

EUROPEAN ENERGY CHARTER

31/92

CONFERENCE SECRETARIAT

BA 13

RESTRICTED

BA 13 reflects the state of negotiations in WG II as of 10.00 on 19 June 1992 and may therefore not contain changes agreed to after 10.00.

19 June 1992

BASIC AGREEMENT FOR THE EUROPEAN ENERGY CHARTER

PREAMBLE

The Parties to this Agreement,

Having regard to the Charter of Paris for a New Europe signed on 21 November 1990,

Having regard to the European Energy Charter signed in the Hague on 17 December 1991,

Aware that all Signatories to the European Energy Charter undertook to agree a Basic Agreement to place the commitments contained in that Charter on a secure and binding international legal basis;

Desiring to establish the structural framework required to implement the principles enunciated in the European Energy Charter;

Having regard to the objective of progressive liberalisation of international trade and to the principle of avoidance of discrimination in international trade,

Having regard to the rights and obligations of certain Contracting Parties who are also parties to the General Agreement on Tariffs and Trade and its related Agreements, as renegotiated from time to time;

Having regard to national competition rules concerning mergers, monopolies, anti-competitive practices and abuse of dominant position where these are already established;

Having regard to the competition rules applicable to member states of the European Community under the Treaty establishing the European Economic Community, the Treaty establishing the European Coal and Steel Community and the Treaty establishing the European Atomic Energy Community;

Having regard to the competition rules applicable to contracting parties to the European Economic Area;

Having regard to the work in the Organisation for Economic Co-operation and Development and the United Nations Conference on Trade and Development to increase co-operation between sovereign states on competition matters;

Having regard to the Treaty on the Non-Proliferation of Nuclear Weapons, the Nuclear Suppliers Guidelines and the obligations of international nuclear safeguards;

Having regard to the increasing urgency of measures to protect the environment, and to the need for internationally agreed objectives and criteria for this purpose;

HAVE AGREED AS FOLLOWS:

PART I

DEFINITIONS AND PRINCIPLES

ARTICLE 1

DEFINITIONS

For the purposes of this Agreement unless the context otherwise requires :

- (1) "Charter" means the European Energy Charter;
- (2) "Contracting Party" means a party to this Agreement;
- (3) (1) "Energy Materials and Products", based on the Harmonised System (HS) of the Customs Cooperation Council and the Combined Nomenclature (CN) of the European Communities, means the following

Items of HS or CN:

- Nuclear energy⁽²⁾
 - 2612
 - [2845 10]⁽³⁾
 - 2844 10 - 2844 50
 - (uranium, thorium, plutonium and their combinations)
- Coal, natural gas, petroleum and petroleum products, electric energy
 - Chapter 27 (except 2712)

HS or CN

- Acyclic and cyclic hydrocarbons [2901]⁽³⁾ [[2902]⁽³⁾]⁽⁴⁾
- Renewable energy [2207 20]⁽³⁾ [2905 11]⁽³⁾ [4401]⁽³⁾ [4402]⁽³⁾

(4) "Investment" means every kind of asset⁽⁵⁾⁽⁶⁾, which has been used or is used in connection with [the implementation of the principles of the Charter [and in accordance with the provisions of this Agreement]⁽⁷⁾⁽⁸⁾]⁽⁹⁾. In particular, though not exclusively, Includes any of the following:

- (a) [tangible or intangible]⁽¹⁰⁾ property and any other related property rights such as mortgages, liens or pledges as well as leases;
- (b) ⁽¹¹⁾ shares in, and stock, bonds and debentures of, and any other form of participation including [minority forms]⁽¹²⁾ in, a company or business enterprise⁽¹³⁾;
- (c) [claims to money and claims to performance under contract having a financial value⁽¹⁴⁾]⁽¹⁵⁾;
- (d) [Intellectual property as defined in Item (12)]⁽¹⁶⁾;
- (e) [rights, conferred by law or under contract, to undertake any commercial activity, including the search for, or the cultivation, extraction or exploitation, of natural resources]⁽¹⁷⁾;

A change in the form in which assets are invested does not affect their character as investments [and the term "Investment" includes all investments, whether existing at or made after the date of entry into force of this Agreement (hereinafter referred to as the

"effective date")⁽¹⁸⁾ provided that with respect to investments made before the effective date and continuing after the effective date, this Agreement shall only apply to matters affecting such investments after the effective date]⁽¹⁹⁾⁽²⁰⁾.

(21)

(5) (22)(23) "Activities Associated with Investments" means activities such as the organization, control, operation, maintenance and disposition of legal entities or other facilities for the conduct of business; the making, performance and enforcement of contracts; [the acquisition, use, protection and disposition of property of all kinds including intellectual property rights; the borrowing of funds, the purchase, issuance, and sale of equity shares and other securities; and the purchase of foreign exchange for imports.]⁽²⁴⁾

(6) "Investor" means with regard to a Contracting Party:

(a) natural persons having the citizenship or [nationality of that Contracting Party]⁽²⁵⁾ in accordance with its laws;

[(b) any [legal entities]⁽²⁶⁾ incorporated or constituted under the law in force in the [Territory] of that Contracting Party [whether or not organised for pecuniary gain or privately or governmentally owned or controlled and having [real economic]⁽²⁷⁾ activities within the [Territory] of that Contracting Party]⁽²⁹⁾ ;

(c) [any [legal entities]⁽²⁶⁾⁽²⁸⁾ controlled by nationals of that Contracting Party or by legal entities incorporated or constituted under the law in force in the [Territory] of that Contracting Party]⁽²⁹⁾;

(30) provided that that natural persons or legal
entities⁽²⁶⁾ are [not prohibited by]⁽³¹⁾ the laws of that
Contracting Party from making Investments in the [Territory] of
another Contracting Party in connection with Energy Materials
and Products, [or to trade in Energy Materials and Products or
equipment or services related to the extraction, production,
conversion, treatment, carriage or supply of Energy Materials
and Products in or to the [Territory] of another Contracting
Party]⁽²⁹⁾] ⁽³²⁾.

(33)

- (7) "Make Investments" means establishing a new investment,
acquiring all or part of an existing investment, and expanding
an existing investment⁽³⁴⁾.
- (8) "Returns" means the amounts yielded by an investment (in
pecuniary form or in kind)⁽³⁵⁾ and in particular, though not
exclusively, includes profit, interest, capital gains,
dividends, royalties and fees, unspent earnings and other
remuneration of personnel engaged from abroad in connection
with that investment.
- (9) "[Territory]" means in respect of a Contracting Party the
[Territory] under its sovereignty, it being understood that
territory includes land, internal waters and the territorial
sea, and the sea, sea-bed and its subsoil over which that
Contracting Party exercises, in conformity with international
law, sovereign rights or jurisdiction. [With respect to a
regional economic integration organisation which is or becomes
a Party to this Agreement the term [Territory] shall be
construed as meaning the respective territories of those member
states of such organisation which are also Parties to this
Agreement, to the extent of that organisation's competence in
the matters which are the subject of this Agreement in those
territories]⁽³⁶⁾.

- (10) (37) "GATT" means GATT, its related Instruments, applicable term schedules and relevant Jurisprudence including reports of dispute settlement Panels, agreements and decisions of the Contracting Parties.
- (11) (37) "GATT-related Instrument" means an agreement, arrangement, decision, understanding, declaration, or other Joint action pursuant to the General Agreement on Tariffs and Trade.
- (12) ["Intellectual property" is as defined in Article 2 of the Convention establishing the World Intellectual Property Organisation, done at Stockholm, July 1967]⁽³⁸⁾.
- (13) "Energy cycle" means the entire energy-chain including [prospecting for, exploration, production, conversion, storage, transport, waste disposal and distribution and consumption of]⁽³⁹⁾ the various forms of energy and the decommissioning and treatment of energy-related physical structures.
- (14) ["Environmental Impacts" means any effects of activities in the energy field (national or transboundary) on the environment, including human health and safety, flora, fauna, soil, air, water, climate, landscape and historical monuments or other physical structures]⁽⁴⁰⁾⁽⁴¹⁾⁽⁴²⁾.
- (15) "Protocol" means an agreement⁽⁴³⁾ entered into by any of the Contracting Parties under the auspices of the Charter in order to complement, supplement, extend or amplify the provisions of this Agreement to specific sectors or categories of activity comprised within the scope of this Agreement, including areas of cooperation referred to in Title III of the Charter.
- (16) "Freely convertible currency" means a currency which is widely traded in international foreign exchange markets [and]⁽⁴⁴⁾ widely used in international transactions.

General comment

Item (9) defines "[Territory]". However, for ease of reading, as a temporary measure, the word "[Territory]" has been kept in the text of the document.

Specific comments

1.1 : General scrutiny reserve.

The delegations were asked to forward to the Secretariat their concrete proposals for adding or deleting individual items of the Harmonized System as currently indicated here in advance of the first autumn meeting of WG II. To this end the Secretariat will, upon request, provide delegations a copy of the Combined Nomenclature of the European Communities in French. The next discussion on the definition of [Energy Materials and Products] will be conducted on basis of those recommendations.

1.2 : CDN suggests inclusion of uranium, uranium compounds and heavy water only.

1.3 : J asks for deletion.

1.4 : CDN scrutiny reserve.

1.5: USA and CH suggest inserting : "owned or controlled, directly or indirectly, by investors of one Contracting Party in the [Territory] of another Contracting Party".

1.6: AUS suggests inserting : "owned or controlled, directly or indirectly, by investors of one Contracting Party".

1.7: USA suggests deletion and instead adding : "in the energy field".

1.8: CH reserve.

- 1.9: J suggests substituting with : "exploration, production, conversion, storage, transport and distribution of Energy Materials and Products".
- 1.10: A asks for replacing with : "movable and immovable".
- 1.11: USA suggests adding for clarity at an appropriate place : "a company, equity or debt".
- 1.12: J requests clarification and examples on minority forms.
- 1.13: EC suggests adding: "having its principal place of business within the [Territory] of a Contracting Party".
- 1.14: USA suggests adding : "and associated with an Investment".
- 1.15: CDN requests that claims to money in connection with commercial contracts for the sale of goods and services or licences to provide services should not be included.
- 1.16: CDN does not consider appropriate the inclusion of intellectual property in the definition of investment.
- 1.17: A suggests substituting with: "rights to carry out economic activities based on a concession or other rights for the search for, the cultivation, extraction or exploitation of natural resources".
- 1.18: J argues that "effective date" should be the date when the investor's country or the country where its investment is made, enter into the BA, whichever is the latest. Deferred to a later stage dependant on discussions on Article 39.
- 1.19: A suggests replacing with: ", even if a new authorization is required".

1.20: CDN is of that opinion that definitions should not establish substantive obligations, so the square bracketed part should be placed to Part IV of BA e.g. to Article 16 as a new para reading:

"This Agreement applies to all Investments, whether existing at or made after the date of entry into force of this Agreement (hereinafter referred to as the "effective date") provided that with respect to Investments made before the effective date and continuing after the effective date, this Agreement shall only apply to matters affecting such Investments after the effective date."

1.21: CDN proposes replacing the whole Item (4) with the following :

Investment

1. Investment of an Investor of a Contracting Party means an Investment that is owned or controlled directly or indirectly by an Investor of such Contracting Party.
2. For the purposes of paragraph (1), an Investor owns or controls an Investment indirectly when he has a determining influence on the management of such Investment.
3. Investment consists of :
 - a) a business enterprise located in the [Territory] of another Contracting Party that is controlled by such Investor;
 - b) equity of debt securities of a business enterprise located in the [Territory] of another Contracting Party, or any interest in such enterprise that entitles the owner to share in the income or profits or to share in the assets on dissolution;

- c) real estate or other tangible property located in the [Territory] of another Contracting Party;
- d) a loan to a business enterprise located in the [Territory] of another Contracting Party made or guaranteed by an affiliate of such business enterprise;
- e) Interests arising from the commitment of significant capital in the [Territory] of another Contracting Party to a major project or permanent commercial presence in that [Territory] related to (i) contracts involving the presence of the Investor's property in [Territory] of another Contracting Party (e.g., concession agreements, turnkey or construction contracts) or (ii) contracts where the remuneration depends substantially on the production, revenues or profits of a business enterprise.

4. For greater clarity, Investment excludes the following kinds of interest :

a) claims to money that arise solely from :

i) commercial contracts for the sale of goods or services by a national or entity in the [Territory] of one Contracting Party to a business enterprise in the [Territory] of another Contracting Party;

ii) the extension of credit in connection with a commercial transaction (e.g. trade financing); or.

iii) any other claims to money;

and that do not involve the kinds of interests listed in paragraph (3);

- b) any loan to a business enterprise other than a loan between affiliated business enterprises described in paragraph (3) (d); and
 - c) bonds, treasury bills, or any other kind of debt security issued by a Contracting Party, including those issued by regional or local governments or authorities of a Contracting Party.
5. a) "Equity or debt securities" includes voting and non-voting shares, bonds, convertible debentures, stock options and warrants.
- b) "Business enterprise" means an enterprise that has, or in the case of an establishment thereof will have :
- i) a place of business;
 - ii) an individual or individuals employed or self employed in connection with the business; and
 - iii) assets used in carrying on the business, and
- that involves a financial commitment for the purpose of commercial gain.
- c) "Enterprise" means any entity constituted or organized under applicable law, including any corporation, trust, partnership, sole proprietorship, joint venture or other association.

- 1.22: J considers it to be very difficult to admit any activities, which come under "domestic direct Investments" in its Foreign Exchange and Foreign Trade Control Law, to be counted as "Activities Associated with Investments", if NT without exceptions is accorded to these activities.
- 1.23: CDN seeks a much clearer understanding of what is to be included under the definition of "Activities Associated with Investments". For instance, is it intended that "organization, control, operation, maintenance and disposition of legal entities" cover the structure and composition of the governing bodies of corporations? If so, is it intended that where a Contracting Party permits companies incorporated in other jurisdictions to operate through branch offices (not subsidiaries), most-favoured nation treatment would prevent it from requiring that foreign-owned domestically-incorporated companies have a certain number of its citizens on the board of directors? Is the reference to "the making, performance and enforcement of contracts" intended to require the Contracting Parties to intervene more actively in commercial contracts?
- 1.24: J argues that this should probably come under the definition "Make Investment".
- 1.25: AUS asks for replacing with "or who are permanently residing".
- 1.26: J asks for replacing either with "company" or "entity" so as to include bodies which both do and do not have legality.
- 1.27: USA suggests substituting with : "substantial business".
- 1.28: USA asks for insertion of "owned or".
- 1.29: A suggests deletion.
- 1.30: USA can accept last clause starting "provided that" and ending by the end of this para, but sees no need for it.

