

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

MDF/W/2

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Special Distribution

Working Party on Trade in Certain
Natural Resource Products:
Forestry Products

NOTE ON THE PROCEEDINGS OF THE WORKING PARTY ON
TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS:
FORESTRY PRODUCTS, HELD ON 26 JUNE 1984

Prepared by the Secretariat

1. Under the chairmanship of Mr. M. Cartland (United Kingdom, Hong Kong), the Working Party on Trade in Certain Natural Resource Products met on 26 June 1984 to discuss problems of international trade in forestry products.
2. The Chairman recalled the terms of reference of the Working Party, as set out in document L/5652, of 14 May 1984. The Working Party had before it a background study on Problems of International Trade in Forestry Products, prepared by the secretariat and circulated as document Spec(84)13 and Addendum 1. He also drew attention to a Background Note submitted by Canada, document MDF/W/1, which addresses a number of subjects of relevance in the context of the Working Party's examination of problems which may affect trade in one, or the other, or all, of the natural resource sectors specified in the Working Party's terms of reference.
3. Given the fact that the background study by the secretariat had been in the hands of delegations for some time, the Chairman expressed the hope that participants could initiate an exchange of views which would permit the identification of the problems perceived as being most acute and requiring priority attention with a view to recommending possible solutions. As regards corrections to be made and any updates to the information contained in the background study, he suggested that it might be practical to transmit detailed data and any comments directly to the secretariat so that the necessary corrections can be circulated to all the participants.
4. The Chairman opened the discussions by inviting the Canadian delegation to introduce the background note, MDF/W/1, particularly as it relates to trade in forestry products.
5. The representative of Canada stated that trade in, and trade-development of, natural resource products were of central importance for a significant number of contracting parties and a key component of the GATT Work Programme. As he had explained at the previous day's session, when discussing problems of international trade in non-ferrous metals and minerals, the objective of the paper submitted by Canada, dealing with all three resource sectors, was to identify some of the important issues which should be addressed by the Working Party and to suggest a

possible course of action. Since many of the general issues and the elements of analysis put forward by Canada applied to all of the sectors he would not deal with these in detail again, but would focus mainly on matters specific to the forestry products sector. As regards the more general points he invited attention to the Canadian note itself (MDF/W/1).¹ He said that in the forestry products sector, as in the other sectors, a considerable amount of factual and analytical work still needed to be done. Nevertheless, the draft background study by the secretariat on certain parts of the forestry products sector was both judicious and informative and provided a useful starting point for the Working Party. Certain textual comments on the study would be supplied at the next meeting of the Working Party.

6. On its part, Canada had undertaken a preliminary statistical analysis of the structure and composition of imports of forestry products into the three main import markets - EEC, US and Japan, in respect of 1977 and 1982 - broken down into primary stage products, semi-manufactures and further processed items. In EC there had been a very modest increase in the share of semi-manufactures and further manufactured items in total forestry products imports. In Japan there had occurred a similarly modest increase in the share of both the semi-manufactures and of furthermanufactured items in total forestry products imports, but imports of raw materials and products at the primary stage continued to account for the bulk of imports. In the US, with a comparatively open market, at least in terms of raw materials and further processed items, the share of the latter group grew from 41 per cent in 1977 to 52 per cent in 1982. However, even in the US, there remained some tariff barriers on selected products, that did not facilitate the task of exporting to that market. The situation in regard to trade in forestry products in these import markets thus appeared to be somewhat more varied than in the non-ferrous metals sector. In any event, in two of these markets, import demand was still predominantly for goods at the raw materials stage. While the underlying reasons for this state of affairs were, perhaps, complex, Canada believed that much of the explanation is related to existing tariff and non-tariff barriers. As regards the former, it had to be remembered that in competitive and tight markets even moderate nominal tariffs can weigh heavily against bulk imports. Canada has also had a first look at the question of the effects of Article XXIV preferences on trade. While the Canadian authorities had not yet arrived at definitive findings, there was evidence that, where such tariff preferences existed, such as for certain EFTA/EEC shipments, the share of preferential suppliers in total imports often increased dramatically. For example, the EFTA share of EEC imports of dressed and worked lumber (CCCN 44.13) increased over the period cited from 64 per cent to 72 per cent, whereas for unworked lumber, which enters m.f.n. duty-free, the share of EFTA countries had remained stable at about 45 per cent. What

¹As regards the points of a general nature made by Canada (nominal tariffs, tariff escalation, effective protection, import demand elasticities, origin rules, preferential trading arrangements and "total protection"), attention is invited also to the summary given in paragraphs 9-15 of Spec(84)43, subsequently re-issued as MDF/1.

this suggested to the Canadian authorities was that nominal and effective tariff protection, including the question of tariff escalation, and also the effect of preferential treatment merited examination by the Working Party.

