The draft text of an agreement on preshipment inspection drawn up prior to the Ministerial Meeting of the TNC held in Brussels from 3 to 7 December 1990, is contained on pages 31 to 42 of MTN.TNC/W/35/Rev.1. As explained in the commentary to that text, reproduced on page 30 of the document, an overall compromise remained to be found on a number of issues reflected by square brackets in the text of the draft agreement.

Consultations held in Brussels have led to a compromise on all of these issues. The resulting text, dated 6 December 1990 and attached hereto, was accepted on an ad referendum basis by participants in the Green Room meeting convened by Minister van Rooy.

It was agreed at that time that the legal form of the agreement would be examined at a later stage.

With respect to implementation of the Independent Review Procedures (Article 4 of the agreement), the consultations which had begun before the Ministerial between the International Chamber of Commerce (ICC) and the International Federation of Inspection Agencies (IFIA) have continued. A way will need to be found to respond to their suggestions and to keep them informed of any developments in this Round.
PRESHIPMENT INSPECTION

The legal form of this agreement remains to be examined. The wording of the attached text may need to be adapted in the light of the decision taken on this subject.

The International Chamber of Commerce and the International Federation of Inspection Agencies have expressed their willingness in principle to administer the Independent Review Entity referred to in Article 4:1 and consultations have been initiated on the arrangements that would be made to this end.
AGREEMENT ON PRESHIPMENT INSPECTION

PREAMBLE

NOTING that Ministers on 20 September 1986 agreed that the Uruguay Round of Multilateral Trade Negotiations shall aim to bring about further liberalization and expansion of world trade, strengthen the role of GATT and increase the responsiveness of the GATT system to the evolving international economic environment;

NOTING that a number of developing contracting parties have recourse to preshipment inspection;

RECOGNIZING the need of developing countries to do so for as long and insofar as it is necessary to verify the quality, quantity or price of imported goods;

MINDFUL that such programmes must be carried out without giving rise to unnecessary delays or unequal treatment;

NOTING that this inspection is by definition carried out on the territory of exporter contracting parties;

RECOGNIZING the need to establish an agreed international framework of rights and obligations of both user contracting parties and exporter contracting parties;

RECOGNIZING that the principles and obligations of the General Agreement apply to those activities of preshipment inspection entities that are mandated by governments that are Parties to the General Agreement;

RECOGNIZING that it is desirable to provide transparency of the operation of preshipment inspection entities and of laws and regulations relating to preshipment inspection;

DESIRING to provide for the speedy, effective and equitable resolution of disputes between exporters and preshipment inspection entities arising under this agreement;

The contracting parties hereby agree as follows:

ARTICLE 1

Coverage. Definitions

1.1. This agreement shall apply to all preshipment inspection activities carried out on the territory of contracting parties, whether such activities are contracted or mandated by the government, or any government body, of a contracting party (hereinafter referred to as user contracting party).
1.2. Preshipment inspection activities are all activities relating to the verification of the quality, the quantity, the price, including currency exchange rate and financial terms, and/or the customs classification of goods to be exported to the territory of the user contracting party.

1.3. The term "preshipment inspection entity" is any entity contracted or mandated by a contracting party to carry out preshipment inspection activities.

ARTICLE 2

Obligations of user contracting parties

Non-discrimination

2.1. User contracting parties shall ensure that preshipment inspection activities are carried out in a non-discriminatory manner, that the procedures and criteria employed in the conduct of these activities are objective and are applied on an equal basis to all exporters affected by such activities. They shall ensure uniform performance of inspection by all the inspectors of the preshipment inspection entities contracted or mandated by them.

Governmental requirements

2.2. User contracting parties shall ensure that in the course of preshipment activities relating to their laws, regulations and requirements, the provisions of Article III:4 of the General Agreement are respected to the extent that these are relevant.

Site of inspection

2.3. User contracting parties shall ensure that all preshipment inspection activities, including the issuance of a Clean Report of Findings or a note of non-issuance, are performed in the customs territory from which the goods are exported or, if the inspection cannot be carried out in that customs territory given the complex nature of the products involved, or if both parties agree, in the customs territory in which the goods are manufactured.

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It is understood that this provision does not obligate contracting parties to allow government entities of other contracting parties to conduct preshipment inspection activities on their territory.
Standards

2.4. User contracting parties shall ensure that quantity and quality inspections are performed in accordance with the standards defined by the seller and the buyer in the purchase agreement and that, in the absence of such standards, relevant international standards apply.