1.31: N reserve, subject to substituting "not prohibited by" with "competent".

1.32: CDN proposes replacing subparagraphs (b) and (c) with the following text :

"b) such Contracting Party or an agency thereof;

c) a local or regional authority or government of such Contracting Party, or an agency of such authority or government; or

d) an entity ultimately controlled directly or indirectly through the ownership of voting interests by :

i) such Contracting Party or an agency or agencies thereof;

ii) one or more local or regional authorities or governments of a Contracting Party, or an agency or agencies of such authority or government;

iii) one or more natural persons having the citizenship or [nationality of that Contracting Party in accordance with its laws]⁽²⁵⁾;

iv) any combination of persons or entities described in (i), (ii) and (iii);

that makes or has made an investment.

To this CDN adds that "Investors" should have a more substantive connection to a Contracting Party than required by the current definition. Legal entities controlled directly or indirectly by nationals of states not signatory to the Basic Agreement should not be included in the definition of investor.

1.33: USA suggests adding here or in Article 16 the following text :

"Each Contracting Party reserves the right to deny the advantages of this Agreement to a legal entity if citizens or nationals of a non-signatory country control such entity and if : that entity has no substantial business activities in the [Territory] of the Contracting Party in which it is organized; or the denying Contracting Party does not maintain normal economic relations with the non-signatory country the nationals of which control such entity."

1.34: J asks for expanding the current definition by adding :

- a) "altering the initial objective of an existing investment";
- b) "establishing of a branch, factory or other business place, as well as substantial alteration of the type or the objective of business thereof;"
- c) "money lending".

1.35: CDN may wish to discuss this as it applies to amounts yielded "in kind" once Working Group II has discussed the trade provisions of Basic Agreement.

1.36: EC will propose a new text.

1.37: References of GATT and GATT-related instruments as currently drafted in Items (10) and (11) are overlapping and will be reworked after the discussion of trade related Articles.

1.38: AUS supported by USA suggests adding : "and shall also include confidential information (including trade secrets and knowhow) circuit layouts and semi-conductor chips and unregistered trade marks".

1.39: AUS suggests substituting with : "planning stages, design, exploration, exploitation of national resources, production, conversion, storage, transport, distribution, utilisation, rehabilitation, decommissioning and waste handling and disposal of". This change is a broader description of the whole cycle and allows for coverage of renewables.

1.40: USA suggests revised text of the following wording :
"Environmental impacts" means any major actions significantly and adversely affecting the quality of the human environment due to the effects of activities in the energy field (national or transboundary).

1.41: RO suggests replacing with:
"Environmental impact" means any significant adverse effect on the environment resulting from the activities in the energy field (national or transboundary). Such effect on the environment includes an effect on human health and safety, flora, fauna, soil, air, water, climate, landscape and historical monuments or other physical structures or the interaction among these factors.

1.42: Although AUS prefers the current definition over the USA suggestion (FN 1.40), it is still, in its view, too narrow. AUS considers that the list of activities covered should be illustrative rather than definitive. In addition, the definition should encompass references to both human and non-human concerns. To meet these concerns AUS suggests replacing with :

"The environmental impacts of the energy field are any effects of activities in that field (national or transboundary) on the natural environment (including all living and non-living aspects, climate and landscape) and the human environment (including health, safety, quality of life, and the cultural and aesthetic environment)";

1.43: CDN suggests Insertion of "or Instrument whether or not legally binding".

1.42: CDN asks for replacing with: "or".

ARTICLE 2

OBJECTIVE OF THE AGREEMENT

The objective of this Agreement is to establish a legal framework in order to promote long-term cooperation in the energy field, based on mutual benefits and complementarities, in accordance with the objectives and the principles of the Charter.

Chairman's note

Negotiations finished.

ARTICLE 3

PRINCIPLES

Deleted

[ARTICLE 4]⁽¹⁾

SOVEREIGNTY OVER ENERGY RESOURCES

The Contracting Parties recognise state sovereignty and sovereign rights over energy resources. In accordance with and subject to its international legal rights and obligations, each State holds in particular the rights to decide the geographical areas within its [Territory] to be made available for exploration and development of its energy resources and the optimisation of their recovery and the rate at which they may be depleted or otherwise exploited, to specify and enjoy any taxes, royalties or other financial payments payable by virtue of such exploration and exploitation and to regulate the environmental and safety aspects of such exploration and development within its [Territory].

Specific comments

4.1 : USA reserve.

ARTICLE 4A

ACCESS TO RESOURCES

The Contracting Parties shall facilitate access to and development of energy resources by investors by formulating transparent rules regarding the acquisition, exploration and development of energy resources. They shall apply such rules [on a non-discriminatory basis]⁽¹⁾ in accordance with this Agreement, particularly Article 16, and any relevant Protocol⁽²⁾.

General comment

Finalization of both Articles (4A and 4B) dependant on satisfactory completion of trade and Investment Articles, as well as Articles 26 and 28.

Specific comments

4A.1: USA scrutiny reserve. Preferentially to be replaced with "on the basis of national treatment".

J reserve.

4A.2: It is noted that the relevant Protocols would affect the application of such rules by only the Parties to this Protocol.

[ARTICLE 4B](1)

ACCESS TO MARKETS

- (1) The Contracting Parties will strongly promote access to local and [export](2) markets for the disposal of [Energy Materials and Products] on commercial terms and undertake progressively to remove barriers to trade. [Energy Materials and Products] originating from any Contracting Party shall be given [non-discriminatory] access to markets in other Contracting Parties in accordance with this Agreement and any relevant Protocol. Similarly, and in particular in accordance with Article 16, investors of one Contracting Party shall not be excluded or restricted from entering and operating in the market of another Contracting Party.
- (2) The Contracting Parties agree to work to alleviate market distortions and barriers to competition in markets in the energy [sector/cycle/field]. [In general, price formation shall be based on market principles](3).
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General comments

See general comments in Article 4A.

N and RUF acceptance of this Article subject to changes being considered in Article 4A which also parallel Charter text.

Specific comments

- 4.1: EC scrutiny reserve dependent on an outcome of negotiations on trade Articles.
- 4.2: J suggests replacement with the word "International".
- 4.3: J scrutiny reserve.

PART II

MARKETS

[ARTICLE 5]⁽¹⁾

LIBERALISATION AND NON-DISCRIMINATION

(1) (2) Contracting Parties undertake to remove progressively the barriers to trade with each other in [Energy Materials and Products] and [related equipment and services]⁽³⁾ in a manner consistent with their other international obligations so as to achieve the [greatest possible degree of]⁽⁴⁾ liberalisation in the market⁽⁵⁾.

(2) In particular, Contracting Parties [undertake] ⁽⁶⁾ in relation to [Energy Materials and Products] and [related equipment and services] ⁽³⁾:

(a) ⁽⁷⁾not to [increase] ⁽⁸⁾ custom duties and other charges nor to introduce new quantitative restrictions or measures having similar effect on imports or exports as [from the date of entry into force] ⁽⁹⁾ of this Agreement;

(b) ⁽¹⁰⁾not to apply any customs duties, charges or other regulations relating to importation or exportation in a discriminatory manner as between other Contracting Parties, provided that Contracting Parties may take action according to established international criteria against unfair trading practices;

(c) not to apply internal laws, taxes, charges, standards or other regulations in such a manner as to treat domestic products or services more favourably than similar products of other Contracting Parties.

General comments

USA will forward a complete alternative text for handling the GATT issues based on the "Reference approach". The text will be circulated to delegations during the summer, in good time for the next meeting of WG II on 7-11 September 1992.

Specific comments

- 5.1 : CDN, J, N general reserve on whole Article.
- 5.2 : AUS reserve, SF scrutiny reserve.
- 5.3 : Subject to Definitions.
- 5.4 : N delete.
- 5.5 : N supported by RUF asks for adding: "observing in particular the principles contained in the Article 11".
- 5.6 : Deferred to later discussion.
- 5.7 : PL asks for balance by introducing a "restructuring clause" permitting to reintroduce tariffs or charges in case of restructuring industries or heavy unemployment. Points out that transitional arrangements provisions are not clearly sufficient here.
- 5.8 : N suggests replacing with "institute or maintain".
- 5.9 : N asks for similar language as used in Article 16, suggests replacing with: "after the signature".
- 5.10: PL reserve pending the discussion on Article 27.

ARTICLE 6 (1)

PROCUREMENT POLICIES

- (1) (6) Each Contracting Party shall ensure that non-governmental entities with exclusive rights and government entities (hereinafter referred to as "Awarding Bodies") responsible for the award of contracts for the supply of works, equipment [or services] with respect to any matter the subject of this Agreement with the exception for energy delivered to energy entities apply criteria in awarding such contracts which are [objective and] (2) transparent [and do not discriminate on grounds of nationality] (3). [In particular, the conditions regarding eligibility or invitations to tender for contracts for the supply of works above five million ECU in value and of equipment above 400,000 ECU in value shall not be such as to place suppliers or contractors of one Contracting Party at a disadvantage when compared to suppliers or contractors from any other Contracting Party [including the Contracting Party in whose [Territory] the contract is to be performed] (3) (4). Except in circumstances which are objectively justifiable, [such] (5) contracts shall be awarded on the basis of open competition, to which end each such Awarding Body shall give effective publicity to, and allow such time as is reasonable in the circumstances for the submission of tenders for, such contracts by suppliers or contractors from the other Contracting Parties.
- (2) Contracting Parties shall not permit the relevant entities to circumvent this Article by splitting contracts or using special methods of calculating the value of contracts.

Note

Subject to USA alternative redraft.

General comments

- (USA, J, EC): Clarification of first sentence needed, in particular "non-governmental entity".
- (CH): If services are included a more evolutive clause should be adopted.
- (USA): The reference to circumstances which are "objectively justifiable" introduces elements of judgement into this Article which should be eliminated. All contracts shall be awarded on the basis of open competition. GATT Government Procurement Code may apply to parastatals.
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Specific comments

- 6.1: CDN, USA, J, AUS reserved position on whole Article.
- 6.2: EC suggests deletion.
- 6.3: RUF reserved position.
- 6.4: EC suggests deletion.
- 6.5: EC suggests replacing with: "under national rules or international obligations, major".
- 6.6: Left for later discussion as the procurement policies are still under negotiation at the GATT.

[ARTICLE 7](1)

[INTELLECTUAL PROPERTY](2)

- (1) [Each Contracting Party shall, subject to paragraphs (2) and (3) below, afford protection under its domestic laws no less favourable than the protection it applies to its own nationals or to the nationals of any [Contracting Party](3) with respect to Intellectual property entailed in or created as a result of all activities carried out pursuant to this Agreement in its [Territory] by Investors of other Contracting Parties.](4)
- (2) [Without prejudice to paragraph (3), Contracting Parties who are not parties to the Paris Convention on the Protection of Industrial Property (1967 Stockholm revision) ("the Paris Convention") or the Berne Convention on the Protection of Literary and Artistic Works (1971 Paris revision) ("the Berne Convention") agree to apply protection equivalent to at least the minimum(5) required by those Conventions to the matters subject of this Agreement.](6)
- (3) [In the event of the adoption of an agreement, within the framework of the Uruguay Round of the General Agreement on Tariffs and Trade, on the Trade Related Aspects of Intellectual Property (hereinafter referred to as the "TRIPS Agreement"), the level of protection to be afforded under paragraphs (1) and (2) above shall in the case of Contracting Parties who are signatories of the TRIPS Agreement equal at least the minimum level provided for by this where the TRIPS Agreement provides for a higher minimum level of protection than that afforded under the Paris and Berne Conventions under paragraphs (1) and (2) above. [In the case of Contracting Parties not party to the TRIPS Agreement, proposals shall, in the event of its adoption, be considered for ensuring an equivalent level of protection for Intellectual property covered by the terms of this Article in the [Territory] of such Contracting Parties](7)(8)](9).

- (4) Without prejudice to paragraphs (1) to (3) above, in relation to any information of industrial or commercial value, which is secret information, and in respect of which reasonable steps have been taken to maintain such secrecy, each Contracting Party shall ensure that its domestic laws provides means for the natural and legal persons lawfully in control of such information to prevent its disclosure, acquisition or use without their consent in a manner contrary to honest commercial practices.
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General comment

J argues that para (3) and (4) should be discussed after the conclusion of TRIPs negotiations. "Secret information" in para (4) should be clarified and defined in the text.

Specific comments

7.1: CDN general reserve pending review of the relevant conventions to which CDN does not adhere.

7.2 : EC suggests replacing the whole Article with following shortened text:

"Each Contracting Party shall ensure effective and adequate protection of intellectual, industrial and commercial property rights according to the applicable international conventions, and particularly the Berne Convention for the protection of literary and artistic works (Paris Act of 24 July 1971) and the Paris Convention for the protection of industrial property (Stockholm Act of 14 July 1967)".

7.3 : AUS suggests replacing with "other country" to strengthen this non-discrimination clause.

- 7.4: USA suggests deletion of para (1).
- 7.5 : CH suggests inserting "level".
- 7.6: AUS argues that the Paris and Berne Conventions are silent or deficient on some issues which would seem to be important in the Energy Charter context (e.g. patent terms, exclusions from patentability, protection of computer programs and integrated circuits, enforcement of intellectual property rights). This could be addressed in an Annex (max 2 pages) of key standards for the protection of intellectual property (e.g. patents, copyright, incl. computer programs, integrated circuits, designs, trade secrets and trade marks).
- 7.7: CH suggests replacing with the following text:
"Contracting Parties who are not party to the TRIPS Agreement shall accord, in the field of intellectual property covered by this Article, a level of protection equivalent to the level provided for by the TRIPS Agreement where it provides for a higher minimum level of protection than that accorded under the Paris and Berne Conventions".
- 7.8: AUS suggests replacing with the wording :
"Contracting Parties not party to the TRIPS Agreement shall comply with the substantive provisions of that Agreement".
- 7.9: Discussion on para (3) was deferred. Chairman suggests that the substance might be moved to an accompanying document which could be negotiated by Contracting Parties.

