has added a new sub-paragraph (d), recognizing that account should be taken of the benefits

resulting from previous negotiations pursuant to this article in judging concessions in current negotiations.

In accepting the recommendations of the Tariff Negotiations Working Party the Sub-committee introduced a paragraph (e) and added to the version suggested by the Working Party the words "and thereupon the parties to such negotiation shall become contracting parties to the General Agreement on Tariffs and Trade if they are not so already". These additional words seemed necessary in order to avoid any impression, in connection with the amendments proposed in Article 67, that only the original signatories of the General Agreement would be included in the Tariff Committee.

The former paragraph 2 has been deleted in accordance with the suggestion of the Tariff Negotiations Working Party.

In the new paragraph 2 - formerly paragraph 3 - the Sub-committee introduced certain changes consequential on the changes already made in paragraph 1. In accepting the amendment suggested by the Tariff Negotiations Working Party to the penultimate sentence in this paragraph, the Sub-committee added after the words "pursuant to paragraph 1 of this article" the words "and embodied in Part I of the General Agreement on Tariffs and Trade". This change seemed desirable in order to define more precisely the tariff benefits to which this section of the article is intended to refer, in the light of the new sub-paragraph (e) of paragraph 1 which was mentioned above.

The Sub-committee accepted the suggestion of the Tariff Negotiations Working Party to convert the last sentence into a new paragraph which would apply to the entire article.

CHARTER

ARTICLE 14

General Most-Favoured Nation Treatment

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 1 and 2 of Article 15, any advantage, favour, privilege or immunity granted by any Member to any product originating in or destined for any other country, shall be accorded immediately and unconditionally to the like product originating in or destined for all other Member countries respectively.
2. The provisions of paragraph 1 of this Article shall not be construed to require the elimination, except as provided in Article 24, of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 3 and which fall within the following descriptions:

Paragraph 2.

The Delegate for Cuba reserved his position in relation to preferences accorded by differential internal taxes.

- (a) Preferences in force exclusively between two or more of the territories listed in Annex A to this Charter, subject to the conditions set forth therein;
- (b) Preferences in force exclusively between two or more territories which on 1 July 1939 were connected by common sovereignty or relations of protection or suzerainty and which are listed in Annexes B, C and D of this Charter, subject to the conditions set forth therein;
- (c) Preferences in force exclusively between the United States of America and the Republic of Cuba;
- (d) Preferences in force exclusively between neighbouring countries listed in Annexes E and F of this Charter.

3. The margin of preference on any product in respect of which a preference is permitted under paragraph 2 of this Article shall not exceed (a) the maximum margin provided for under the General Agreement on Tariffs and Trade or any subsequent operative agreement resulting from negotiations under Article 24, or (b) if not provided for under such agreements, the margin existing either on 10 April 1947, or on such earlier date as may have been established for a Member as a basis for negotiating the General Agreement on Tariffs and Trade, at the option of such Member.

ANNEXES PERTAINING TO PARAGRAPH 2 OF ARTICLE 14

ANNEX A

LIST OF TERRITORIES REFERRED TO IN SUB-PARAGRAPH 2 (a)
OF ARTICLE 14

United Kingdom of Great Britain and Northern Ireland
Dependent territories of the United Kingdom of Great
Britain and Northern Ireland.
Canada
Commonwealth of Australia
Dependent territories of the Commonwealth of Australia
New Zealand
Dependent territories of New Zealand
Union of South Africa including South West Africa
Ireland
India
Newfoundland
Southern Rhodesia
Burma
Ceylon

Certain of the territories listed above have two or more preferential rates in force for certain products. Any such territory may, by agreement with the other Members of the Organization which are principal suppliers of such products at the most-favoured-nation rate, substitute for such preferential rates a single preferential rate which shall not on the whole be less favourable to suppliers at the most-favoured-nation rate than the preferences in force prior to such substitution.

The imposition of a margin of tariff preference to replace a margin of preference in an internal tax existing on 10 April 1947 exclusively between two or more of the territories listed in this Annex, shall not be deemed to constitute an increase in a margin of tariff preference.

The film hire tax in force in New Zealand on 10 April 1947 shall for the purpose of this Charter be treated as a customs duty falling within Articles 14 and 24.

The Delegate for Cuba reserved his position in relation to the imposition of a margin of tariff preference to replace a margin of preference in internal taxes.