Transparency

2.5. User contracting parties shall ensure that preshipment inspection activities are conducted in a transparent manner.

2.6. User contracting parties shall ensure that, when initially contacted by exporters, preshipment inspection entities provide to the exporters a list of all the information which is necessary for the exporters to comply with inspection requirements. The preshipment inspection entities shall provide the actual information when so requested by exporters. This information shall include a reference to the laws and regulations of the user contracting parties relating to preshipment inspection activities, and shall also include the procedures and criteria used for inspection and for price and currency exchange rate verification purposes, the exporters' rights vis-à-vis the inspection entities, and the appeals procedures set up under Article 2:21. Additional procedural requirements or changes in existing procedures shall not be applied to a shipment unless the exporter concerned is informed of these changes at the time the inspection date is arranged. However, in emergency situations of the types addressed by Articles XX and XXI of the General Agreement, such additional requirements or changes may be applied to a shipment before the exporter has been informed. This assistance shall not, however, relieve exporters from their obligations in respect of compliance with the import regulations of the user contracting parties.

2.7. User contracting parties shall ensure that the information referred to in Article 2:6 is made available to exporters in a convenient manner, and that the preshipment inspection offices maintained by preshipment inspection entities serve as information points where this information is available.

2.8. User contracting parties shall publish promptly all applicable laws and regulations relating to preshipment inspection activities in such a manner as to enable other governments and traders to become acquainted with them.

\[1\] An international standard is a standard adopted by a governmental or non-governmental body whose membership is open to all contracting parties, one of whose recognized activities is in the field of standardization.
Protection of confidential business information

2.9. User contracting parties shall ensure that preshipment inspection entities treat all information received in the course of the preshipment inspection as business confidential to the extent that such information is not already published, generally available to third parties, or otherwise in the public domain. User contracting parties shall ensure that preshipment inspection entities maintain procedures to this end.

2.10. User contracting parties shall provide information to contracting parties on request on the measures they are taking to give effect to Article 2:9. The provisions of this paragraph shall not require any contracting party to disclose confidential information which would jeopardize the effectiveness of the preshipment inspection programmes or would prejudice the legitimate commercial interest of particular enterprises, public or private.

2.11. User contracting parties shall ensure that preshipment inspection entities do not divulge confidential business information to any third party, except that preshipment inspection entities may share this information with the government entities that have contracted or mandated them. User contracting parties shall ensure that confidential business information which they receive from preshipment inspection entities contracted or mandated by them is adequately safeguarded. Preshipment inspection entities shall share confidential business information with the governments contracting or mandating them only to the extent that such information is customarily required for letters of credit or other forms of payment or for customs, import licensing or exchange control purposes.

2.12. User contracting parties shall ensure that preshipment inspection entities do not request exporters to provide information regarding:

(a) manufacturing data related to patented, licensed or undisclosed processes, or to processes for which a patent is pending;

(b) unpublished technical data other than data necessary to demonstrate compliance with technical regulations or standards;

(c) internal pricing, including manufacturing costs;

(d) profit levels;

(e) the terms of contracts between exporters and their suppliers unless it is not otherwise possible for the entity to conduct the inspection in question. In such cases, the entity shall only request the information necessary for this purpose.
2.13. The information referred to in Article 2:12, which preshipment inspection entities shall not otherwise request, may be released voluntarily by the exporter to illustrate a specific case.

Conflicts of interest

2.14. User contracting parties shall ensure that preshipment inspection entities, bearing in mind also the provisions on protection of confidential business information in Article 2:9-13, maintain procedures to avoid conflicts of interest:

(a) between preshipment inspection entities and any related entities of the preshipment inspection entities in question, including any entities in which the latter have a financial or commercial interest or any entities which have a financial interest in the preshipment inspection entities in question, and whose shipments the preshipment inspection entities are to inspect;

(b) between preshipment inspection entities and any other entities, including other entities subject to preshipment inspection, with the exception of the government entities contracting or mandating the inspections;

(c) with divisions of preshipment inspection entities engaged in activities other than those required to carry out the inspection process.

Delays

2.15. User contracting parties shall ensure that preshipment inspection entities avoid unreasonable delays in inspection of shipments. User contracting parties shall ensure that, once a preshipment inspection entity and an exporter agree on an inspection date, the preshipment inspection entity conducts the inspection on that date unless it is rescheduled on a mutually-agreed basis between the exporter and the preshipment inspection entity, or the preshipment inspection entity is prevented from doing so by the exporter or by force majeure.¹

2.16. User contracting parties shall ensure that, following receipt of the final documents and completion of the inspection, preshipment inspection entities, within five working days, either issue a Clean Report of Findings or provide a detailed written explanation specifying the reasons for non-issuance. User contracting parties shall ensure that, in the latter case, preshipment inspection entities give exporters the opportunity to present their views in writing and, if exporters so request, arrange for reinspection at the earliest mutually convenient date.