[ARTICLE 8](1)

COMPETITION

(1) The Contracting Parties agree, subject to their existing international rights and obligations, to work to alleviate market distortions and barriers to competition in the extraction, production, conversion, treatment, carriage (including transmission, distribution and marketing) and supply of [Energy Materials and Products] in relevant markets, insofar as they may affect trade between Contracting Parties.

(2) Contracting Parties shall ensure that within their jurisdiction they have and [enforce](2) such laws, as are necessary and appropriate to address unilateral and concerted anti-competitive conduct(3) in the areas covered by this Agreement.

[Where Contracting Parties already have such laws, their scope, interpretation or implementation shall not be affected by this Article](4).

(3) (5) Contracting Parties with experience in applying competition rules shall give full consideration to providing, upon request and within available resources, technical assistance on the development and implementation of competition rules to other Contracting Parties.

(4) Contracting Parties may co-operate in the enforcement of their competition rules by consulting and exchanging information, subject to limitations imposed by laws regarding disclosure of information, confidentiality and business secrecy.

- (5) If a Contracting Party considers that any specified anti-competitive practice carried out within the [Territory] of another Contracting Party is adversely affecting an important interest, the Contracting Party may notify and request consultations with the other Contracting Party. The notifying Contracting Party shall include, in such notices and consultations, sufficient information to permit the other Contracting Party to identify the anti-competitive activities that are the subject of the notification.

Upon receipt of a notification under this Article, a Contracting Party [may consider whether to initiate (6) action within its national jurisdiction including, where appropriate, additional or expanded enforcement activities](7) to remedy the anti-competitive activities identified in the notification.

- (6) [The procedures set forth in paragraph 5 above shall be the exclusive means of resolving any disputes that may arise over the implementation of this Article.](8)

Specific comments

- 8.1 : N scrutiny reserve on whole Article.
- 8.2 : USA scrutiny reserve.
- 8.3 : EC, GB suggest insertion of "and exploitative abuses".
- 8.4 : Contingency reserve by J and USA. USA is considering, if necessary, to submit a particular wording to the Secretariat.

- 8.5 : Article 42 could contain an appropriate reference to the notion of paragraph 8.3. To the attention of the Transitional Subgroup.
- 8.6 : AUS proposes Inserting of "legitimate".
- 8.7 : N suggests replacing with "shall seek". EC will propose a compromise text incorporating N suggestion and current text.
- 8.8 : General scrutiny reserve on new para (6).

ARTICLE 9

MONOPOLIES

Deleted.

ARTICLE 10

[STATE AID]⁽¹⁾

- 1) [State aid shall not be granted [to energy industries or through the prices of [Energy Materials and Products] with the object of distorting competition in trade between the Contracting Parties]⁽²⁾. Aid granted for other purposes should be granted in a manner which minimizes such distortion].⁽³⁾
- 2) The Contracting Parties shall ensure transparency in the area of public aid, inter alia by reporting annually on the total amount and the distribution of the aid given and by providing, upon request, information on aid schemes.
- 3) [The provision of capital financing by a Contracting Party to enterprises owned in whole or in part by the Government of that Contracting Party shall not constitute subsidisation to the extent that the finance is provided on terms (including return on funds) substantially equivalent to the terms on which the enterprise might reasonably expect to receive capital financing if it were in the private sector].

General comments

The further discussion pending a new drafting of the "Reference Approach".

Specific comments

- 10.1: A suggests elimination of this Article and substance to be moved to Article 8. Furthermore the current wording requires redrafting e.g. along the lines of the recent EC and EFTA free trade agreements with some Eastern European countries.

10.2: N suggests replacing with "when preventing the use of environmentally more benign energy sources".

10.3: KIR suggests replacing para(1) with :
"State aid to energy industries shall be granted in a manner which minimizes the distortion of competition in trade among the Contracting Parties".

PART III

OTHER PROSPECTIVE

[ARTICLE 11](1)

TRANSPORT AND TRANSIT

- (1) Each Contracting Party [shall take the necessary measures to facilitate](2) the transit through its [Territory] of [Energy Materials and Products] from the [Territory] of another Contracting Party to the [Territory] of a third Contracting Party or to or from port facilities in its [Territory] for loading or unloading, without distinction as to the origin, destination or ownership of such [Energy Materials and Products] or discrimination as to the pricing on the basis of such distinctions, and without imposing any unreasonable delays, restrictions or charges.
- (2) (3) Contracting Parties shall encourage relevant entities to cooperate in:
 - (a) modernising transit networks necessary to the supply of [Energy Materials and Products];
 - (b) the development and operation of transport infrastructure serving the [Territory] of more than one Contracting Party;
 - (c) measures to mitigate the effects of the interruption in the supply of [Energy Materials and Products];
 - (d) facilitating the connection to high-pressure transmission pipelines and the synchronous interconnection of high-voltage transmission grids(4).

- (3) (3)(7) Each Contracting Party undertakes that its provisions relating to [transport of [Energy Materials and Products] and the use of harbour facilities](5), high-pressure transmission pipelines or high-voltage transmission grids shall treat [Energy Materials and Products] wholly or partly originating in or destined for the [Territory] of another Contracting Party, in no less favourable a manner than its provisions treat such materials and products wholly or partly originating in or destined for its own [Territory], except if otherwise provided for in an existing international [agreement](6).
- (4) (3) In the event that access to existing [high-pressure transmission pipelines or high-voltage transmission grids](8) within a Contracting Party cannot be obtained [on commercial terms for transit of energy from another Contracting Party to a third Contracting Party, the Contracting Parties shall not place obstacles in the way of establishing financially and economically viable new capacity-subject to their applicable legislation, inter alia on safety, technical standards, environmental protection and land use](9).
- (5) A Contracting Party through whose [Territory] [Energy Materials and Products] transit [through high-pressure transmission pipelines or high-voltage transmission grids](10) from the [Territory] of another Contracting Party to the [Territory] of a third Contracting Party or to or from port facilities in its [Territory] for loading or unloading shall not in the event of a dispute over the terms and conditions of that transit interrupt nor permit any entity subject to its [jurisdiction](11) to interrupt the existing flow of [Energy Materials and Products] until after [the dispute has been referred to the Governing Council and the Governing Council has had](12) adequate time to seek conciliation between the parties in dispute.

- (6) (3) The provisions of this Article shall not require a Contracting Party to take action [- other than the protection of existing flows - which it demonstrates to the other Contracting Parties concerned would endanger its] (13) [security of] (14) energy supply, quality of service and the most efficient development and operation of all parts of its electricity and gas systems(15).

Specific comments

- 11.1 : CDN, AUS, N, J and AZB general reserve on whole Article. Chairman will return to this at conclusion of discussion.
- 11.2 : USA scrutiny reserve. EC conditional reserve subject to withdrawal of USA reserve.
- 11.3 : GR reserve.
- 11.4 : Chairman will inform the Bureau about this inclusion.
- 11.5 : USA reserve pending further instructions from capital.
- 11.6 : AUS asks for substituting with "law".
- 11.7 : EC may prepare additional language reducing any possible doubt that this provision does not require third party access.
- 11.8 : AUS asks for replacing with : "facilities for the transport of [Energy Materials and Products] and harbour facilities".

- 11.9 : GR suggests substituting with : "for transit of energy from another Contracting Party, the first Contracting Party shall, if requested, attempt to resolve the issue - including if appropriate by considering the possibility of new capacity being established - in accordance with its applicable legislation, inter alia on safety, environmental protection and land use".
- 11.10: AUS suggests deletion. RUF supports.
- 11.11: SF supported by S and CH requests substituting with "control".
- 11.12: General reserve by J, N, USA, AUS and A. Chairman noted that the appropriate form of conciliation procedure could be discussed in the context of Article 29 but asked AUS, USA, RUF to come up with a compromise solution.
- 11.13: A suggests replacing with : "which - apart from existing supply flows and contractual relations to be maintained - proves to endanger its own".
- 11.14: RUF and AUS reserve.
- 11.15: RUF suggests adding the following text :
", subject to the requirement, that the relevant policies, measures and practices in the fields covered by this Article are not applied in a manner which causes disturbances to the principles of the present agreement, would constitute a means of discrimination between the Contracting Parties or its investors, or cause serious damage to existing contractual relations in the fields covered by this Agreement or to the trade flows, and that such relevant policies, measures and practices shall be discontinued as soon as the conditions giving rise to them have ceased to exist".

Chairman's note

Work has been completed on this Article in WG II and is being referred to Plenary.

ARTICLE 12

TRANSFER OF TECHNOLOGY

- (1) The Contracting Parties agree to promote in accordance with their laws and regulations access to and transfer of technology on a commercial and non-discriminatory basis to assist effective trade and investment and to implement the objectives of the Charter, subject to the provisions of Article 7.
- (2) Accordingly to the extent necessary to give effect to paragraph (1), the Contracting Parties shall eliminate existing and create no new obstacles for transfer of technology, in the field of [Energy Materials and Products] and related equipment and services, subject to non-proliferation and other international obligations.

Chairman's note

Negotiations finished.

ARTICLE 13

ACCESS TO CAPITAL

- (1) (1) Each Contracting Party shall accord to investors of another Contracting Party access to capital markets no less favourable than that accorded in like situations to its own investors or to investors of any other Contracting Party or of any third state with respect to the borrowing of funds and the insurance and sale of equity shares and other securities in connection with extraction, production, conversion, treatment, carriage or supply of [Energy Materials and Products]. Nothing in this Article is intended to impair the ability of financial institutions to establish and apply their own lending practices based on market principles.
- (2) (2) [Each Contracting Party shall provide the fullest possible access to public credits, guarantees and insurance for investors in extraction, production, conversion, treatment, carriage or supply of [Energy Materials and Products]] (3).
- (3) The Contracting Parties shall seek to the greatest extent possible to take advantage of the expertise and to support the operations of relevant international financial institutions in mobilising private investments in connection with the subject matter of this Agreement.

Specific comments

13.1: J scrutiny reserve on para (1).

13.2: J and A scrutiny reserve on para (2).

13.3: Deferred to later discussion.

[ARTICLE 14]⁽¹⁾

ENVIRONMENTAL ASPECTS

(1) The Contracting Parties shall strive to minimise harmful effects on the environment of all aspects of the Energy Cycle in an economically and environmentally sound manner in order to move towards sustainable development. To this end they shall :

- (a) take account of environmental concerns throughout the formulation and implementation of their energy policies, including an appropriate mix of policy instruments;
- (b) promote market-oriented price-formation including a fuller reflection of environmental cost and benefits;
- (c) promote an energy mix that minimises in an economically acceptable way the negative Environmental Impacts of the Energy Cycle having particular regard to the encouragement of renewable sources;
- (d) promote the dissemination of information on environmentally sound energy policies, practices and technologies to promote public awareness among consumers on Environmental Impacts of their behaviour in relation to energy use and consult with each-other on how to promote such awareness most effectively. Such promotion may include labelling schemes for informing the public about comparative environmental effects of energy consuming products available on the market;
- (e) encourage favourable conditions for the transfer and dissemination of technology which will reduce harmful Environmental Impacts of all aspects of the Energy Cycle;

- (f) promote the use of best available energy technologies not entailing excessive costs;
 - (g) promote the transparent assessment of Environmental Impacts of energy investments projects at an early stage and ensure transparency in their legal and administrative requirements;
 - (h) Implement appropriate research and development activities including with respect to renewable sources and the internalisation of environmental cost in the energy prices;
 - (i) promote internationally awareness and information exchange on Contracting Parties' environmental programmes and standards that relate to the energy sector and on the implementation of these programmes and standards.
- (2) Actions of the Contracting Parties relating to the environment shall be based on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source, and that the polluter should pay.
- (3) The Contracting Parties shall ensure consistency between their energy policies and international environmental agreements to which they are parties.
-

Specific comments

- 14.1: The whole Article is pending considerations in capitals.
The Secretariat has received N and USA new proposals on this Article. Since the suggested changes are rather extensive they are not split into footnotes on each subparagraph but for reasons of clarity included in full.

N proposal

(1) The Contracting Parties shall minimize harmful effects on the environment of all aspects of the Energy Cycle in a safe, economically and environmentally sound manner in order to move towards sustainable development. To this end they shall :

- (a) ensure that environmental impacts are taken account of when formulating and implementing their energy policies, including an appropriate mix of policy instruments;
- (b) establish markets which facilitate a more fully internalisation in energy prices of environmental costs and benefits that occur both in the country itself and, in the case of transboundary pollution, in other countries;
- (c) through international cooperation and by harmonising measures as appropriate, take into account the differences in environmental impacts and abatement costs between countries when internalising environmental costs;
- (d) implement policies that minimize in an economically acceptable way the negative environmental impacts of the Energy Cycle having particular regard to the encouragement of a wider use of renewable sources;
- (e) promote the dissemination of information on environmentally sound energy policies, practices and technologies to promote public awareness among consumers on environmental impacts of their behaviour in relation to energy use and consult with each other on how to promote such awareness most effectively;

- (f) encourage favourable conditions for the transfer and dissemination of information on technology which will reduce harmful environmental impacts of all aspects of the Energy Cycle;
 - (g) promote the use of the most energy efficient and environmentally benign technologies that are economically viable;
 - (h) promote the transparent assessment of environmental impacts of energy investments projects at an appropriate stage and ensure transparency within their legal and administrative framework;
 - (i) Implement appropriate research and development activities including with respect to renewable energy sources and the internalisation of environmental costs in the energy prices;
 - (j) promote internationally awareness and information exchange on Contracting Parties' environmental programs and standards that relate to the energy sector and on the implementation of these programs and standards;
- (2) Actions of the Contracting Parties relating to the environment shall be based on the precautionary principle and the polluter pay principle and that environmental damage should as a priority be rectified at source.
- (3) The Contracting Parties shall ensure consistency between their energy policies and international agreements to which they are parties and ensure cooperation in order to assess and implement cost effective policy options to achieve joint objectives of energy efficiency and environmental protection.