7. While suggesting that some of the issues would need to be dealt with in detail at the next meeting, the representative of Canada stated that, even at this stage, it might be relevant - as he had done in the discussion on problems of international trade in non-ferrous metals and minerals - to point to the interlinkage of the various existing tariff and non-tariff measures, creating, in toto, significant impediments to current trade, but, probably, even more so for the dynamics of trade development. Without these impediments a shift from trade in primary products to further processed goods would be facilitated and an increase in the overall level of goods traded could also be expected, as demand would positively react to the shift to more efficient production. As it was, forest product companies intending to increase exports of semi-manufactures and further processed products encountered in the EEC, to take one example: (i) relatively high nominal tariffs for several wood and paper products; (ii) escalating tariffs and the related effective rates of protection; (iii) preferential tariff treatment for EFTA countries; (iv) uncertainties created in exports from several resource-based countries by the EEC's recent unilateral reduction of the bound annual tariff quota for newsprint; (v) uncertainty created by building codes which vary from member state to member state and, in at least one case, from district to district; (vi) uncertainty created by the current French import quota for softwood lumber imports and by the envisaged extension to acid rain damage of a 1969 Law in F.R. Germany on Compensation for damage caused to forests by natural catastrophies - the GATT consistency of these measures moreover not being clear, and (vii) not necessarily exhausting the problem list, uncertainty created by the administration of the tariff quota on imports of plywood of coniferous species. In short, as long as trade barriers as those mentioned above existed, there would be distortions in patterns of trade of resource products and the task before the Working Party was to examine ways in which distortions can be avoided and trade expansion be brought about.

8. While expressing appreciation of the additional explanations provided by Canada in respect of the background note, several delegations pointed out that, having received the note only the previous day they could offer only their preliminary reactions. Some of these reactions of a general nature had already been provided in the context of the discussion of problems of trade in non-ferrous metals and minerals and the summary record of discussions under that heading was hence also relevant in regard to the subject of the Working Party's further work programme on forestry products' trade problems. Delegations from both importing and exporting countries concurred that the background study prepared by the secretariat could serve as an appropriate starting point for the Working Party to commence its work, providing a balanced overview of many, if not of all, the problems facing industry and trade. Several delegations indicated that they would transmit to the secretariat detailed comments and certain corrections. Other delegations said, much as they appreciated the background study, they felt that certain problems affecting trade in forestry products should have been covered in greater depth, for

instance the question of log-, and perhaps other, export restrictions, countertrade, State-trading practices in both developed and developing countries, the interaction of agricultural and forestry policies, the vast subject of subsidies, and details regarding various non-tariff measures, phyto-sanitary regulations and, perhaps, government procurement-policies and-practices. In any event, all these matters would merit a systematic examination.

9. Reference was made to the special nature and the long gestation period of forest industry investment and the importance in the industrialisation process of the development of paper industries, whether or not the latter were based on domestic raw materials supplies. It was stated that one of the major difficulties to international trade development faced by the forestry products industry was its vulnerability to restrictive and distortionary trade practices. It was important therefore that an attempt be made to tighten some basic rules concerning international trade in forestry products and to provide a measure of market stability, so as to permit the correct investment decisions to be made. The question of a certain harmonization of technical standards, codes etc. was also of great importance and should be dealt with systematically.

10. Several delegations said that they regretted that the background study did not cover the subject of problems of international trade in paper and paper products. Some of these delegations emphasized that, in the course of informal discussions in 1983, an understanding had been reached between delegations (representing importers as well as exporters) and the secretariat that the secretariat would begin to prepare a document on paper products when the first part of the background document (Spec(84)13) was submitted to the Working Party. Unless the paper sector was covered it would not be meaningful to discuss possible problems in respect of international trade in woodpulp. Delegations from other major forestry products exporting and importing countries expressed the view that the material presented in the background study and the additional topics presented by Canada for consideration by the Working Party already constituted a vast array of difficult subjects and problems to be dealt with. These delegations thought it somewhat premature, or even inopportune, to enlarge the study to cover also the paper sector, adding that they had never accepted that that sector be covered by the study.