¹It is understood that, for the purposes of this agreement, force majeure shall mean "irresistible compulsion or coercion, unforeseeable course of events excusing from fulfilment of contract".
2.17. User contracting parties shall ensure that, whenever so requested by the exporters, preshipment inspection entities undertake, prior to the date of physical inspection, a preliminary verification of price and, where applicable, of currency exchange rate, on the basis of the contract between exporter and importer, the pro forma invoice and, where applicable, the application for import authorization. User contracting parties shall ensure that a price or currency exchange rate that has been accepted by a preshipment inspection entity on the basis of such preliminary verification is not withdrawn, providing the goods conform to the import documentation and/or import licence. They shall ensure that, after a preliminary verification has taken place, preshipment inspection entities immediately inform exporters in writing either of their acceptance or of their detailed reasons for non-acceptance of the price and/or currency exchange rate.

2.18. User contracting parties shall ensure that, in order to avoid delays in payment, preshipment inspection entities send to exporters or to designated representatives of the exporters a Clean Report of Findings as expeditiously as possible.

2.19. User contracting parties shall ensure that, in the event of a clerical error in the Clean Report of Findings, preshipment inspection entities correct the error and forward the corrected information to the appropriate parties as expeditiously as possible.

Price verification

2.20. User contracting parties shall ensure that, in order to prevent over- and under-invoicing and fraud, preshipment inspection entities conduct price verification according to the following guidelines:

(a) preshipment inspection entities shall only reject a contract price agreed between an exporter and an importer if they can demonstrate that their findings of an unsatisfactory price are based on a verification process which is in conformity with the criteria set out in Article 2:20(b)-(e) below;

(b) the preshipment inspection entity shall base its price comparison for the verification of the export price on the price(s) of identical or similar goods offered for export from the same country of exportation at or about the same time, under competitive and comparable conditions of sale, in conformity with customary commercial practices and net of any applicable standard discounts. Such comparison shall be based on the following:

1 The obligations of user contracting parties with respect to the services of preshipment inspection entities in connection with customs valuation shall be the obligations which they have accepted in the General Agreement and related instruments.
- only prices providing a valid basis of comparison shall be used, taking into account the relevant economic factors pertaining to the country of importation and a country or countries used for price comparison;

- the preshipment inspection entity shall not rely upon the price of goods offered for export to different countries of importation to arbitrarily impose the lowest price upon the shipment;

- the preshipment inspection entity shall take into account the specific elements listed in Article 2:20(c);

- at any stage in the process described above, the preshipment inspection entity shall provide the exporter with an opportunity to explain his price.

(c) when conducting price verification, preshipment inspection entities shall make appropriate allowances for the terms of the sales contract and generally applicable adjusting factors pertaining to the transaction; these factors shall include but not be limited to the commercial level and quantity of the sale, delivery periods and conditions, price escalation clauses, quality specifications, special design features, special shipping or packing specifications, order size, spot sales, seasonal influences, licence or other intellectual property fees, and services rendered as part of the contract if these are not customarily invoiced separately; they shall also include certain elements relating to the exporter's price, such as the contractual relationship between the exporter and importer;

(d) the verification of transportation charges shall relate only to the agreed price of the mode of transport in the country of exportation as indicated in the sales contract;

(e) the following shall not be used for price verification purposes:

(i) the selling price in the country of importation of goods produced in such country;

(ii) the price of goods for export from a country other than the country of exportation;

(iii) the cost of production;

(iv) arbitrary or fictitious prices or values.
Appeals procedures

2.21. User contracting parties shall ensure that preshipment inspection entities establish procedures to receive, consider and render decisions concerning grievances raised by exporters, and that information concerning such procedures is made available to exporters in accordance with the provisions of Article 2:6-7. User contracting parties shall ensure that the procedures are developed and maintained in accordance with the following guidelines:

(a) preshipment inspection entities shall designate one or more officials who shall be available during normal business hours in each city or port in which they maintain a preshipment inspection administrative office to receive, consider and render decisions on exporters' appeals or grievances;

(b) exporters shall provide in writing to the designated official(s) the facts concerning the specific transaction in question, the nature of the grievance and a suggested solution;

(c) the designated official(s) shall afford sympathetic consideration to exporters' grievances and shall render a decision as soon as possible after receipt of the documentation referred to in (b) above.

Derogation

2.22. By derogation to the provisions of Article 2, user contracting parties shall provide that, with the exception of part shipments, shipments whose value is less than a minimum value applicable to such shipments as defined by the user contracting party shall not be inspected, except in exceptional circumstances. This minimum value shall form part of the information furnished to exporters under the provisions of Article 2:6 above.

ARTICLE 3

Obligations of exporter contracting parties

Non-discrimination

3.1. Exporter contracting parties shall ensure that their laws and regulations relating to preshipment inspection activities are applied in a non-discriminatory manner.
Transparency

3.2. Exporter contracting parties shall publish promptly all applicable laws and regulations relating to preshipment inspection activities in such a manner as to enable other governments and traders to become acquainted with them.