N explanatory notes

In N opinion certain principles and issues of general nature must be reflected in Article 14. These are :

- the precautionary principle,
- the polluter pay principle,
- the principle of internalisation of environmental cost in energy prices,
- the allowance for differences in the scale of environmental cost coverage in energy prices due to differences in environmental impacts of the energy system and related abatement cost between countries,
- cooperation to allow for cost-effective measures to be undertaken across sectors and national boundaries,
- Information exchange on relevant issues.

In sub-paragraph 1(c) N mentions the need for international cooperation on the issue of internalising environmental cost in energy prices. This does not however necessarily mean that N suggests the establishment of a new body or institution.

Environmental issues relating to the energy sector have a central part in the Energy Charter. N hence emphasizes the need to reflect environmental issues both in the Basic Agreement and in the different sector protocols. N position on how to deal with these issues is as follows : Environmental issues of principal and general nature should be dealt with in the Basic Agreement. More sector specific environmental issues should be dealt with in the relevant sector protocols. Other environmental issues which are common to more than one sector protocol should be dealt with in the protocol on "Energy Efficiency and Environmental Aspects of Energy Systems".

USA proposal

- (1) The Contracting Parties shall strive to limit harmful effects on the environment of all aspects of the Energy Cycle in an economically sound manner. To this end each Contracting Party should seek to take into account, in accordance with its domestic policy and consistent with its other international obligations, the following general principles with regard to environmental aspects of their domestic energy systems. Contracting Parties are encouraged to cooperate with a view to implementing these general obligations :
- (a) consider environmental concerns through the formulation and implementation of their energy policies including an appropriate mix of policy instruments;
 - (b) promote market-price formation in the energy sector and promote research in appropriate fora on methods to quantify and appropriately recognize environmental costs and benefits;
 - (c) promote national energy policies that reduce in an economically acceptable way negative environmental impacts;
 - (d) promote the dissemination of information on environmentally sound and economically efficient energy policies practices and technologies in order to increase public awareness of the environmental impacts of energy use and ways to reduce adverse impacts and consult with each other on how to promote such awareness most effectively;
 - (e) encourage favorable conditions for the commercial transfer and dissemination of technology which will reduce harmful environmental impacts of all aspects of the Energy Cycle taking account of the need for adequate and effective protection of Intellectual Property rights;

- (f) encourage the formulation and implementation of policies that foster innovation in the research and development of environmentally sound and economically efficient energy technologies, including renewable energy resources;
 - (g) promote transparency in assessment programs of environmental impacts of their energy investment at an early stage;
 - (h) promote internationally awareness and information exchange on Contracting Parties' environmental programs and standards that relate to the energy sector and on the implementation of these programs and standards.
- (2) Contracting Parties should, where feasible and economically justified, seek to adopt precautionary approaches to environmental problems associated with energy systems and to rectify such problems at the source.

USA explanatory notes

The draft seeks to preserve the spirit and thrust of the current text, but to resolve certain problems and awkward formulations that had been noted during review in Washington.

Specifically :

- (1) A revised chapeau makes clear that the obligations are of a general, rather than specific nature, that they pertain to energy and the environment and that they are not meant to condition the Parties' obligations contracted in environmental policy fora.
 - b) Combines the intent of (b) and (h) of current draft. Emphasizes the need for research in the area of appropriate, non-trade distorting methods of internalizing environmental costs in price formation.
 - c) As revised, encourages the Parties to promote domestic policies that reduce negative environmental impacts. Original wording raises serious sovereignty and trade concerns about the mechanisms needed to fulfill these requirements.
 - d) Labelling schemes best considered a trade issue.
 - f) Encourages research into appropriate technologies, including renewable energy sources.
 - h) Former (i).
- (2) Emphasizes adoption of precautionary approaches to problems associated with energy systems rather than the broad environmental statement that included "precautionary principle" and "polluter pays". The revised version is consistent with language in the Framework Convention on Climate Change.

- (3) Eliminated. Paragraph in the current draft could be interpreted to mean this agreement must be consistent with international environmental agreements. Basic Agreement should be squarely focused on trade and investment issues, with general parameters on environmental issues to serve as guiding principles. Specifics should be left to international environmental agreements.

ARTICLE 15

TRANSPARENCY

- (1) Each Contracting Party undertakes that laws, regulations, judicial decisions and administrative rulings and standards of general application which are made effective by that Contracting Party and which relate to the production, import, export, conversion, distribution or use of [Energy Materials and Products](2) shall be made public promptly in such a manner as to enable other Contracting Parties and investors to become acquainted with them. Agreements made between governments or governmental agencies of two or more Contracting Parties which affect international trade in [Energy Materials and Products] between Contracting Parties shall also be published.
- (2) [The provisions of paragraph (1) above shall not require any Contracting Party to disclose confidential information in such a way as to impede law enforcement or otherwise be contrary to the public interest or to law, or to prejudice the legitimate commercial interests of particular public or private enterprises](1).
- (3) Each Contracting Party undertakes to nominate and publish details concerning a central enquiry point to which requests for information about relevant laws, regulations, judicial decisions and administrative rulings may be addressed and to communicate these details to the Secretariat established under Article 31, for provision by the Secretariat to any investor on request.

Note

Subject to USA alternative redraft.

General comments

USA asks provisionally for including a commitment to provide an opportunity for investors to comment before the adoption of additional regulations having general effect.

Specific comments

- 15.1 : CDN would prefer wording closer to GATT provisions if possible.
- 15.2 : USA asks for inserting "and Investment".

PART IV

INVESTMENT PROMOTION AND PROTECTION

ARTICLE 16

PROMOTION, PROTECTION AND TREATMENT OF INVESTMENTS

- (1) Each Contracting Party shall in accordance with the objectives and principles of the Charter and the provisions of this Agreement encourage and create stable, [equitable](2), favourable and transparent conditions for investors of [other](2) Contracting Parties to Make Investments in its [Territory]. Such conditions shall include a commitment to accord at all times to investments of investors of [other](2) Contracting Parties fair and equitable treatment. Such investments shall also enjoy most constant protection and security [and no Contracting Party shall in any way impair by unreasonable or discriminatory measures their management, maintenance, use, enjoyment or disposal](3). In no case shall such investments be accorded treatment less than that required by international law, including that Contracting Party's international obligations. [This Part shall not derogate from the duty of each Contracting Party to observe any obligations it may have entered into with regard to investments of investors of any other Contracting Party to the extent that they are more favorable than those accorded by this Part](4).
- (2) (5) Each Contracting Party shall permit investors of other Contracting Parties to Make Investments in its [Territory](6) on a basis no less favourable than that accorded(7) [to its own investors](8) or to investors of any other Contracting Party or any third state, whichever is the most favourable(9) subject to the provisions of paragraphs (3) to (6) below.

(3) (5) Notwithstanding paragraph (2) above Contracting Parties may maintain limited exceptions to the obligations of paragraph (2) which correspond to their domestic legislation [in force on the date of signature of this Agreement]⁽¹⁰⁾, provided :

(a) any exception shall not be a greater departure from the obligations of paragraph (2) than that required by or specified in the relevant [law or regulation]⁽¹¹⁾ ;

(b) details of the relevant [laws, regulations and policies]⁽¹¹⁾ are available publicly in line with Contracting Parties' obligations under Article 15 of this Agreement [and are provided in summary form in Annex [A] hereto attached]⁽¹²⁾.

[The rights and treatment accorded pursuant to any such exceptions shall be on a most favoured nation basis]⁽¹³⁾.

(4) (5) For the avoidance of doubt, the provisions of this Article do not affect the application of a Contracting Party's [laws, regulations and policies]⁽¹¹⁾ as listed in Annex (A) concerning the participation of investors of another Contracting Party in any particular activity or possible investment under the terms of this Agreement, whether or not such investors have already made other investment in the [Territory] of that Contracting Party.

[(5) (5) The Contracting Parties agree not to introduce after their signature of this Agreement any changes to measures notified under Annex [A] which would have the effect of adding to any discrimination thereby maintained between the right and ability of their own investors and investors of any other Contracting Party or third state, whichever is the most favourable, to make

Investments in their [Territory]. Contracting Parties may, however, add after their signature of this Agreement any relevant measures to Annex [A] [which may result from the ending](14) of any monopolies maintained by them in the field of activities covered by this Agreement. Once notified, any such measures shall also be subject to the other provisions of this paragraph](10)(15)(16)(17).

- (6) The Contracting Parties agree [to make every effort](18) to eliminate existing restrictions listed at Annex [A] to this Agreement which affect the ability of Investors of other Contracting Parties to make Investments in their [Territory]. [The Governing Council shall review progress in this direction periodically and, in the first instance, no later than 3 years following the entry into force of this Agreement](19).

[(7) In addition each Contracting Party shall in its [Territory] accord to Investments and Activities Associated with Investment of Investors of another Contracting Party treatment no less favourable than that which it accords(7) to Investments and Activities Associated with Investment of [its own Investors or](8) the Investors of any other Contracting Party or any third state, whichever is the most favourable(20)](21).

- (8) A Contracting Party shall, subject to its laws and regulations relating to the entry, stay [and work](22) of natural persons:

(a) [permit](23) Investors(24) of another Contracting Party who have made [Investments in the [Territory] of the first Contracting Party to employ(25) within](26) its [Territory] key personnel(27) of their choice regardless of nationality or citizenship;

[(b)favourably examine requests made by natural persons who are employed by Investors of another Contracting Party to enter and remain in its [Territory] for the purpose of engaging in activities connected with relevant Investments](28).

(9) [Without prejudice to Article 19, the provisions of this Article shall also apply to Returns](29).

(10) [No Contracting Party shall impose trade-related performance requirements as a condition for the making or the operation of an investment. Such requirements include commitments to export goods produced, or commitments that goods or services must be purchased locally, or other similar commitments](30).

General comments

- Norway's view was distributed as Room Document 22 during the meeting of WG II on 1-5 June 1992. The preferred alternative was based on MFN treatment in the establishment phase. Alternatively, based on National Treatment, the exceptions to Article 16 should be made in the form of formal reservations rather than in an Annex A. If a Contracting Party was not satisfied with the formal reservation made by another Contracting Party, it would be enabled to reciprocate in relation to Investors of the Contracting Party who had made the reservation.
- There was unanimous agreement among delegations that ways be found over time to minimise the exemptions to National Treatment, to be listed in Annex A, or as reservations.

Specific comments

- 16.1 : N, AUS and CDN general reserve on whole Article.
- 16.2 : U and PL suggest inserting "equitable" after "stable" in line 3, and replacing "other" with "any". There was no opposition to including "equitable".
- 16.3 : Scrutiny reserve, pending discussion of the definition of Activities Associated with Investments.
- 16.4 : IR compromise text based on proposal suggested by drafting group consisting of EC, NL, USA, GB, D and SF. Scrutiny reserve by AUS, J, CDN and SF.
- 16.5 : N reserve.

The Norway proposal, referenced in the General comments above, would either add the following language to or substitute the following language for language in the Articles and paragraphs indicated below :

Article 16. paras (2)-(5) replaced by :

Alternative A

(2) Each Contracting Party shall in areas under its jurisdiction as a minimum standard permit investors of other Contracting Parties to make investments on a basis no less favourable than that accorded to investors of any other Contracting Party or any third state, whichever is most favourable.

Alternative B

(2) Each Contracting Party shall in areas under its jurisdiction permit investors of other Contracting Parties to make investments on a basis no less favourable than that accorded to its own investors or to investors of any other Contracting Party or any third state, whichever is most favourable.

Article 41 :

- (1) Notwithstanding the provisions of Article 16, any Contracting Party may upon signing this Agreement reserve its right to apply to investors of other Contracting Parties most favoured nations treatment as a minimum standard. Such reservation shall be confirmed when ratifying, accepting or approving the Agreement.
- (2) The Contracting Parties agree to make every effort to eliminate reservations made pursuant to paragraph (1) which affect the ability of investors of other Contracting Parties to make investments in areas under their jurisdiction.
- (3) Any Contracting Party may accord to investors of any other Contracting Party the same treatment on a reciprocal basis as that Contracting Party pursuant to paragraph (1) accords to investors from other Contracting Parties.

Article 44, para (2) (Note subparas (2) (a), (b), (c) and (d) remain unchanged)

(2) The Depositary shall inform the Contracting Parties, other states being signatories to the European Energy Charter, and Parties with an Association Agreement pursuant to Article 38, in particular of :

Article 44, para (2) (e) and (f) (Note subpara (2) (e) replaces existing text and subpara (2) (f) is new text).

(e) any reservation pursuant to Article 41;

(f) any other declaration or notification concerning this Agreement.

Article 1. (Addition of following Definition) :

"Most Favoured Nation treatment" means, unless the GATT otherwise entails, that a Contracting Party in laws, regulations, judicial decisions, administrative rulings or general applications may treat its National Investors more favourably than Investors from other Contracting Parties, but all Investors from other Contracting Parties must be treated equally, and no less favourable than Investors from any third state.

16.6 : AUS supported by CDN wishes Insertion: "subject to its right to exercise power conferred by its law and investment policies".

AUS and CDN are prepared to withdraw their proposal given satisfactory resolution of footnote 16.11. RUF would support Insertion unless it is clear that the obligations of this Article are to be implemented through national legislation.

16.7 : USA suggests Insertion of "in like circumstances".

- 16.8 : AUS reserve. AUS is prepared to withdraw its reservation pending the resolution of footnote 16.11.
- 16.9 : GB suggests insertion of "and shall not discriminate on the basis of the nationality or citizenship of the Investors" to meet the USA concerns in footnote 16.7.
- 16.10: RUF reserve pending the transition arrangement provisions on legislation, because of the need to arrange for exceptions, difficult to anticipate, stemming from legislation under preparation.
- 16.11: The precise wording will be defined after completion of Annex A.
- 16.12: N reserve subject to their alternative proposal on paras (2) to (6) of this Article based on a reservations rather than an exceptions approach.
- 16.13: Deferred to later discussion on Issues of reciprocity and MFN.
- 16.14: USA suggests replacing with "considered necessary to effect the dissolution". During the discussion at WG II meeting on 2 June 1992 CDN raised a requirement for incorporating not only demonopolization, but also privatisation of state enterprises. To meet this objective GB, CDN and USA propose an alternative text replacing the last two sentences with the following :

"However, a Contracting Party may, after its signature of this Agreement, add any relevant measures to Annex A which are necessary to demonopolisation or privatisation of a monopoly or state enterprise [that existed at the time of signature of this Agreement] provided that the totality of such additional measures taken by a Contracting Party, when considered together with existing measures, are not significant barriers to investment opportunities in the energy field for investors of other Contracting Parties. Once notified, any such measures shall also be subject to the other provisions of this paragraph. Nothing in this Article shall prevent a Contracting Party from establishing a monopoly."

