

15 November 1960

DRAFT REPORT OF THE WORKING PARTY ON SUBSIDIES

1. The Working Party considered in accordance with its terms of reference what steps should be taken by the CONTRACTING PARTIES to implement the provisions of paragraph 4 of Article XVI of the General Agreement.
2. The Working Party noted that paragraph 4 of Article XVI itself contains the provision that "as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market". The only question which was thus left open in paragraph 4 of Article XVI was the date from which the prohibition on subsidies on any product other than a primary product should become effective. Since no agreement on that date has so far been reached by contracting parties, the standstill provision contained in paragraph 4 of Article XVI has ceased to be operative, but a number of contracting parties have agreed to extend it beyond that date by means of a declaration.
3. The Working Party was unanimously of the view that the time had come to put the provisions of Article XVI fully into effect. It furthermore unanimously agreed that the most practical and expeditious way in which to implement the prohibition provided for in paragraph 4 of Article XVI would be for the CONTRACTING PARTIES to open for signature before the end of the seventeenth session a declaration embodying the agreement of all signatories to prohibit the use of subsidies of the kind referred to in paragraph 4 of Article XVI.
4. The Working Party then examined the text of a draft declaration prepared by the secretariat on the basis of the proposal submitted by the Government of France (documents L/1260 and W.17/3). The text of the draft as revised by the Working Party is attached to this report as Annex A.
5. The following detailed list of measures was referred to in the proposal submitted by the French Government and it was suggested that the CONTRACTING PARTIES confirm that these measures [which the members of the OEEC have agreed to ban] could not be maintained if the provisions of the first sentence of paragraph 4 of Article XVI were to become fully operative:

- (a) Currency retention schemes or any similar practices which involve a bonus on exports or re-exports.
- (b) The provision by governments of direct subsidies to exporters.
- (c) The remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises.
- (d) The exemption, in respect of exported goods, of charges or taxes, other than charges in connexion with importation or indirect taxes levied at one or several stages on the same goods if sold for internal consumption; or the payment, in respect of exported goods, of amounts exceeding those effectively levied at one or several stages on these goods in the form of indirect taxes or of charges in connexion with importation or in both forms.
- (e) In respect of deliveries by governments or governmental agencies of imported raw materials for export business on different terms than for domestic business, the charging of prices below world prices.
- (f) In respect of government export credit guarantees, the charging of premiums at rates which are manifestly inadequate to cover the long-term operating costs and losses of the credit insurance institutions.
- (g) The grant by governments (or special institutions controlled by governments) of export credits at rates below those which they have to pay in order to obtain the funds so employed.
- (h) The government bearing all or part of the costs incurred by exporters in obtaining credit.

The Working Party agreed that this list should not be considered exhaustive or to limit in any way the generality of the provisions of paragraph 4 of Article XVI; it also agreed that the measures contained in the list were most likely to constitute subsidies in the sense of paragraph 4 of Article XVI or were covered by the provisions of the statutes of the International Monetary Fund.

6. The Working Party also considered the meaning of the term "primary products" and noted the following interpretation contained in the explanatory note to Article XVI: "For the purposes of Section B, a 'primary product'

is understood to be any product of farm, forest or fishery, or any mineral, in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade." Although in the view of the Working Party this interpretation was necessarily of a general character, it was nevertheless felt that it provided sufficient guidance for the CONTRACTING PARTIES to deal, as and when necessary, with specific cases where doubts might arise concerning the applicability of paragraph 4 of Article XVI

7. As was the case in the previous Declaration extending the standstill, the Declaration would only enter into force when a number of industrialized countries has accepted it. The list in paragraph 2 of the draft declaration contains the industrialized countries in Western Europe and North America; these contracting parties indicated that they were in principal ready to accept the Declaration drafted on the basis of the French proposal.

8. Some contracting parties, although unable to take a definite stand at this time, had nevertheless indicated their readiness to examine the possibilities of taking early action with a view to becoming parties to the Declaration.

9. The Working Party further noted that a number of less-developed countries, were not prepared, for various reasons, to accept for the time being a Declaration along the lines of that contained in Annex A.

10. The Working Party was therefore of the view that the Declaration on the standstill should be extended. The Working Party, however, was of the view that the previous Declaration on the standstill should be modified on various points so as to bring about some further progress towards the abolition of subsidies. A revised draft of the Declaration extending the standstill is contained in Annex B to this report.

11. The Working Party recommends that the CONTRACTING PARTIES open for acceptance the two Declarations contained in Annexes A and B to the report.

REVISED ANNEX A

DECLARATION GIVING EFFECT TO THE PROVISIONS OF ARTICLE XVI:4
OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

The parties to this Declaration, being contracting parties to the General Agreement on Tariffs and Trade (hereinafter referred to as "the General Agreement"), or Governments which have acceded provisionally to the General Agreement.