Technical assistance

3.3. Exporter contracting parties shall offer to provide to user contracting parties, if requested, technical assistance directed towards the achievement of the objectives of this agreement on mutually agreed terms.1

ARTICLE 4

Independent review procedures

4.1. Contracting parties shall encourage preshipment inspection entities and exporters mutually to resolve their disputes. However, two working days after submission of the grievance in accordance with the provisions of Article 2:21, either party may refer the dispute to independent review. Contracting parties shall take such reasonable measures as may be available to them to ensure that the following procedures are established and maintained to this end:

(a) These procedures shall be administered by an independent entity constituted jointly by an organization representing preshipment inspection entities and an organization representing exporters for the purposes of this agreement;

(b) the independent entity referred to in Article 4:1(a) above shall establish a list of experts as follows:

(i) a section of members nominated by an organization representing preshipment inspection entities;

(ii) a section of members nominated by an organization representing exporters;

(iii) a section of independent trade experts, nominated by the independent entity referred to in Article 4:1(a) above.

1It is understood that such technical assistance may be given on a bilateral, plurilateral or multilateral basis.
The geographical distribution of the experts on this list shall be such as to enable any disputes raised under these procedures to be dealt with expeditiously. This list shall be drawn up within two months of the entry into force of this agreement and shall be updated annually. The list shall be publicly available. It shall be notified to the GATT secretariat and circulated to all contracting parties;

(c) an exporter or preshipment inspection entity wishing to raise a dispute shall contact the independent entity referred to in Article 4:1(a) above and request the formation of a panel. The independent entity shall be responsible for establishing a panel. This panel shall consist of three members. The members of the panel shall be chosen so as to avoid unnecessary costs and delays. The first member shall be chosen from section (i) of the above list by the preshipment inspection entity concerned, provided that this member is not affiliated to that entity. The second member shall be chosen from section (ii) of the above list by the exporter concerned, provided that this member is not affiliated to that exporter. The third member shall be chosen from section (iii) of the above list by the independent entity referred to in Article 4:1(a) above. No objections shall be made to any independent trade expert drawn from section (iii) of the above list;

(d) the independent trade expert drawn from section (iii) of the above list shall serve as the chairman of the panel. He shall take the necessary decisions to ensure an expeditious settlement of the dispute by the panel, for instance, whether the facts of the case require the panelists to meet and, if so, where such a meeting shall take place, taking into account the site of the inspection in question;

(e) if the parties to the dispute so agree, one independent trade expert could be selected from section (iii) of the above list by the independent entity referred to in Article 4:1(a) above to review the dispute in question. This expert shall take the necessary decisions to ensure an expeditious settlement of the dispute, for instance taking into account the site of the inspection in question;

(f) the object of the review shall be to establish whether, in the course of the inspection in dispute, the parties to the dispute have complied with the provisions of this agreement. The procedures shall be expeditious and provide the opportunity for both parties to present their views in person or in writing;
(g) decisions by a three-member panel shall be taken by majority vote. The decision on the dispute shall be rendered within eight working days of the request for independent review and be communicated to the parties to the dispute. This time-limit could be extended upon agreement by the parties to the dispute. The panel or independent trade expert shall apportion the costs, based on the merits of the case;

(h) the decision of the panel shall be binding upon the preshipment inspection entity and the exporter which are parties to the dispute.

ARTICLE 5

Notification

5.1. Contracting parties shall submit to the GATT secretariat copies of their laws and regulations by which they put this agreement into force, as well as copies of any other laws and regulations relating to preshipment inspection when the agreement comes into force for the contracting party concerned. No changes in the laws and regulations relating to preshipment inspection shall be enforced before such changes have been officially published. They shall be notified to the GATT secretariat immediately after their publication. The GATT secretariat shall inform the contracting parties of the availability of this information.

ARTICLE 6

Review

6.1. At the end of the second year from the entry into force of this agreement and every three years thereafter, the CONTRACTING PARTIES shall review its provisions, implementation and operation, taking into account the objectives thereof and experience gained in its operation. As a result of such review, the CONTRACTING PARTIES may amend the provisions of the agreement.

ARTICLE 7

Consultation

7.1. Contracting parties shall consult with other contracting parties upon request with respect to any matter affecting the operation of this agreement. In such cases, the provisions of Article XXII of the General Agreement, as amended by the Uruguay Round, shall apply.
ARTICLE 8

Dispute settlement

8.1. Any disputes among contracting parties regarding the operation of this agreement shall be subject to the provisions of Article XXIII of the General Agreement, as amended by the Uruguay Round.

ARTICLE 9

Final provisions

9.1. Contracting parties shall take the necessary measures for the implementation of the present agreement.

9.2. Contracting parties shall ensure that their laws and regulations shall not be contrary to the provisions of this agreement.