CDN maintains a reserve on square bracketed part.

16.15: AUS reserve.

16.16: J reserve subject to definition of [Energy Materials and Products].

16.17: EC scrutiny reserve on para (5).

16.18: AUS reserve. Chairman stated that para (6) is intended to be a strong political commitment and not subject to Dispute Resolution procedures.

16.19: Deferred to discussion on Article 29.

16.20: Modified proposal formulated by the Secretariat based on GB suggestion in footnote 16.9 for adding : "and shall not discriminate against the Investments and Activities Associated with Investment on the basis of the nationality or citizenship of the Investors" to meet USA concerns in footnote 16.7.

- 16.21: J and CDN reserve subject to definition of Activities Associated with Investment.
- 16.22: USA reserve.
- 16.23: J and CDN reserve.
- 16.24: USA linguistic concern with use of word "Investors" since "Investors" do not employ.
- 16.25: J supported by N requests that the notion of "entry and stay" also be covered.
- 16.26: A request replacement with : "or are seeking to make Investments in the [Territory] of the first Contracting Party to bring in, employ within and take out of".
- 16.27: CDN will submit definition of key personnel for potential Inclusion in Article 1.
- 16.28: A, N and SF reserve.
- 16.29: CDN scrutiny reserve.
- 16.30: USA proposal subject to later deliberation.

Chairman's Summary

Following is the Chairman's summary of the discussion which took place on Article 16 :

The Chairman finalized broad consensus that :

- (1) National Treatment should be required for investments once made - he noted the Japanese question about the need for a precise definition of "Make Investments";
- (2) Exceptions from National Treatment at the investment stage should be listed - either in Annexes A or in statements of reservations;
- (3) All such exceptions should be on a Most Favoured Nation basis except possibly in relation to reciprocity;
- (4) The exceptions should be subject to standstill and rollback.

He saw the Norwegian differences from the Annex A approach as consisting basically of three elements :

- (a) The rollback would be subject to the discipline of reciprocity - though the problems of defining reciprocity were not fully explored;
- (b) As a consequence there would be no need to judge the "balance" of exceptions before signature;
- (c) There would be a simplification in drafting, using the Vienna Treaty, in embodying the Norwegian approach.

In discussion most other delegations wished at least to be able to form a picture of a total array of exceptions before signature. The following procedure was therefore agreed :

- (1) To continue with the collection and analysis of Annex A returns;
- (2) For those countries not in the former Soviet Union (FSU), to submit their Annex A returns before the end of June;
- (3) For those countries in the FSU, to submit provisional Annexes A by the end of August;
- (4) The Secretariat would consider the procedures for scrutinizing Annexes A and come up with proposals;
- (5) Possible ways, other than reciprocity as under the Norwegian proposal, would be considered for increasing the incentives Contracting Parties were under to roll back exceptions.

ARTICLE 17

COMPENSATION FOR LOSSES,

(1) Investors of any Contracting Party whose Investments in the [Territory] of another Contracting Party suffer losses owing to any armed conflict, including war, a state of national emergency or civil disturbances or other similar events in the [Territory] of the latter Contracting Party shall be accorded by the latter Contracting Party treatment, as regards restitution, indemnification, compensation or other settlement, no less favourable than that which the latter Contracting Party accords to its own investors or the investors of any other Contracting Party or any third State. Resulting payments shall be made⁽¹⁾ in accordance with Article 19, paragraphs (2) and (3).

(2) Without prejudice to paragraph (1) above investors of a Contracting Party who, in any of the situations referred to in that paragraph, suffer losses in the [Territory] of another Contracting Party resulting from

(a) [requisitioning of their property by the latter's forces or authorities, or]⁽²⁾

(b) destruction of their property by the latter's forces or authorities, which was not caused in combat action [or was not required by the necessity of the situation]⁽³⁾;

shall be accorded restitution and/or prompt, adequate and effective compensation. Resulting payments shall be made⁽¹⁾ in accordance with Article 19, paragraphs (2) and (3).

General comment

N pointed out that the provisions do not cover a conflict situation in which the Investment in the [Territory] of the aggrieved Contracting Party belongs to the aggressor Contracting Party.

Specific comments

- 17.1: Since many delegations asked for harmonizing the wording concerning the payments for compensation of losses with Articles 18 and 19, the Secretariat dropped a part of sentence "without [undue] delay in a freely convertible currency and be freely transferable" and by adding words "In accordance with Article 19" transferred this problem under Article 19 with the aim of avoiding the ambiguity (see also Art. 19 para 1e).
- 17.2: A scrutiny reserve.
- 17.3: J, A scrutiny reserve as it is too open-ended. The redraft should use a clear legal language.

ARTICLE 18

EXPROPRIATION

(1) Investments of Investors of any Contracting Party shall not be nationalised, expropriated or subjected to measures having effect equivalent to nationalisation or expropriation (hereinafter referred to as "expropriation") in the [Territory] of any other Contracting Party except where such expropriation is:

- (a) for a purpose which is in the public interest;
- (b) not discriminatory;
- (c) carried out under due process of law;
- (d) accompanied by the payment of prompt, adequate and effective compensation.

[Such compensation shall amount to the fair market value of the investment expropriated at the time when the expropriation was officially announced (hereinafter referred to as "the expropriation date")⁽²⁾. The fair market value shall be the amount a willing buyer would pay a willing seller for the particular investment in question. Where no market exists, ⁽³⁾ determination of what constitutes [full]⁽⁴⁾ compensation in a given case of expropriation shall ⁽⁵⁾ take into account all factors which in the particular circumstances of the case are relevant to the valuation of the property interests involved]⁽¹⁾.

Such compensation shall be made ⁽⁶⁾ in accordance with Article 19, shall be calculated on the basis of the prevailing market rate of exchange on the expropriation date⁽⁷⁾⁽⁶⁾ and shall include interest at a [commercially reasonable]⁽⁸⁾ rate⁽⁹⁾ from the expropriation date until the date of payment.

- (2) Under the law of the Contracting Party making the expropriation the Investor affected shall have a right to prompt review, by a Judicial or other Independent competent authority of that Party, of the legal applicability to the Investments of the act of expropriation, of the payment of compensation and of the valuation of its Investment[,](10) in accordance with the principles set out in paragraph(1).
- (3) [Where a Contracting Party expropriates the assets of a company or enterprise which is incorporated or constituted under the law in force in any part of its own [Territory], and in which investors of any other Contracting Party have a shareholding, the provisions of paragraph (1) above shall apply to the extent necessary to guarantee prompt, adequate and effective compensation for those investors](11).
- (4) [Without prejudice to Article 19, the provisions of this Article shall also apply to Returns.](12)
- (5) [For the purposes of this Article the laws and regulations of a Contracting Party at the time an investment is made with regards to the reversion of properties and rights for a resource owner in force shall not be regarded as an act of expropriation](13).

(14)

Specific comments

- 18.1: General reserve on new wording proposed by the Chairman as a possible compromise text is pending scrutiny in all respective capitals. In the meantime, footnotes 18.2 to 18.5 have been retained.

- 18.2: J suggests replacing with : "publicly announced or when that measure was taken, whichever is the earlier, without reduction in that value due to the prospect of the very seizure which ultimately occurs".
- 18.3 : AUS asks for Inserting : "or where no fair market value can be ascertained,".
- 18.4: USA suggests deletion.
- 18.5: USA suggests Insertion of "be in accordance with generally recognized principles of valuation including the going concern valuation method,".
- 18.6 : Since many delegations asked for harmonizing the wording concerning the payments for compensation of the expropriation with Articles 17 and 19, the Secretariat, following the suggestion of the Chairman at the last WG II meeting, dropped a part of sentence "without delay and be freely transferable in a freely convertible currency" and "of that freely convertible currency" and transferred this problem to Article 19 with the aim of avoiding ambiguity (see also Art. 19, para 1e).
- 18.7: USA questions whether this should be the same date as that referred to 9 lines above as the "expropriation date".
- 18.8 : RUF requests deletion.
- 18.9 : RUF suggests adding : "In force in respective Contracting Party".
- 18.10: USA reserve.
- 18.11: General reserve pending the appropriate definition of Investment.
- 18.12: RUF reserve.

18.13: J see no need for this para since the rights and obligations in relation to the reversion of property rights may and should be stipulated in the actual investment contracts. Besides, such provision might allow the recipient countries to pursue arbitrary "reversion", which could result in denying the purpose of this Article.

18.14: J considers it should be clearly stated that NT and MFN are to be the guiding principles in the exercise of this Article. To meet this point J proposes a new para reading:

"Each Contracting Party shall accord investors of other Contracting Party in its [Territory] treatment no less favourable than that accorded to its own investors or to investors of any other Contracting Party or any third state, which is the most favourable with respect to the paragraphs (1) to (4) of this Article".

ARTICLE 19

TRANSFER OF PAYMENTS RELATED TO INVESTMENTS

- (1) Each Contracting Party shall in respect to Investments by Investors of any other Contracting Party⁽¹⁾ in its [Territory] guarantee the freedom of transfers related to these Investments into⁽²⁾ and out of its [Territory][. In particular⁽⁴⁾ such transfers include :]⁽³⁾
- (a) the initial capital plus any additional capital for the maintenance and development of an investment;
 - (b) Returns;
 - (c) payments arising out of the settlement of a dispute;
 - (d) payments under a contract, including amortisation of principal and accrued interest payment pursuant to a loan agreement;
 - (e) compensation pursuant to Articles 17 and 18;
 - (f) proceeds from the sale or liquidation of all or any part of an investment.
- (2) [Transfers under paragraph (1) above shall be effected without [undue]⁽⁵⁾⁽⁶⁾delay⁽⁷⁾[within such period as is normally required for the completion of transfer formalities]⁽⁶⁾ and in a [freely convertible currency]⁽⁸⁾.⁽⁹⁾]⁽¹⁰⁾

- (3) [Unless otherwise agreed by the Investor with the Contracting Party concerned, transfers shall be made at the rate of exchange applicable on the date of transfer. The rate of exchange shall be either the spot rate or, where there is no such spot rate, shall not substantially differ from the cross rate obtained from those rates which would be applied by the International Monetary Fund on the rate of payment for conversion of the currencies concerned into Special Drawing Rights]⁽¹¹⁾.

(12)(13)

Specific comments

- 19.1: AUS asks for insertion of "and subject to its right in exceptional balance of payments difficulties to exercise equitably and in good faith powers conferred by its laws".
- 19.2 : RUF suggests insertion of : ", subject to terms and conditions of the present Agreement,".
- 19.3 : J asks for substituting with ", in particular including the transfer of:".
- 19.4: A suggests inserting ", though not exclusively."
- 19.5: EC, S reserve.
- 19.6: USA suggests deletion.
- 19.7: USA requests for adding "and be freely transferable".
- 19.8 : RUF requests substituting with : "currency, they were obtained or invested".

19.9: CDN laid its claim for replacing the part of sentence "and be freely transferable in a freely convertible currency" after the word "delay" in Article 18, para (1), 7th line from the bottom of the following:

"Where the currency of the Contracting Party carrying out the expropriation is not freely convertible, the compensation shall be freely transferable to a freely convertible currency". With respect to transferring this issue to Article 19, the Canadian suggestion is registered here and should be expanded to transfers generally.

19.10: RUF, KIR, AZB reserve. The Chairman suggests that the problem in which currency the compensation pursuant to Articles 17 to 19 should be made ought to be addressed by the Transitional Subgroup.

19.11: USA suggests substituting entire para with:

"Transfers shall be made at the prevailing spot market rate of exchange on the date of transfer. In the absence of a market for foreign exchange, the rate to be used will be the rate applied to inward investments or the rate applied by the IMF in purchasing currencies, whichever is more favourable to the investor".

19.12: J to the AUS footnote 19.1 points out that though they can accept the restriction of transfer of payments related to investments owing to balance of payments difficulties, it is necessary to add some conditions by for example referring to the obligations of IMF. In this context J proposes new para (4) of the following wording:

"Notwithstanding the provisions of paragraphs (1) to (3) of this Article, each Contracting Party may in exceptional financial or economic circumstance, impose exchange restrictions in accordance with its laws and regulations and in conformity with the Agreement of the International Monetary Fund".

19.13: USA, supported by AUS and J, proposes a new para (5) of the following wording : "Notwithstanding the provisions of paragraphs (1) to (3), a Contracting Party may maintain laws and regulations (a) requiring reports of currency transfer; and (b) imposing income taxes by such means as a withholding tax applicable to dividends or other transfers. Furthermore, a Contracting Party may protect the rights of creditors, or ensure the satisfaction of judgements in adjudicatory proceedings, through the equitable, non-discriminatory, and good faith application of its law".

CDN also supports this suggestion with the following amendments: Insert words "compliance with laws on the issuing, trading and dealing in securities and" before "the satisfaction" and the words "civil and criminal" before "adjudicatory proceedings".

[ARTICLE 20]⁽¹⁾

TAXATION

(1) (2) With respect to taxes, fees, charges, fiscal deductions and exemptions, each Contracting Party shall accord in its [Territory] to Investments, Returns and Activities Associated with Investments of Investors of any Contracting Party a treatment not less favourable than that which would have been accorded to Investments, Returns and Activities Associated with Investments of its own Investors or to those of any other Contracting Party or third state, whichever is more favourable to the Investors concerned.

(2) The provisions of paragraph (1) of this Article shall be without prejudice to:

(a) the right of Contracting States to apply the relevant provisions of their tax law which distinguish between tax-payers who are not in the same situation with regard to their place of residence or with regard to the place where their capital is invested,

(b) any fiscal advantages or privileges which a Contracting Party grants or may grant in the future by virtue of [its membership to or its association with any existing or future Customs or Economic Union or a Free Trade Area or similar international agreement, or]⁽³⁾ any agreement and any equivalent arrangement entered into in order to avoid double taxation or to facilitate cross-border traffic.