Considering the provision of paragraph 4 of Article XVI of the General Agreement that, "as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market";

Considering further that it is highly desirable that the above-mentioned provisions of paragraph 4 of Article XVI of the General Agreement should enter into force without further delay by the largest number of contracting parties possible;

Hereby declare that:

1. They agree that the date on which the above-mentioned provisions of paragraph 4 of Article XVI come into force shall be, for each party to this Declaration, the date on which the Declaration enters into force for that party.
2. This Declaration shall enter into force, for each government which has accepted it, on the thirtieth day following the day on which it shall have been accepted by that government or on the thirtieth day following the day on which it shall have been accepted by the Governments of Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, Luxemburg, the Kingdom of the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom of Great Britain and Northern Ireland, and the United States of America, whichever is the later.
3. Any party to this Declaration which ceases to be a contracting party to the General Agreement, or as to which arrangements for its provisional accession have terminated otherwise than through accession pursuant to Article XXXIII of the General Agreement, shall thereupon cease to be a party to this Declaration.

4. This Declaration shall be deposited with the Executive Secretary of the CONTRACTING PARTIES to the General Agreement. It shall be open for acceptance, by signature or otherwise, by contracting parties to the General Agreement and by governments which have acceded provisionally to the General Agreement.

5. The Executive Secretary shall promptly furnish a certified copy of this Declaration and a notification of each acceptance thereto to each contracting party to the General Agreement and to each other government on behalf of which the Declaration is open for acceptance.

REVISED ANNEX B

EXTENSION OF STANDSTILL PROVISIONS OF ARTICLE XVI:4
OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Declaration of 1960

The parties to this Declaration, being contracting parties to the General Agreement on Tariffs and Trade (hereinafter referred to as "the General Agreement"), or Governments which have acceded provisionally to the General Agreement.

Considering that, in accordance with paragraph 4 of Article XVI of the General Agreement and the note thereto in Annex I, contracting parties should seek before the end of 1957 to reach agreement to abolish as from 1 January 1958 all remaining subsidies on products other than primary products which result in the sale of such products for export at a price lower than that charged in the domestic market or, failing this, to extend the application of the standstill provided for in paragraph 4 of Article XVI; and

Considering that a number of contracting parties have agreed to successive yearly extensions of the standstill provisions in relation to such subsidies pending their abolition;

Considering that some contracting parties will, for various reasons, not be prepared to accept for the time being the Declaration Giving Effect to the Provisions of Article XVI:4 of the General Agreement, opened for acceptance on the same date as this Declaration;

Considering further that such contracting parties should not only agree to extend the standstill, but should also agree to a procedure which will ensure progress towards abolition of subsidies covered by the provisions of Article XVI:4;

Hereby declare that:

1. They will not [until] extend the scope of any subsidization of the type described in paragraph 4 of Article XVI beyond that existing on the date of this Declaration, by the introduction of new, or the increase of existing, subsidies; it being understood that any such subsidy which, since that date, has been reduced or abolished may not be increased nor re-instituted:

2. They will communicate to the Executive Secretary of the CONTRACTING PARTIES the list of the measures of the type described in paragraph 4 of Article XVI of the General Agreement in force on the date of this Declaration; and notify the Executive Secretary of any changes in these measures.

3. They agree to an annual review by the CONTRACTING PARTIES on the progress made in the abolition or reduction of such subsidies existing on the date of this Declaration.

4. Any party to this Declaration which ceases to be a contracting party to the General Agreement, or as to which arrangements for its provisional accession have terminated otherwise than through accession pursuant to Article XXXIII of the General Agreement, shall thereupon cease to be a party to this Declaration.

5. This Declaration shall be deposited with the Executive Secretary of the CONTRACTING PARTIES to the General Agreement. It shall be open for acceptance, by signature or otherwise, by contracting parties to the General Agreement and by governments which have acceded provisionally to the General Agreement.

6. This Declaration shall enter into force on the day on which it will have been accepted by the Governments of Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, Luxemburg, the Kingdom of the Netherlands, Norway, Sweden, Switzerland, the United Kingdom of Great Britain and Northern Ireland, and the United States of America. Acceptance of the Declaration Giving Effect to the Provisions of Article XVI:4 of the General Agreement by one of the above-mentioned Governments shall constitute an acceptance of the present Declaration for the purposes of this paragraph.

7. This Declaration shall remain in force until 31 December 1963; it being understood that it shall be terminated at the end of any intervening calendar year if any party to the Declaration notifies the Executive Secretary to that effect not later than 1 October of that year. The CONTRACTING PARTIES shall review the position at the session preceding the termination or expiry of this Declaration.

8. The Executive Secretary to the CONTRACTING PARTIES to the General Agreement shall promptly furnish a certified copy of this Declaration and a notification of each acceptance thereto to each contracting party to the General Agreement.