

PART II

ARTICLE III

National Treatment on Internal Taxation and Regulation

1. The products of the territory of any contracting party imported into the territory of any other contracting party shall be exempt from internal taxes and other internal charges of any kind in excess of 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 contracting party shall apply new or increased internal taxes on the products of the territories of other contracting parties for the purpose of affording protection to the production of directly competitive or substitutable products which are not similarly taxed; and existing internal taxes of this kind shall be subject to negotiation for their reduction or elimination.

2. The products of the territory of any contracting party imported into the territory of any other contracting party 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. The provisions of this paragraph shall not prevent the application of 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 contracting parties shall observe the following provisions:

- (a) no regulations shall be made which, formally or in effect, require 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 contracting party 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.

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

- (a) any measure of internal quantitative control in force in the territory of any contracting party on July 1, 1939 or April 10, 1947, at the option of that contracting party; *Provided* that any such measure which would be 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;
- (b) any internal quantitative regulation relating to exposed cinematograph films and meeting the requirements of Article IV.

5. 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 prevent the payment to domestic producers only of subsidies provided for under Article XVI,