General comments

- The Chairman appointed a sub-group lead by the Secretariat and composed of A, AUS, CDN, CH, EC, N, PL, RUF, S, U and USA. Its first meeting will be held on 9 September.
- Delegations agreed to send written comments to the Secretariat by 1 July. The USA position on Article 20 is enclosed. The USA agreed to attempt to work its proposal into amendments to the current text based on EC-proposal.
- The tasks of the sub-group will be to :
 - I. Remove potential doubts in the text regarding the supremacy of bilateral tax agreements and their dispute settlement provisions;
 - II. Secure that "tax-havens" do not create any tax-effects for the Contracting Parties;
 - III. Remove doubts about the consequences of more favourable tax-treatment of foreign investments;
 - IV. Investigate the potential for a transitional clause for privatisation and/or demonopolisation;
 - V. Secure that future bilateral tax-agreements are covered;
 - VI. Investigate the potential problems connected with the phrase "fees, charges..." in relation to the term "tax law" in para 2 (a).
 - VII. Investigate the potential use of the OECD - model text (Chapter 6, Article 24); and

viii. Investigate if the exceptions to "Customs or Economic Union or a Free Trade Area..." can be moved to Art. 27.

Specific comments

20.1: RUF reserve.

20.2: AUS and RO reserve on para (1).

20.3: J.reserve. Would prefer dealing with issue in Article 27.

U.S. POSITION ON ARTICLE 20

1. GENERAL EXCLUSION : INCOME TAX AND RELATED MEASURES.

Except as provided in paragraph (4) and (5) of this Article (1), nothing in this Agreement shall apply to taxes on income or capital gains or on the taxable capital of corporations.

2. LIMITATION ON APPLICATION OF AGREEMENT TO TAXES OTHER THAN INCOME TAX AND RELATED MEASURES.

a) Except as provided in paragraph (4) or (5) of this Article, with respect to taxes other than those referred to in paragraph 1, nothing in this Agreement shall apply to any measure aimed at ensuring the equitable or effective imposition or collection of taxes.

b) With respect to taxes other than those referred to in paragraph (1), the most favoured nation provisions of this Agreement shall not apply to advantages accorded by a Party pursuant to any convention for the avoidance of double taxation ("tax convention") or any other agreement or arrangement relating to taxation.

3. TAX CONVENTIONS AND AGREEMENTS

Without limiting the application of paragraphs (1) and (2), nothing in this Agreement shall affect the rights and obligations under a tax convention or other international agreement or arrangement, or domestic legislation implementing such agreement or arrangement, relating to taxes; and, in the event of an inconsistency between the provisions of this Agreement and a tax convention, the provisions of the tax convention shall prevail to the extent of the inconsistency.

4. APPLICATION OF PROVISIONS RELATING TO TRADE IN GOODS TO INCOME TAX RELATED MEASURES

Subject to paragraph (3), provisions of this Agreement incorporating by reference rights and obligations of the Parties relating to trade in goods under Article III of The General Agreement on Tariffs and Trade and such other provisions of this Agreement as are necessary to give effect to such provisions shall apply to the taxes referred to in paragraph (1) or paragraph (2).

5. EXPROPRIATION

A claim by a Party or an Investor of such Party that a tax measure of another Party constitutes an expropriation shall be resolved under Article ____ of Part IV (Investment Promotion and Protection). The issue of whether such tax is discriminatory shall be referred for resolution to the competent authorities under a tax convention between the relevant Parties. If the competent authorities under the tax convention do not agree to consider the issue, or, having agreed to consider the issue, fail to resolve it within a reasonable period of time, or if there is no tax convention between the relevant Parties, the issue of whether such tax is discriminatory shall resolve, together with all other issues of the expropriation, under Article ____ of Part IV (Investment Promotion and Protection), basing such resolution on the concepts of the non-discrimination provision of the OECD or UN Model Income Tax Treaty.

6. WITHHOLDING TAX

Without limiting the application of the foregoing, and for greater certainty, notwithstanding Article 19 (Repatriation of Investments and Returns) a Party may impose or collect a tax by withholding or other means.

USA EXPLANATORY NOTE

USA will develop additional language narrowing the tax exception in paragraphs (1) and (2) if the Basic Agreement is expanded to include provisions affecting services or service providers or to contain provisions limiting the application of performance requirements.

ARTICLE 21

ASSIGNMENT OF RIGHTS

- (1) (1) If a Contracting Party, its designated agency or a company or enterprise incorporated in a Contracting Party other than an Investor (the "Indemnifying Party") makes a payment under an Indemnity or guarantee given in respect of an Investment⁽²⁾ in the [Territory] of another Contracting Party (the "Host Party") or acquires the rights and claims to such an Investment, [as the result of the complete or partial default of the Investor],⁽³⁾ the Host Party shall recognise
- (a) the assignment to the Indemnifying Party by law or by legal transaction of all the rights and claims resulting from such an Investment, and
 - (b) that the Indemnifying Party is entitled to exercise such rights and enforce such claims by virtue of subrogation, to the same extent as the original Investor⁽⁴⁾.
- (2) The Indemnifying Party shall be entitled in all circumstances to
- (a) the same treatment in respect of the rights and claims acquired by it by virtue of the assignment referred to in paragraph (1) above, and
 - (b) any payments received in pursuance of those rights and claims, as the original Investor was entitled to receive by virtue of this Agreement in respect of the Investment concerned and its related Returns.

- (3) [Any payments received in non-convertible currency by the Indemnifying Party in pursuance of the rights and claims acquired shall be freely available to the Indemnifying Party for the purpose of meeting any expenditure incurred in the [Territory] of the Host Party]⁽⁵⁾.
-

Specific comments

- 21.1: A asks for inclusion in para (1) a provision concerning the rights of the investor in spite of a subrogation.
- 21.2: J suggests insertion of "and Returns".
- 21.3: CDN requests deletion pointing out that the Canadian Export Development Corporation insures political risks, but not commercial risks.
- 21.4: N asks for adding "provided that where initial investment approval is required any change of ownership of rights held by a foreign investor shall be approved by the Host Party in the same way as the initial investment" comprised in BA-6 but not retained here.
- 21.5: J can accept this provision since this could be interpreted as a provision which intends to prevent restrictions on expenditure in non-convertible currency. It is necessary, however, to clarify whether the transfer of any payments by the assignment of rights come under Article 19 (1).

[ARTICLE 22](1)

RELATIONSHIP TO OTHER AGREEMENTS

- (1) Where two or more Contracting Parties have entered into a prior international agreement, or enter into a subsequent international agreement, whose terms in either case concern the subject matter of Part IV and V of this Agreement, the terms of that other international agreement shall prevail between such Contracting Parties to the extent that they are not less favourable to the Investor.
- (2) [For the avoidance of doubt, when an Investor chooses to invoke the terms of another international agreement in accordance with paragraph (1) above, Parts IV and V of this Agreement shall not apply to the Investor's activities under that other agreement](2).

General comment

New draft proposed by the Chairman taking into account the issues raised by some delegations during earlier negotiation of this Article.

Specific comments

22.1: AUS and CDN reserve.

22.2: USA scrutiny reserve.

PART V

DISPUTE SETTLEMENTS

[ARTICLE 23]⁽¹⁾

SETTLEMENT OF DISPUTES BETWEEN AN INVESTOR AND A CONTRACTING PARTY

- (1) Disputes between one Contracting Party and an Investor of another Contracting Party concerning an obligation of the former under Part IV of this Agreement, relating to an Investement of the latter in the [Territory] of the former⁽²⁾ shall, if possible, be settled amicably.
- (2) If such disputes can not be settled according to the provisions of paragraph (1) within a period of three months from the date at which either Party to the dispute requested amicable settlement, the dispute shall, subject to paragraph 3 below, at the request of the Investor concerned be submitted to international arbitration or conciliation⁽³⁾.
- (3) [An Investor that has submitted the dispute to the courts or administrative tribunals of the Contracting Party that is a party to the dispute, or that has submitted the dispute for resolution in accordance with any previously agreed dispute settlement procedures, shall not be able to submit the dispute to international arbitration or conciliation in accordance with the terms of this Article]⁽⁴⁾.
- (4) Each Contracting Party which is or has become a member of the Convention on the Settlement of Investment Disputes between States and Nationals of other States opened for signature at Washington on 18 March 1965 hereby consents to submit any dispute as defined in paragraph (1) of this Article to the International Centre for Settlement of Investment Disputes for arbitration or conciliation under that Convention.

(5) In case the Contracting Party concerned is not or has not yet become a Contracting State of the Convention referred to in paragraph (4), the dispute may, at the [choice]⁽⁵⁾ of the Investor concerned, be submitted to:

(a) the International Centre for Settlement of Investment Disputes, established pursuant to the Convention referred to in paragraph (3) under the rules governing the Additional Facility for the Administration of Proceedings by the secretariat of the Centre (Additional Facility Rules); or

(b) an international arbitrator or ad hoc arbitration tribunal established under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL); or

(c) an arbitral proceedings under the International Chamber of Commerce, Stockholm; or

(d) an international arbitrator or ad hoc arbitration tribunal appointed by a special agreement⁽⁶⁾.

[In the event that the dispute is submitted to an international arbitrator or ad hoc arbitration tribunal in accordance with subparagraph (d) above and no agreement on the appointment of that international arbitrator or ad hoc arbitration tribunal has been reached within sixty days of the submission of this dispute, the Investor may submit the dispute to (a), (b) or (c) above]⁽⁷⁾.

(6) [[A legal person]⁽⁸⁾ which has the nationality of one Contracting Party and which before such a dispute arises is⁽⁹⁾ controlled by Investors of another Contracting Party shall for the purpose of article 25 (2)(b) of the Convention referred to in paragraph (5)(a) above be treated as an Investor of that other Contracting Party]⁽¹⁰⁾⁽¹¹⁾.

(7) [Each Contracting Party hereby gives its unconditional consent to the submission of disputes to international arbitration in accordance with the provisions of this Article]⁽¹²⁾.

- (8) The awards of arbitration, which may include an award of interest, shall be final and binding and shall be [enforced in accordance with domestic law]⁽¹³⁾.
-

General comments

CDN cannot agree that disputes regarding tax matters be referred to an international tribunal.

In order to assist Canadian authorities in their consideration of Article 23, the Canadian delegation seeks clarification of how Article 23 might be applied. For instance, the Canadian delegation would wish to discuss the following questions:

- Would all matters covered by Part IV be subject to arbitration at the instance of an investor? For instance, would public measures taken in situations covered by Article 17 (1) be subject to arbitral review?
- In situations involving more than one investor or potential investor, there is a possibility of multiple proceedings. How would that eventually be addressed? Will there be provision for the consolidation of proceedings? What would that provision be like?
- Some measures by Contracting Parties will affect both their own investors and investors of other Contracting Parties. That could result in the same measure being challenged before domestic tribunals and before an international arbitral tribunal. How can the consistency of the findings in the different fora be ensured?
- If the Contracting Party has a counterclaim against an investor seeking dispute settlement, will the Contracting Party be able to choose the forum in which to bring that counterclaim?

- How will the place of arbitration be chosen? This will be important because, other than arbitration under ICSID, the place of arbitration will determine the law under which judicial control will be exercised over the arbitral proceedings.
- Will an arbitral tribunal be authorized to award the costs of the proceedings? If so, on what basis?
- Would investors with dual nationality of two Contracting Parties be able to choose international arbitration to challenge measures of one or the other of those Contracting Parties?
- How would the Investor/Host Contracting Party dispute settlement apply to sub-national governments in a federal system?
- What remedies will be available pursuant to arbitration under Article 23? In some federations, the national government cannot compel the sub-federal governments to make restitution.
- What will be the relationship between dispute settlement under Article 23 and dispute settlement under Article 24? For instance, will Article 24 dispute settlement be available to determine whether Article 23 dispute settlement is available? What provisions will be made to cover situations where the same measure is challenged or may be challenged under both Articles 23 and 24.

Specific comments

23.1: General reservation by some delegations.

- 23.2: USA asks for Inserting: ", Interpretation or application of an Investment agreement between a Contracting Party and an Investor, or the Interpretation or application of an Investment authorisation granted by a Contracting Party".
AUS and J do not favour USA suggestion.
- 23.3: USA asks for adding: "In accordance with paragraphs (4) and (5)".
- 23.4: SF requests deletion. USA supports retention.
- 23.5: SF suggests substituting with "request".
- 23.6: SF asks for adding a new sentence reading:
"If no agreement on the appointment of that International arbitrator or ad hoc arbitration tribunal has been reached within sixty days of the request for such arbitration, the Investor may submit the dispute to (a), (b), or (c) above".
- 23.7: SF suggests deletion in context with footnote 23.6.
- 23.8: J asks for replacing with "An Investor other than a natural person".
- 23.9: USA suggests Insertion of: "owned or".
- 23.10: EC doubts on the need for this para. AUS and USA support retention of this para.
- 23.11: AUS suggests following wording for this paragraph pending the final draft of the definition of Investor:
"An Investor which is not a natural person is incorporated, constituted or otherwise organised in the [Territory] of one Contracting Party and which before such dispute arises is controlled by Investors of another Contracting Party shall for the purpose of Article 25 (2) (b) of the Convention referred to in paragraph (4) (a) above be treated as an Investor of the latter Contracting Party".

23.12: J considers this para to be redundant. USA supports retention of this para.

23.13: AUS suggests substituting with: "enforceable in the [Territory] of the Contracting Parties". To this AUS comments that the wording would oblige CPs to make arbitration awards enforceable whereas the present wording makes enforcement of such awards dependent on and subject to domestic law, i.e. the enforceability is at the discretion of a CP and an investor has no guarantee that his awards could be enforced.

