1. The contracting parties recognize that the attainment of the objectives of this Agreement will be facilitated by the progressive development of their economies, and in particular of the economies of those contracting parties which can only afford low standards of living and are in the early stages of economic development.

2. They recognize further that it may be necessary for those contracting parties, in order to implement programmes of economic development designed to raise the general standard of living of their population, to take protective or other measures affecting imports, and that such measures are justified in so far as it facilitates the attainment of the objectives of this Agreement. They agree therefore that those contracting parties should enjoy additional facilities to enable them (a) to maintain sufficient flexibility in their tariff structure to be able to grant the tariff protection required for the establishment of a particular industry and (b) to apply quantitative restrictions for balance-of-payments purposes in a manner which takes full account of the effects on their balances of payments of their programmes of economic development which may generate a high level of imports.

3. They recognize finally that with those additional facilities which are provided for in Sections A and B of this Article, the provisions of this Agreement should be sufficient to enable contracting parties to meet the requirements of their economic development. They agree, however, that there may be circumstances where no measure consistent with those provisions is feasible or practicable to permit a contracting party in the process of economic development to grant the governmental assistance required to promote the establishment of a particular industry with a view to raising the general standard of living of its population. Special procedures are laid down in Sections C and D of this Article to deal with those cases.
4. (a) Consequently, a contracting party which can only afford low standards of living and is in the early stages of economic development shall be free to deviate temporarily from the provisions of the other Articles of this Agreement, subject to the provisions of Sections A, B and C of this Article.

(b) A contracting party which is in the process of economic development but which does not come within the definition of sub-paragraph (a) above, may make applications to the Organization under Section D of this Article.

5. The Organization shall review annually all measures applied pursuant to the provisions of Sections C and D of this Article.

Section A

6. If a contracting party coming within the definition set out in sub-paragraph (a) of paragraph 4 of this Article considers it desirable, in order to promote the establishment of a particular industry with a view to raising the general standard of living of its population, to modify a rate of duty which has been bound under Article II of this Agreement, it shall enter into negotiation with any other contracting party with which such rate of duty was initially negotiated, and with any other contracting parties which the Organization determines to have a substantial interest in the proposed action. If agreement is reached between the contracting parties concerned, the schedule of the contracting party which proposes to change the rate shall be considered as modified to give effect to such agreement, including any compensatory concessions involved. If agreement is not reached within a period of sixty days after notification of the proposed action has been received by the Organization, it shall promptly consider the matter and, if it finds that the contracting party which proposes to modify the rate has made every effort to reach an agreement and that the compensatory adjustment offered is adequate, that contracting party shall be free to modify the rate at the same time as it introduces the compensatory adjustment.1

Section B

7. In order to safeguard its external financial position and to ensure a level of reserves adequate for the implementation of its programme of economic development, a contracting party coming within the definition set out in sub-paragraph (a) of paragraph 4 of this Article may control the general level of its imports by restricting the quantity or value of merchandise permitted to be imported, subject to the provisions of paragraph 8 to 12 below, and provided that the import restrictions instituted, maintained or intensified shall not exceed those necessary

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1 This Section has been referred to another Working Party. This Sub-Group, however, suggests that the opening part of paragraph 6 be changed to the text shown.
(i) to forestall a threat of, or to stop, a serious decline in its monetary reserves, or

(ii) in the case of a contracting party with inadequate monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the contracting party's reserves, or need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

8. In applying these restrictions, the contracting party may determine their incidence on imports of certain products or classes of products which are more essential in the light of its policy of economic development; provided that those restrictions shall be applied in such a way as to avoid unnecessary damage to the commercial or economic interests of any other contracting party, and as not to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade, and of commercial samples, or compliance with patent, trade mark, copyright or similar procedures.

