

GENERAL AGREEMENT ON TARIFFS AND TRADE

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TARIFFS ON COPPER AND COPPER PRODUCTS

Note by the Secretariat

It is recalled that governments were invited to comment on the secretariat preliminary sample study on differential tariff rates affecting copper and copper products (COM.TD/W/74). During the discussion of the new version of the study (COM.TD/71) at the meeting of the Committee on Trade and Development on 26 May 1970, the representative of the European Communities requested that certain comments which had been communicated by the EEC regarding the calculation of "effective incidences" should be circulated for information. These comments are reproduced below.

The method of calculation is based on the hypothesis of a single input coefficient (refined copper) in the different areas considered. This proposition would be correct in the case of pure and complete competition in standardized products. This, however, has not been shown to be the case for copper.

On the one hand, conditions of access to sources of supply are not similar, and consequently the cost of raw materials and the price of copper can vary widely according to the country concerned. The cost of extracting the ore differs according to the deposits. Certain producing plants hold all the capital of, or have substantial holdings in, mines situated either in the producing country or in third countries. Others have concluded long-term contracts assuring their supplies at relatively stable prices. The quantities traded on the London Metal Exchange are therefore marginal and market prices fluctuate widely from one day to another, even from one hour to another. Account should also be taken of possibilities for reclaiming waste and scrap.

One cannot therefore speak of a single price for copper.

On the other hand, in certain countries - for example the United States and Japan - there is vertical integration of production, from extraction to processing. In integrated undertakings the price of unwrought copper used for the manufacture of semi-manufactures is less liable to sudden market fluctuations and the input coefficient can therefore be quite different from that existing in an isolated processing industry.

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Account should also be taken of the size of undertakings and of the specific characteristics of semi-manufactures, the price of which can vary according to their form and quality (proportion of alloys used, standardization of manufacture). One can therefore speak only of a price fork.

For these reasons, it seems unsatisfactory to use the same input coefficient for the different areas considered, because the percentage of value added can vary widely according to the country and product concerned.

A further reservation should be made concerning this table and also concerning the conclusions accompanying it, which tend to indicate that the level of protection is higher in the EEC than in the United States.

Detailed examination of the true situation shows that this is in no way the case. The EEC is one of the countries that depend entirely on other countries for their raw material supplies, and are therefore directly affected by fluctuations in the world price of copper. To that should be added that a large part of the copper refined in the EEC has to be re-exported, because producers deliver their raw materials only for refining. This is not the case of the United States for example, which being one of the major world producers of copper, limits exports of unwrought copper by certain administrative measures.

As a result of these measures the price of refined copper in the United States is maintained at a level 30 per cent below the world copper price (in November 1969, 55 cts./lb. or £465 long ton against £660 outside the United States). In comparison with EEC processors, the American processor therefore enjoys protection equivalent to 30 per cent on his supplies. If one considers that the price of unwrought copper accounts for three quarters of the value of the processed product, 22 per cent of protection should be added to the "effective incidence" calculated for the United States. Another phenomenon can be observed in Japan where there is a "pool" which on the one hand ensures vertical integration and on the other hand sets internal prices with Government co-operation.

So far as the United Kingdom is concerned, it should be underlined that exports of copper waste and scrap have been prohibited for several years now. This country holds substantial quantities of waste and scrap, deriving in particular from breaking up of ships. This raw material supplies about one half of the requirements of the processing industry, and the latter can therefore obtain raw materials at an interesting price.

Another element to be considered in calculating the effective incidence is that of the temporary export procedure. Under this, processing can be carried out abroad, duty being payable only on the value added. In these circumstances, which are frequent in frontier zones between countries belonging to different tariff areas, the protection relates strictly to the processing margin, to the nominal rate of duty plus a small charge for transport costs.