ANNEX B

LIST OF TERRITORIES OF THE FRENCH UNION REFERRED TO IN
SUB-PARAGRAPH 2 (b) OF ARTICLE 14

France

French Equatorial Africa - Treaty Basin of the Congo^(*)
and other Territories of French
Equatorial Africa

French West Africa

Cameroons under French Mandate^(*)

French Somali Coast and Dependencies

French Establishments in Oceania

French Establishments in the Condominium of the New
Hebrides^(*)

Guadeloupe and Dependencies

French Guiana

Indo-China

Madagascar and Dependencies

Morocco (French zone)^(*)

Martinique

New Caledonia and Dependencies

Reunion

Saint-Pierre and Miquelon

Togo under French Mandate^(*)

Tunisia

(*) For imports into Metropolitan France

ANNEX C

LIST OF TERRITORIES OF THE BELGIUM-LUXEMBURG AND NETHERLANDS
CUSTOMS UNION REFERRED TO IN SUB-PARAGRAPH 2 (b) OF ARTICLE 14

The Economic Union of Belgium and Luxemburg
Belgian Congo
Ruanda Urundi
The Netherlands
Netherlands Indies
Surinam
Curaçao

ANNEX D

LIST OF TERRITORIES OF THE UNITED STATES OF AMERICA REFERRED
TO IN SUB-PARAGRAPH 2 (b) OF ARTICLE 14.

United States of America (customs territory)
Dependent territories of the United States of America
Republic of the Philippines

The imposition of a margin of tariff preference to replace
a margin of preference in an internal tax existing on 10 April
1947 exclusively between two or more of the territories listed
in this Annex, shall not be deemed to constitute an increase in
a margin of tariff preference.

Annex C. The Delegate for the United Kingdom maintained his
reservation on this Annex.

Annex D. The Delegate for Cuba reserved his position in
relation to the imposition of a margin of tariff
preference to replace a margin of preference in
internal taxes.

ANNEX E

LIST OF TERRITORIES COVERED BY PREFERENTIAL ARRANGEMENTS
BETWEEN CHILE AND NEIGHBOURING COUNTRIES REFERRED TO IN
SUB-PARAGRAPH 2 (d) OF ARTICLE 14

Chile

Peru

ANNEX F

LIST OF TERRITORIES COVERED BY PREFERENTIAL ARRANGEMENTS
BETWEEN THE SYRO-LEBANESE CUSTOMS UNION AND NEIGHBOURING
COUNTRIES REFERRED TO IN SUB-PARAGRAPH 2 (d) OF ARTICLE 14

Preferences in force exclusively, between, on the one hand

The Syro-Lebanese Customs Union

and on the other hand

1. Palestine,

2. Transjordan,

respectively.

ARTICLE 15

1. The products of any Member country imported into any other Member country shall be exempt from internal taxes and other internal charges of any kind higher than those applied directly or indirectly to like products of national origin. Moreover, in cases in which there is no substantial domestic production of like products of national origin, no Member shall apply new or increased internal taxes on the products of other Member countries for the purpose of affording protection to the production of directly competitive or substitutable products which are not similarly taxed. Existing internal taxes of the kind referred to in the preceding sentence shall be subject to negotiation for their reduction or elimination in the manner provided for in respect of tariffs and preferences under Article 24.

Paragraph 1.

Note 1: The Delegate for China reserved his position provisionally and proposed the deletion of the second and third sentences.

Note 2: The Delegate for Chile, although not a member of the Sub-Committee, asked that his objection to the present text be recorded.

Note 3: The Delegate for Cuba reserved his position and proposed a new paragraph permitting the exemption of domestic products from internal taxes for development purposes.

2. The products of any Member country imported into any other Member country shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution, or use. This paragraph shall not be construed to prevent differential transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

3. In applying the principles of paragraph 2 of this Article to internal quantitative regulations relating to the mixture, processing or use of products in specified amounts or proportions, the Members shall observe the following provisions:

- (a) no regulation shall be made which, formally or in effect, requires that any specified amount or proportion of the product in respect of which such regulations are applied must be supplied from domestic sources;
- (b) no Member shall, formally or in effect, restrict the mixing, processing or use of a product of which there is no substantial domestic production with a view to affording protection to the domestic production of a directly competitive or substitutable product.

Paragraph 3.

Several Delegates not members of the sub-Committee reserved their position regarding this paragraph, pending settlement of the outstanding issues on Chapter IV.

4. The provisions of paragraph 3 of this Article shall not apply to:

- (a) any measures of internal quantitative control in force in any Member country on 1 July 1939 or 10 April 1947 at the option of that Member, Provided that any such measure which is in conflict with the provisions of paragraph 3 of this Article shall not be modified to the detriment of imports and shall be subject to negotiation for its limitation, liberalization or elimination in the manner provided for in respect of tariffs and preferences under Article 24, [; or
- (b) any internal quantitative regulation applied by any Member having equivalent effect to any import restriction permitted to that Member under sub-paragraph 2 (c) of Article 25].

Paragraph 4.

Note 1. The Delegate for New Zealand reserved his position and proposed the deletion from sub-paragraph (a) of "shall not be modified to the detriment of imports and".

The Delegate for Norway supported this proposal.

Note 2. The Delegate for Norway proposed that "the date when the Charter is open for signature" should be substituted for "1 July 1939 or 10 April 1947".

Note 3. The Delegates for Canada and Chile, supported by the Delegates of Belgium and Brazil, objected to sub-paragraph (b) on the ground that it constitutes a further widening of the terms of paragraph 2 (c) of Article 25. Accordingly this sub-paragraph appears in square brackets and is to be reconsidered in the light of the final wording of Article 25.