9. In carrying out its domestic policies, the contracting party shall pay due regard to the need for restoring equilibrium in its balance of payments on a sound and lasting basis and to the desirability of assuring an economic employment of productive resources. It shall progressively relax any restrictions applied under this Section as conditions improve, maintaining them only to the extent necessary in terms of paragraph 7 above and shall eliminate them as soon as conditions no longer justify such maintenance; provided that no contracting party shall be required to withdraw or modify restrictions on the ground that a change in its development policies would render unnecessary the restrictions which it is applying under this Section.

10. Any contracting party introducing or maintaining restrictions under this Section shall, before introducing such restrictions or making changes in the application of such restrictions (or, in circumstances in which prior notification is impracticable, immediately after doing so), notify the Organization in writing.

11. A contracting party introducing or maintaining restrictions under this Section shall consult with the Organization, if requested to do so, and give sympathetic consideration to the recommendations which may be made by the Organization in the course of such consultation.

12. The restrictions introduced or maintained in accordance with this Section shall be applied in a non-discriminatory manner in accordance with the provisions of Article XIII of the Agreement; provided that a contracting party applying such restrictions may deviate from the provisions of Article XIII in a manner having equivalent effect to restrictions on payments and transfers for current international transactions which that contracting party
may at any time maintain consistently with the Articles of Agreement of the International Monetary Fund or with a special exchange agreement entered into pursuant to paragraph 6 of Article XV of this Agreement or, with the consent of the Organization, temporarily deviate from the provisions of Article XIII in respect of a small part of its external trade where the benefits to the contracting party or contracting parties concerned substantially outweigh any injury which may result to the trade of other contracting parties. Any discriminatory application of restrictions pursuant to this paragraph shall be a subject for consultation under paragraph 11 above.

Section C

13. If a contracting party coming within the definition set out in Subparagraph (a) of paragraph 4 of this Article finds that governmental assistance is required to promote the establishment of a particular industry with a view to raising the general standard of living of its population, but that no measure consistent with the other provisions of this Agreement is feasible or practicable to achieve that objective, it may have recourse to the procedures set out in this Section, except where a proposed measure affects imports of a product on which the rate of duty is bound under Article II of this Agreement, in which case the procedures of Section A shall apply and not those of paragraphs 14 to 17 below.

14. The contracting party concerned shall notify the Organization of the special difficulties which it meets in the achievement of the objective outlined in paragraph 13 above, and indicate the specific measure affecting imports which it proposes to introduce in order to remedy these difficulties. It shall not introduce that measure before the expiry of the time-limit laid down in paragraph 15 or paragraph 17 below, as the case may be, provided that, if the industry receiving assistance has already started production, the contracting party concerned may, after informing the Organization, take such measure as may be necessary to prevent, during that period, imports of the product or products concerned from increasing substantially above a normal level.

15. If, within thirty days of the notification of the measure, the Organization does not request the contracting party concerned to consult with it, that contracting party shall be free to deviate from the relevant provisions of the other Articles of this Agreement to the extent necessary to apply the proposed measure.

16. If it is requested by the Organization to do so, the contracting party concerned shall consult with it as to the purpose of the proposed measure, as to alternative measures which may be available under this Agreement and as to the possible effect of the measure proposed on the commercial and economic interests of other contracting parties. If, as a result of such consultation, the Organization agrees that there is no measure consistent with the other provisions of this Agreement which is feasible or practicable in order to achieve the objective outlined in paragraph 13 above, and concurs in the proposed measure, the contracting party concerned shall be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to apply that measure.
17. If, within ninety days from the date of notification under paragraph 14 above, the Organization has not concurred in the proposed measure, the contracting party concerned may introduce the measure proposed after informing the Organization.

18. Nothing in the foregoing paragraphs of this Section shall authorize any deviation from the provisions of Articles I, II, and XIII of this Agreement. Further, no measure taken pursuant to this Section shall be such as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade.