[ARTICLE 24]⁽¹⁾

SETTLEMENT OF DISPUTES BETWEEN CONTRACTING PARTIES

- (1) Disputes between Contracting Parties concerning the Interpretation or application of this Agreement shall, if possible, be settled through diplomatic channels.
- (2) If such a dispute can be brought under the provisions of a bilateral agreement between Contracting Parties, those provisions shall prevail in relation to dispute settlement.
- (3) Subject to paragraph (2) above, if the dispute cannot be settled in accordance with paragraph (1) above [within 180 days],⁽²⁾ except as otherwise provided in this Agreement, it shall, if one of the parties to the dispute so requests in writing, be submitted to dispute resolution under paragraph (4) below, unless otherwise agreed between such parties.
- (4) Where the dispute between the parties has not been settled according to paragraph (1) above, and has not been submitted to dispute resolution within 60 days of the request referred to in paragraph (3) above, it shall be submitted, if one of the parties to the dispute so requests in writing, to an ad hoc arbitral tribunal. Such an ad hoc arbitral tribunal shall be constituted as follows :
 - (a) The party instituting the proceedings shall appoint one member of the Tribunal, who may be its national or citizen;
 - (b) Within 30 days of the receipt of notification of that appointment, the other party to the dispute shall, in turn, appoint one member, who may be its national or citizen. If the

appointment is not made within the time limit prescribed, the Party having instituted the proceedings may, within a further period of 30 days request that the appointment be made in accordance with sub-paragraph (d) below;

- (c) A third member, who may not be a national or citizen of a party to the dispute, shall then be appointed between the parties to the dispute. That member shall be the President of the Tribunal. If, within 180 days of the receipt of the request referred to in paragraph (3) above, the parties are unable to agree on the appointment of a third member, that appointment shall be made, in accordance with sub-paragraph (d) below, at the request of any party submitted within 30 days of the expiry of the 180 day period provided for in this paragraph;
- (d) Appointments pursuant to sub-paragraphs (b) or (c) above shall be made by the President of the International Court of Justice within 30 days of the receipt of a request to do so. If he is prevented from discharging this task or is a national or citizen of a party to the dispute, the appointments shall be made by the Vice-President. If the latter, in turn, is prevented from discharging this task or is a national or citizen of a party, the appointments shall be made by the most senior judge of the Court who is not a national or citizen of a party;
- (e) Appointments made in accordance with sub-paragraphs (a), (b), (c) and (d) above shall have regard to the qualifications and experience, particularly in matters covered by this Agreement, of the members to be appointed;
- (f) The Tribunal shall establish its own rules of procedure, unless otherwise agreed by the parties to the dispute, and shall take its decisions by a majority vote of its members;

- (g) The arbitral award shall be final and binding upon the parties to the dispute;
 - (h) The expenses of the Tribunal, including the remuneration of its members, shall be borne in equal shares by the parties to the dispute.
- (5) (3) Notwithstanding paragraphs (3) and (4) above, in the event of a dispute between Contracting Parties who are also parties to the GATT or a GATT-related Instrument, which could also be brought under the provisions of the GATT or the GATT-related Instrument concerned, the parties to the dispute, except where they have agreed to an alternative procedure, shall, without prejudice to the initial application of paragraph (1) above, settle the dispute [according to the procedures provided for]⁽⁴⁾ in the GATT or the GATT-related Instrument concerned. Should a Contracting Party who is not a party to the GATT or to a relevant GATT-related Instrument but who has made or received a written request under paragraph (3) above become a party to the GATT or that GATT-related Instrument, the dispute in question shall be resolved in accordance with paragraph (3) above except where the parties agree to an alternative procedure.

General comments

CDN believes that consideration should be given to measures for :

- a) settlement of disputes involving more than one Contracting Party;
- b) intervention in dispute settlement by a Contracting Party not party to the dispute; and

- c) ensuring the consistency of interpretation given to provisions of the Basic Agreement in dispute resolution.

The question regarding disputes arising from Protocols is deferred until discussion of Article 28.

Specific comments

- 24.1: Subject to scrutiny by all delegations. CDN scrutiny reserve also concerns relationship between this Article and Article 27.
- 24.2: EC and RO reserve.
- 24.3: Finalisation of this paragraph awaits consideration of the trade related provisions. USA delegation notes that it may be preferable to address the trade disputes through a dispute settlement procedure as indicated in Room Document 18 of 16 June 1992.
- 24.4: AUS asks for deletion.

PART VI

[CONTEXTUAL]

[ARTICLE 25](1)

[GOVERNMENT CONTROLLED ENTITIES](2)

Each Contracting Party undertakes that if it establishes or maintains a government-controlled entity wherever located and grants to any such entity formally or in effect, exclusive or special privileges, such entity shall conduct its activities in a manner consistent with this Agreement.

Specific comments

25.1: NL, EC, CDN, USA, RUF scrutiny reserve.

25.2: EC proposed a new text with changed heading as follows :

"EXCLUSIVE OR SPECIAL PRIVILEGES"

Each Contracting Party undertakes that if it grants to any entity exclusive or special privileges, in the field of energy, such entity shall conduct its activities in a manner consistent with this Agreement".

Chairman's conclusion

Based on discussion in WG II during 17 June 1992 clarifying the content and aim of this Article, EC together with AUS and USA prepare a new draft which should be available for delegations in good time before the next autumn meeting of WG II.

ARTICLE 26

[OBSERVANCE BY SUB-FEDERAL AUTHORITIES](1)

Each Contracting Party shall take measures available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its [Territory].

Note

New text as suggested by AUS is based on CDN proposal and amended by the Chairman. Original CDN wording read: "Each Contracting Party shall take [such reasonable] measures [as may be] available...".

Specific comments

26.1: USA reserve.

[ARTICLE 27]⁽¹²⁾

EXCEPTIONS

- (1) The provisions of this Agreement shall not preclude any Contracting Party from taking any action [which it considers]⁽¹⁾ necessary for the purposes of protecting its public order, or [human, animal or plant life or health, [or conservation of exhaustible natural resources]⁽²⁾]⁽³⁾, or from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security, or its obligations under the Treaty on the Non-Proliferation of Nuclear Weapons, the Nuclear Suppliers Guidelines and [of international nuclear safeguards obligations, provided that such prohibitions shall not constitute disguised restrictions on trade⁽⁴⁾ or arbitrary discrimination as between Contracting Parties]⁽⁵⁾⁽⁶⁾. Such actions shall be duly motivated and shall not be disproportionate to this end.
- (2) A Contracting Party shall neither be obliged to supply information nor be precluded from taking such measures as it considers necessary in order to protect its essential [defence]⁽⁷⁾ interests.
- (3) The provisions of this Agreement shall not be construed so as to oblige any one Contracting Party to extend the ⁽⁸⁾ benefit of any treatment, preference or privilege resulting from
 - (a) ⁽⁹⁾the membership to [or association with] ⁽¹⁰⁾ any existing [or future] ⁽¹⁰⁾ customs [or economic] ⁽¹⁰⁾ union or a free trade area [or similar international agreement] ⁽¹⁰⁾ to which any of the Contracting Parties concerned is or may become a party, or

(b) [any regulation to facilitate frontier traffic] (11).

Specific comments

- 27.1 : N reserve.
- 27.2 : N reserve as paraphrasing of Art. XX (g) of GATT code is used here in a different context. Should be replaced rather with "energy purposes".
- 27.3 : CH suggests deletion subject to the purview of Part IV of this Agreement. USA supports deletion.
- 27.4 : USA asks for adding "and Investment".
- 27.5 : J suggests deletion, and replacement with: "obligations under other nuclear non-proliferation regimes".
- 27.6 : RUF asks for addition of subpara. (J) of Art. XX and Art XII of GATT.
- 27.7 : USA asks for substituting with "security".
- 27.8: USA suggests inserting: "most favoured nation".
- 27.9 : J reserved position and argued that since this Agreement should be based on the principle of non-discrimination among the Contracting Parties, the provision of exception of MFN treatment with regard to customs union, etc ..., should not be included.
- 27.10: Should be left for later discussion. USA suggests deletion.
- 27.11: For consideration at next meeting.

27.12: CDN believes that substantive and organizational changes are required in Article 27. It proposes the following illustrative text as addressing those needs :

(1) The provisions of this Agreement shall not preclude any Contracting Party from adopting or enforcing any measures :

a) necessary to protect its public [order/morals];

b) necessary to protect human, animal or plant life or health;

c) relating to the conservation of exhaustible energy resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;

d) essential to the acquisition or distribution of [Energy Materials and Products] in general or local short supply, if such measures are consistent with the principle that all Contracting Parties are entitled to an equitable share of the international supply of such [Energy Materials and Products] and that any such measures that are inconsistent with this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist; or

e) necessary for prudential, fiduciary or consumer protection reasons;

provided that such measures shall not constitute disguised restrictions on trade or investment, or arbitrary or unjustifiable discrimination between Contracting Parties or between investors of Contracting Parties. Such measures shall be duly motivated and shall not be disproportionate to the stated end.

(2) Nothing in this Agreement shall be construed :

a) to require any Contracting Party to furnish any information the disclosure of which it considers contrary to its essential security interests;

b) to prevent any Contracting Party from taking any measure which it considers necessary for the protection of its essential security interests :

i) relating to the supply of [Energy Materials and Products] to a military establishment;

ii) taken in the time of war or other emergency in international relations involving the Contracting Party taking the measure;

iii) relating to its obligations under the Treaty on the Non-Proliferation of Nuclear Weapons or other international nuclear non-proliferation undertakings, or required by national nuclear non-proliferation laws, regulations or policies; or

c) to prevent any Contracting Party from taking any measure in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security;

provided that any such measure shall not constitute a disguised restriction on trade or investment and that any such measure shall be duly motivated.

(3) If a Contracting Party considers that any measure taken by another Contracting Party pursuant to paragraph (2) constitutes a disguised restriction on trade or investment or otherwise nullifies or impairs any benefit reasonably expected under this Agreement, it may request consultations with the Contracting Party taking the measure. Such consultations shall be held promptly, and the Contracting Party whose measure is the subject of the consultations shall give full and sympathetic considerations to the views of the other Contracting Party and shall explain, in as much detail as is consistent with its security interests, the reasons for the measure.

(4) No Contracting Party may invoke the provisions of this Article to derogate from the requirements to pay compensation pursuant to Articles 17 and 18 or to permit the transfer of an investment or returns in accordance with Article 19.

(5) The provisions of this Agreement shall not be construed so as to oblige any one Contracting Party to extend the benefit of any treatment, preference or privilege resulting from

(a) the membership to or association with any existing or future customs or economic union or a free trade area or similar international agreement to which any of the Contracting Parties concerned is or may become a party, or

(b) any regulation to facilitate frontier traffic.

PART VII

STRUCTURAL AND INSTITUTIONAL

ARTICLE 28

RELATIONSHIP BETWEEN THE AGREEMENT AND ITS PROTOCOLS

- (1) The Contracting Parties agree that in order to give full effect to the principles of the Charter it will be necessary to negotiate Protocols to this Agreement. Any Contracting Party may participate in negotiations or enter into any Protocol.
- (2) [In the event of a conflict between the obligations of a Contracting Party under this Agreement and its obligations under a Protocol, its obligations under this Agreement shall prevail, except as otherwise provided in this Agreement]⁽¹⁾.
- (3) A State or regional economic integration organisation shall not become a Party to a Protocol unless it is, or becomes at the same time, a Party to this Agreement.

Chairman's note

The Chairman draws the attention to the fact that not all Articles in a Protocol need to be relevant for all Contracting Parties.

General comments

N argues that this Article should specify that the BA, in addition to being fully applied in Protocols, should also apply equally in areas, if any, covered by the term [Energy Materials and Products], which are not explicitly dealt with in any Protocol.

Specific comments

28.1: D asks for deletion.

[ARTICLE 29]⁽¹⁾

GOVERNING COUNCIL

- (1) A Governing Council composed of one representative of each Contracting Party is hereby established. The first meeting of the Governing Council shall be convened by the Secretariat designated on an Interim basis under Article 31 not later than one year after the closing date for signature of this Agreement in accordance with Article 33. Thereafter, ordinary meetings of the Governing Council shall be held at [regular] intervals to be determined by the Council.
- (2) Extraordinary meetings of the Governing Council shall be held at such other times as may be deemed necessary by the Council, or at the written request of any Contracting Party, provided that, within six weeks of the request being communicated to them by the Secretariat, it is supported by at least one-third of the Contracting Parties.
- (3) The Governing Council shall agree upon and adopt rules of procedure and financial rules for itself [and for any subsidiary bodies it may establish within the scope of this Agreement]⁽²⁾, as well as the staff matters referred to in Article 31 paragraphs (2) and (3) below and the financial provisions governing the functioning of the Secretariat.
- (4) The Governing Council, while taking care to avoid duplication and taking full advantage of the work and expertise of competent international or other bodies, shall keep under continuous review the implementation of the principles of the Charter, and of the provisions of this Agreement and the Protocols and, in addition, shall

- (a) [promote in accordance with this Agreement and Protocols the coordination of appropriate policies, strategies and measures to carry out the principles of the Charter and the provisions of this Agreement and Protocols, and make recommendations on any other measures relating to this Agreement and Protocols];⁽³⁾
- (b) consider and adopt programmes of work to be carried out by the Secretariat, in accordance with this Agreement and Protocols;
- (c) consider and approve annual accounts and budget estimates in respect of administrative costs;
- (d) consider and approve the terms of any headquarters agreement, including privileges and immunities necessary for the Secretariat to carry out its functions under this Agreement and Protocols;
- (e) encourage joint efforts aimed at facilitating and promoting market oriented reforms and modernization of energy sectors in the countries of Central and Eastern Europe and the Commonwealth of Independent States;
- (f) monitor the implementation of measures undertaken pursuant to transitional arrangements in accordance with Article 42 with a view to assisting any Contracting Party in meeting its objectives and obligations ;
- (g) consider and adopt, as required, in accordance with Article 37 of this Agreement, amendments to this Agreement;
- (h) consider and adopt Protocols together with amendments thereto;
- (i) [consider and undertake any additional action that may be required for the achievement of the purposes of this Agreement].⁽⁴⁾

- (5) In 1999 and every 5 years thereafter the Governing Council shall review the functions remaining to it in the light of the extent to which the provisions of this Agreement and Protocols have been implemented. Following each review the function specified in paragraph (4) above may be amended or abolished by the Governing Council by a vote, in accordance with Article 30.