5. The provisions of paragraphs 1 and 3 of this Article shall not be construed to prevent the application of internal laws, regulations or requirements, other than taxes, relating to the distribution or exhibition of cinematograph films. Any laws, regulations or requirements so applied shall, however, be subject to negotiation for their liberalization or elimination in the manner provided for in respect of tariffs and preferences under Article 24.7

6. The provisions of this Article shall not apply to the procurement by governmental agencies of products purchased for governmental purposes and not for resale or use in the production of goods for sale, nor shall they be construed to prevent the payment to domestic producers only of subsidies provided for under paragraph 1 of Article 30, including payments to domestic producers derived from the proceeds of internal taxes or charges and subsidies effected through governmental purchases of domestic products.

Paragraph 5.

The redrafting of this provision was discussed in the Sub-Committee. A Special Committee, composed of the Delegates for Czechoslovakia, New-Zealand, Norway, the United Kingdom and the United States, will submit recommendations to the Commission A.

Paragraph 6.

The Delegate for China reserved his position provisionally and proposed to delete the words "or use in the production of goods for sale".

ARTICLE 24

Reduction of Tariffs and Elimination of Preferences.

1. Each Member shall, upon the request of the Organization, enter into and carry out with such other member or Members as the Organization may specify, negotiations directed to the substantial reduction of tariffs and other charges on imports and exports and to the elimination of the preferences referred to in paragraph 2 of Article 14 on a reciprocal and mutually advantageous basis. These negotiations shall proceed in accordance with the following rules:

- (a) Prior international obligations shall not be permitted to stand in the way of negotiations with respect to preferences, [it being understood that agreements resulting from such negotiations shall not require the modification or termination of existing international obligations except (i) with the consent of the parties to such obligations, or, in the absence of such consent, (ii) by termination of such obligations in accordance with their terms].

Article 24

The Sub-Committee agreed that the text of Article 24 as drafted would not prevent Members of the Organization from concluding new, or maintaining existing, bi-lateral tariff agreements which were not incorporated in the General Agreement on Tariffs and Trade, provided that the concessions provided for in such agreements were generalized to all Members in accordance with the terms of Article 14.

Paragraph 1, sub-paragraph (a).

There was an equal division of view among the Members of the Sub-Committee on the question whether the words in square brackets should be deleted or retained. The Delegates of Belgium, Norway and the United States favoured deletion, those of Australia, Cuba and the United Kingdom retention of these words. The Delegate of the United States considered that complete deletion of sub-paragraph (a) would be the best course.

- (b) In the negotiations relating to any specific product
 - (i) when a reduction is negotiated only in the most-favoured-nation rate, such reduction shall operate automatically to reduce or eliminate the margin of preference applicable to that product; or
 - (ii) when a reduction is negotiated only in the preferential rate, the most-favoured-nation rate shall automatically be reduced to the extent of such reduction, or
 - (iii) when it is agreed that reductions will be negotiated in both the most-favoured-nation rate and the preferential rate, the reduction in each shall be that agreed by the parties to the negotiations;
 - (iv) no margin of preference shall be increased.

(c) The binding of low tariffs or of tariff-free treatment shall in principle be recognized as a concession equivalent in value to the substantial reduction of high tariffs or the elimination of tariff preferences.

(d) Account shall be taken of any concessions which either Member is already extending to the other Member by virtue of previous negotiations regarding tariffs and preferences pursuant to this Article.

(e) The results of such negotiations shall be incorporated in the General Agreement on Tariffs and Trade, signed at Geneva on1947, by agreement with the parties to that Agreement, and thereupon the parties to such negotiation shall become contracting parties to the General Agreement on Tariff Trade if they are not so already.

Sub-paragraph (b).

The Delegate for Cuba wished to have it recorded that the Cuban agreement to the inclusion of this sub-paragraph is contingent on the retention of sub-paragraph 1 (a) in its entirety.

2. If any Member considers that any other Member has failed to fulfil its obligations under paragraph 1 of this Article, such Member may refer the matter to the Organization which, after investigation, shall make appropriate recommendations to the Members concerned. If the Organization finds that a Member has failed without sufficient justification, having regard to its economic position and the provisions of the Charter as a whole, to carry out negotiations within a reasonable period of time in accordance with the requirements of paragraph 1 of this Article, the Organization may determine that any Member or Members shall, notwithstanding the provisions of Article 14, be entitled to withhold from the trade of the other Member any of the tariff benefits which may have been negotiated pursuant to paragraph 1 of this Article, and embodied in Part 1 of the General Agreement on Tariffs and Trade. If such benefits are in fact withheld, so as to result in the application to the trade of the other Member of tariffs higher than would otherwise have been applicable, such other Member shall then be free, within sixty days after such action is taken, to withdraw from the Organization upon the expiration of sixty days from the date on which written notice of such withdrawal is received by the Organization.

3. The provisions of this Article shall operate in accordance with the provisions of Article 67.