19. At any time when a measure is being applied under paragraphs 14 to 17 without the concurrence of the Organization, any other contracting party substantially affected by it may suspend the application to the trade of the contracting party concerned of such substantially equivalent obligations or concessions under this Agreement the suspension of which the Organization does not disapprove, provided that sixty days' notice of such suspension is given to the Organization not later than six months after the measure was introduced or changed substantially to the detriment of that contracting party. Any contracting party acting under this paragraph shall afford adequate opportunity for consultation in accordance with the provisions of Article XXII of the Agreement.

20. If a contracting party coming within the definition set out in sub-paragraph (a) of paragraph 4 of this Article proposes to apply a specific measure affecting imports in order to safeguard the establishment of an industry which has received incidental protection from restrictions imposed by that contracting party for balance-of-payments purposes under the relevant provisions of this Agreement, it shall proceed in accordance with the provisions of paragraphs 14 to 16 above but it shall not apply the proposed measure without the concurrence of the Organization.

Section D

21. Any contracting party coming within the definition of sub-paragraph (b) of paragraph 4 of this Article desiring, in the interest of the development of its economy, to take a specific measure of the type described in Section C of this Article in respect of the establishment of a particular industry may apply to the Organization for approval of such measure. The Organization shall promptly consult with the contracting party and shall, in making its decision, be guided by the considerations set out in paragraph 16 of this Article. If the Organization concurs in the proposed measure the contracting party concerned shall be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to apply that measure.

22. Any measure applied under this Section shall comply with the provisions of paragraph 18 above.
Interpretative Notes
(to be inserted in Annex I to the Agreement)

Ad Article XVIII

Paragraphs 1 and 4

The phrase "in the early stages of economic development" is not meant to apply only to contracting parties which have just started their economic development, but also to contracting parties which are undergoing a process of industrialization to correct an excessive dependence on primary production.

Paragraphs 3 and 13

The phrase "establishment of a particular industry" shall apply not only to the establishment of a new industry, but also to the establishment of a new branch of production in an existing industry and to the substantial transformation of an existing industry. It shall also cover the reconstruction of an industry destroyed or substantially damaged as a result of hostilities.

Paragraph 9

The second sentence in paragraph 9 shall not be interpreted to mean that a contracting party is required to relax or remove such restrictions if that relaxation or removal would thereupon produce conditions justifying the intensification or institution, respectively, of restrictions under paragraph 7 of Article XVIII.

Paragraphs 11 and 14

It is understood that the Organization shall invite a contracting party introducing or maintaining restrictions under Section B, or proposing to apply a measure under Section C, to consult with it, pursuant to paragraph 11 or 14 as the case may be, if it is requested to do so by a contracting party likely to be affected by the measure in question.

Paragraph 12

The provisions of paragraph 12 permit the introduction or the maintenance by a contracting party of restrictions which are applied against imports from other countries, but not against imports from other territories having a common quota with the contracting party in the International Monetary Fund, on condition that such restrictions are in all other respects consistent with the provisions of Article XIII.
Notwithstanding the provisions of paragraph 12 of Article XVIII, a contracting party coming within the definition set out in sub-paragraph (a) of paragraph 4 of Article XVIII which has elected to be governed by the provisions of Annex J of the General Agreement may continue to be governed by those provisions for such time as those provisions shall remain in force.

Paragraph 14

It is recognized that before deciding on the introduction of a specific measure and notifying the Organization in accordance with paragraph 14, a contracting party may need a reasonable period of time to assess the competitive position of the industry concerned.

Paragraph 16

It is understood that the Organization may concur in a proposed measure subject to specific conditions or limitations. If the measure as applied does not conform to the terms of the concurrence it will to this extent be a measure in which the Organization has not concurred.

As a rule, the Organization will refrain from concurring in a measure which is likely to cause serious prejudice to exports of a commodity on which the economy of a contracting party is largely dependent.

Paragraph 19

Any measure taken pursuant to the provisions of paragraph 19 shall be withdrawn forthwith if the action taken in accordance with paragraph 17 is withdrawn or if the Organization concurs in the measure proposed after the expiry of the ninety-day time-limit laid down in paragraph 17.