General comments

J asks for clarification on "programmes of work" in (4)(b).

Specific comments

- 29.1: AUS, CDN general reserve on whole Article 29.
- 29.2: J reserve on the grounds that there is no need for subsidiary bodies.
- 29.3: EC reserved position on subpara (a).
- 29.4: AUS, EC, USA, J, reserve; an open-ended commitment.
RUF supports retaining this subpara.
- 29.5: D suggests the addition of the following new paragraph :
"The Governing Council should delegate the tasks of the Secretariat as far as possible to other organisations or institutions on a contracting basis against restitution of costs."

ARTICLE 30

VOTING

- (1) The Contracting Parties shall make every effort to reach agreement by consensus on any matter requiring their decision, adoption or approval under this Agreement.
- (2) The adoption of amendments to this Agreement shall be by [consensus]⁽¹⁾.
- (3) Procedures for adoption of amendments to any Protocol shall be defined in that Protocol.
- (4) [Decisions regarding funding principles for the Governing Council, or other budgetary matters of the Council [or the Secretariat]⁽²⁾, shall, subject to paragraph (1) above, be taken by a qualified majority consisting of that proportion of the Contracting Parties which together contribute at least three fourths of the funding to meet the administrative costs of the Council [and the Secretariat]⁽²⁾ under Article 32 below].⁽³⁾
- (5) In all other cases, unless a contrary intention appears herein, decisions shall be taken by a three fourths majority vote of the Contracting Parties present and voting at the meeting of the Governing Council at which such matters fall to be decided.
- (6) For the purposes of this Article, "Contracting Parties present and voting" means Contracting Parties present and casting an affirmative or negative vote.
- (7) Subject to paragraph (4) above and paragraph (9) below each Contracting Party shall have one vote.

(8) With the exception of paragraph (4) above, no voting decision shall be valid unless it has positive and expressed support of a majority of all Contracting Parties.

(9) [For the purposes of this Article a regional economic integration organisation shall, when voting, do so in the following manner:

(a) in votes concerning this Agreement such organisation shall have a number of votes equal to the number of its member States which are Parties to this Agreement;

(b) notwithstanding paragraph (3) above, in votes concerning a Protocol such organisation shall have a number of votes equal to the number of its member States which are Parties to that Protocol].(4)

In either case such organisation shall not exercise its right to vote if its member States exercise theirs, and vice versa.

General comments

CDN asks how to deal with new and unidentified Protocols.

Specific comments

30.1: J replacing with "3/4 majority vote".

30.2: AUS wishes to delete.

30.3: RUF reserved position on para (4).

30.4: EC reserved position on para (9).

ARTICLE 31

SECRETARIAT

- (1) The Secretariat shall be composed of a Secretary General and such staff as the minimum consistent with efficiency.
- (2) The Secretary General shall be appointed by the Governing Council, initially for a period of maximum 5 years.
- (3) In the performance of their duties under this Agreement the Secretary General and the staff shall be responsible to and report to the Governing Council.
- (4) The Governing Council, acting by majority, shall take all decisions necessary for the establishment and the functioning of the Secretariat including the structure, staff levels and standard terms of employment of officials and employees. The Secretariat shall carry out the functions assigned to it in this Agreement or in any Protocol and any other assigned to it by the Governing Council, and shall seek to the extent possible the services of competent international or other bodies.
- (5) The Secretariat functions will be carried out on an interim basis by a provisional Secretariat until the entry into force of this Agreement pursuant to Article 39 and the appointment of a permanent Secretariat under this Article.

ARTICLE 32

FUNDING PRINCIPLES

- (1) Each Contracting Party shall meet its own costs of representation at meetings of the Governing Council.
 - (2) Expense of meetings of the Governing Council shall be regarded as an administrative cost of the Secretariat.
 - (3) [The administrative costs]⁽¹⁾ of the Secretariat shall be met by the Contracting Parties by contributions payable in the proportion specified in Annex [B].
-

Note

Consideration will have to be given to Secretariat costs arising from provisions in Protocols, and to the method of updating Annex [B] to allow for changes in membership.

Specific comments

32.1: RUF reserved position until the structure and nature of administrative costs could be more closely defined.

PART VIII

FINAL PROVISIONS

ARTICLE 33

[SIGNATURE](1)

This Agreement shall be open for signature by the States and regional economic integration organisations signatory to the Charter at [Lisbon] from [] to [].

General comments

J points out that further, careful study of Part VIII would be necessary from the legal point of view. If the Basic Agreement and other Protocols are legally independent (from each other), the provisions for conclusion, entry into force, amendments and withdrawal should be made in each Protocol.

Specific comments

33.1: A reserve.

ARTICLE 34

RATIFICATION, ACCEPTANCE OR APPROVAL

This Agreement and any Protocol shall be subject to ratification, acceptance or approval by States and by regional economic integration organisations. Instruments of ratification, acceptance or approval shall be deposited with the Depositary.

ARTICLE 35

APPLICATION TO OVERSEAS TERRITORIES

- (1) Any Contracting Party may at the time of signature, ratification, acceptance, approval or accession declare that the Agreement shall extend to all the Territories for the International relations of which it is responsible, or to one or more of them. Such declaration shall take effect at the time the Agreement enters into force for that Contracting Party.
- (2) Any Contracting Party may at a later date, by a declaration addressed to the Depositary, extend the application of this Agreement to other [Territory] specified in the declaration. In respect of such [Territory] the Agreement shall enter into force on the ninetieth day following the receipt by the Depositary of such declaration.
- (3) Any declaration made under the two preceding paragraphs may, in respect of any [Territory] specified in such declaration, be withdrawn by a notification addressed to the Depositary. The withdrawal shall, subject to the applicability of Article 43(3), become effective upon the expiry of one year after the date of receipt of such notification by the Depositary.

ARTICLE 36

ACCESSION

This Agreement and any Protocol shall with the agreement by consensus of the Contracting Parties thereto, be open for accession by States and regional economic integration organisations which have signed the Charter from the date⁽¹⁾ on which the Agreement or the Protocol concerned is closed for signature. The Instruments of accession shall be deposited with the Depositary.

Specific comments

36.1: J asks that this date should be specified.

ARTICLE 37

AMENDMENT

- (1) Any Contracting Party may propose amendments to this Agreement.
- (2) The text of any proposed amendment to this Agreement or to any Protocol shall be communicated to the Contracting Parties by the Secretariat at least three months before the meeting at which it is proposed for adoption.
- (3) Amendments to this Agreement which have been adopted by the Contracting Parties shall be submitted by the Depositary to all Contracting Parties for ratification, approval or acceptance.
- (4) Ratification, approval or acceptance of amendments to this Agreement shall be notified to the Depositary in writing. Amendments adopted in accordance with this Agreement shall enter into force between Parties having accepted them on the ninetieth day after the receipt by the Depositary of notification of their ratification, approval or acceptance by at least three-fourths of the Contracting Parties to this Agreement. Thereafter the amendments shall enter into force for any other Party on the ninetieth day after that Party deposits its instrument of ratification, approval or acceptance of the amendments.(1)

Specific comments

- 37.1 : GR suggests that consideration be given to the need for time limits between signature and amendment.

ARTICLE 38

ASSOCIATION AGREEMENTS

Where, in order to further the implementation of the principles of the Charter or the provisions of this Agreement or any Protocol, it is considered necessary or desirable by the Governing Council referred to in Article 29 to permit a State, international organisation or regional economic integration organisation to associate itself with this Agreement and any Protocol, an Association Agreement shall be approved by the Governing Council. Such Association Agreement shall set out clearly the rights, responsibilities and limitations of associate status for that State or organisation, it being agreed that differing limitations may be applicable to different States or organisations depending upon the number of Protocols with which the State or organisation wishes to be associated, the nature of such Protocols and the level of association envisaged by the associating State or organisation and permitted by the Governing Council.

ARTICLE 39

ENTRY INTO FORCE

- (1) This Agreement shall enter into force on the ninetieth day after the date of deposit of the thirtieth Instrument of ratification, acceptance, approval or accession thereto.
- (2) For each Party which ratifies, accepts or approves this Agreement or accedes thereto after the deposit of the thirtieth Instrument of ratification, acceptance, approval or accession, it shall enter into force on the ninetieth day after the date of deposit by such Party of its Instrument of ratification, acceptance, approval or accession.
- (3) For the purposes of paragraph (1) above, any Instrument deposited by a regional economic integration organisation shall not be counted as additional to those deposited by member States of such organisation.

[ARTICLE 40]⁽¹⁾

PROVISIONAL APPLICATION

The signatories agree to apply this Agreement and any amendments thereto provisionally following signature, to the extent that such provisional application is not inconsistent with their national laws pending its entry into force in accordance with Articles 37 or 39.

Specific comments

40.1: J, CDN reserve.

[ARTICLE 41](1)

RESERVATIONS

No reservations may be made to this Agreement.

Specific comments

41.1: AUS, RO, CDN reserve.

[ARTICLE 42]⁽¹⁾

TRANSITIONAL ARRANGEMENTS

(1) [It is recognised that due to differences in the way in which Contracting Parties have managed the matters [the subject of this Agreement]⁽²⁾ some Contracting Parties [will]⁽³⁾ be unable to comply with [all the]⁽⁴⁾ provisions of this Agreement immediately upon entry into force thereof]⁽⁵⁾⁽⁶⁾. [Therefore, a transitional period of up to []⁽⁷⁾⁽⁸⁾ years may, subject to approval by the Governing Council, be invoked by [any]⁽⁹⁾ Contracting Party, provided that a Note setting out the provisions with which it cannot fully comply [together with]⁽¹⁰⁾ a timetable for the implementation of measures to effect complete compliance is deposited with its instrument of ratification, acceptance or approval in accordance with Article 34 above]⁽¹¹⁾⁽¹²⁾.

(2) A Contracting Party which has invoked a transitional period shall notify the Secretariat

(a) of the implementation of any measures needed to effect compliance;

(b) of the need for any revision to the list of measures⁽¹³⁾ for which the transitional period has been invoked;

(c) of any application to the Governing Council to extend the timetable for achieving compliance in respect of any particular provision⁽¹⁴⁾.

- (3) The Secretariat shall circulate to all Contracting Parties every six months⁽¹⁵⁾ the Notes referred to in para (1) above [revised as appropriate]⁽¹⁶⁾ to take account of any notification made under sub-paragraphs (2)(a) and (b) above, and at the same time notify all Contracting Parties of any applications under subparagraph (2) (c).
- (4) The Governing Council shall review annually the progress by Contracting Parties towards implementation in accordance with Article 29 (4), at the same time as it reviews progress under Article 16 (6). It may take steps to assist Contracting Parties in facilitating implementation. Applications under subparagraph (2)(c) above shall be subject to approval by the Governing Council.
-

Specific comments

- 42.1: J reserved its position and noted that if retained, transitional periods should be kept as short as possible, and that progress toward fulfilment of Charter commitments should be regularly monitored and evaluated.
- 42.2: EC suggests replacing with: "to which this Agreement relates".
- 42.3: EC asks for substituting with "may".
- 42.4: EC asks for substituting with "some".
- 42.5: CDN pointed out that first sentence quotes the Charter and seems to be redundant. RUF argues for retaining first sentence in the Article.
- 42.6: EC requests for adding after thereof: "due to their need to adapt their economies to a market system".
- 42.7: RUF raises possibility of different durations of transitional period for different countries.

42.8 : USA requests filling in "one" year instead of a blank square-bracketed place.

42.9 : EC suggests substituting with "such".

42.10: EC asks for replacing with: ", the reasons for its inability to comply and".

42.11: RO reserved position with regard to the conditions required for approval of a transitional period.

42.12: USA asks for adding a new sentence: "The Governing Council may decide, in acting on a request to invoke transitional arrangements, to offer the invoking Contracting Party revised terms on the implementation of measures needed to achieve compliance with this Agreement".

42.13: EC asks for inserting: "for the implementation of provisions".

42.14: EC suggests adding: ", subject to the maximum period in paragraph (1) above".

42.15: EC asks for inserting: "revisions to".

42.16: EC suggests deletion.

ARTICLE 43

WITHDRAWAL

- (1) At any time after five years from the date on which this Agreement has entered into force for a Contracting Party, that Party may withdraw from this Agreement by giving written notification to the Depositary.
 - (2) Any such withdrawal shall take effect upon expiry of one year after the date of its receipt by the Depositary, or on such later date as may be specified in the notification of the withdrawal.
 - (3) [The provisions of this Agreement and any relevant Protocol shall continue to apply to investments made in the [Territory] of a Contracting Party as of the date when that Party's withdrawal from this Agreement takes effect for a period of twenty years from such date](1).
 - (4) Any Contracting Party which withdraws from this Agreement shall be considered as also having withdrawn from all Protocols to which it is Party.
-

Specific comments

- 43.1: N suggests deleting para (3) pointing out that if a country has taken a step of withdrawing from the Charter system, that country will not consider it of a great importance to see to it that the provisions of the BA and Protocols are adhered to after the withdrawal.

ARTICLE 44

DEPOSITARY

- (1) The Government of the Republic of Portugal shall assume the functions of depositary of this Agreement.
- (2) The Depositary shall inform the Contracting Parties, in particular, of:
 - (a) the signature of this Agreement, or Association Agreement and the deposit of instruments of ratification, acceptance, approval or accession in accordance with Articles 34 and 36;
 - (b) the date on which the Agreement, or Association Agreement will come into force in accordance with Article 39;
 - (c) notification of withdrawal made in accordance with Article 43;
 - (d) amendments adopted with respect to the Agreement, or Association Agreement, their acceptance by the Contracting Parties thereto and their date of entry into force in accordance with Article 37;
 - (e) any other declaration or notification concerning this Agreement.

ARTICLE 45

AUTHENTIC TEXTS

The original of this Agreement of which the English, French, German, Italian, Russian and Spanish⁽¹⁾ texts are equally authentic, shall be deposited with [the Secretary-General of the United Nations].

In witness whereof the undersigned, being duly authorised to that effect, have signed this Agreement.

Done at [] on the [] day of [].

Specific comments

45.1: J wishes to add Japanese language as the seventh language for the authentic text or, if not accepted, to limit the number to two or three (English, French and Russian).