11. Delegations from countries participating in Article XXIV preferential trading arrangements pointed out that these arrangements are the subject of periodic examinations in a special Working Party where all pertinent questions relating to these arrangements can be raised and which, thereafter, are brought to the attention of the Council. They, therefore, questioned the advisability and appropriateness of dealing with the question of Article XXIV preferences in this Working Party. Delegations from other forestry products exporting countries explained that they did not intend to raise the question of Article XXIV preferences as such, but that, surely, the Working Party would be amiss in its work if it did not look at the effects which such arrangements had, or may have, on trade in forestry products. They pointed out that this was also a matter of interest to developing countries' suppliers of forestry products when assessing the practical significance, in certain markets, of the GSP tariff preferences available to them.

12. A representative from a developing country which is among the major exporters of forestry products explained his country's interest in an examination of tariff escalation and effective tariff protection as between logs and wood semi-manufactures in one of the major import markets and the exclusion of several of its most important wood products from the GSP. In fact, there existed some instances of discriminatory tariff treatment of certain tropical hardwood items, as compared with similar products derived from coniferous species.

13. A delegation from another developing country commented on the complexity of the nomenclature and the resulting structure of certain import tariff schedules. This had the, perhaps unintentional, effect of discriminating certain wood species in import duty assessment. This was a matter meriting consideration by the Working Party. Outlining the importance of the forestry sector for his country's economy and the continuing buildup of forestry products exports, he noted that technical standards, partly deriving from differences in various national building codes, had made it difficult to fully utilize his country's forest resource, which, in turn, made the exploitation of part of the forest resource uneconomic, leading thereby to a deterioration of the forest concerned, which, as a consequence, might cause further difficulties in developing exports.

14. As some delegations had expressed doubts as to the advisability of taking up in the Working Party the question of import demand elasticities for forestry products, as suggested by Canada, it was pointed out by delegations sponsoring this suggestion that the examination of import demand elasticities should open the door to a better understanding of the real, dynamic, impact of tariff reductions, particularly for products at higher levels of processing. The GATT being the body dealing with trade problems, it would seem essential to use all the analytical tools available to it for understanding to the fullest extent as to how tariff reductions would impact on levels of trade. Other delegations suggested that questions relating to transport costs and policies, pricing policies and pricing cartels for certain forestry products, the latter subject having recently been under investigation in connection with work carried out by the European Communities, might also be taken up to the extent they affected trade.

15. Several delegations stressed the need to avoid duplication of work and to focus instead on problems falling under the competence of the General Agreement. It was suggested that the secretariat should maintain close communications with the many international bodies dealing with various aspects of forestry products trade and, to the extent possible, integrate relevant documentation into the GATT data. Specific reference was made in that context to the ECE Timber Section, FAO and the International Tropical Timber Organization, once the latter comes into existence.

16. Several delegations provided additional information on their respective national forest resources and on developments and problems in the forestry products industry and trade. One delegation, representing a major importing country, reported on steps taken to facilitate imports by advancing the implementation of Tokyo Round tariff cuts, additional unilateral tariff reductions in the spring of 1984 and also increases in

GSP ceiling quotas for certain forestry products. Moreover technical assistance was being provided to forestry products exporting countries and also in the context of work for the ITTO. Every effort was being made to resolve any problems identified, either through multilateral action or bilaterally.

17. In closing the discussion, the Chairman invited delegations to submit to the secretariat comments on, and any corrections to, the study, as well as any written submissions they might wish to make in furtherance of the work, preferably not later than by the end of July¹. He stated that problems of international trade in forestry products would again be taken² up by the Working Party at a meeting scheduled for 18 and 19 September.² At that meeting the Working Party would proceed, to a detailed examination of the background study prepared by the secretariat and would also consider issues raised in submissions by delegations. The Working Party would also have before it a record, in summary form, of the main points raised at this first meeting.

¹Comments and corrections received up to mid-August are set out in document Spec(84)13/Corr.1.

²Opening of meeting subsequently rescheduled to 19 September a.m.