

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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WORKING PARTY ON TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS

Background Note Submitted by Canada

1. Pursuant to the background information submitted in MDF/W/1 of 25 June 1984 and presented orally by Canada in the Working Party meeting of 25-27 June (Spec(84)43, Spec(84)43/Add.1, and Spec(84)48), the Canadian delegation identified some of the important issues which should be addressed by this Group. In this context, we outlined the results of preliminary statistical and other research which Canadian authorities had undertaken and informed the Working Group that we would make available a summary of additional work as it was completed. The objective of this paper is to make such additional information available to the Working Party so as to facilitate its task of examining, with a view to recommending possible solutions, the problems relating to trade in certain resource products, including in their semi-processed and processed forms and falling under the competence of the General Agreement. This additional information on imports by degree of processing, government procurement, Article XXIV tariff preferences and lumber imports is presented below.

Imports by Degree of Processing

2. In MDF/W/1, Annex I, we presented data on 1982 imports by degree of processing into the EC, the USA and Japan for non-ferrous metals and minerals (copper, lead, zinc, nickel, aluminium and tin), forestry products and fish and fisheries products. We are now in a position to present comparable data for 1977, so that some sense of change over time can be achieved (see Table I).

3. Briefly, with respect to non-ferrous metals and minerals, there was practically no change between 1977 and 1982 in the share of imports accounted for by primary products for either the EC or Japan. There was some modest improvement with respect to the share of imports entering the USA at the semi-manufactured and fully manufactured stages of processing, although even here trade remained heavily tilted toward the raw material and primary product level.

4. With respect to forestry products, there was more contrast. For the EC, there was some modest improvement at the semi- and fully manufactured levels. There was also modest improvement with respect to Japanese imports, although this is still the market where imports remain overwhelmingly at the raw material-primary product stage. In 1977, the share of imports of further manufactures into the USA was already 41 per cent; by 1982, it had increased further to 52 per cent. Nonetheless, it is expected that additional trade liberalization for selected products would increase this proportion even more.

TABLE I

1977 and 1982 Imports by degree of processing
(expressed as a percentage of total imports for each sector)

	EC 1977/1982	USA 1977/1982	JAPAN ³ 1977/1982
A. Raw materials and primary products			
- non ferrous metals and minerals ¹	85.6/80.2	77.4/64.1	95.7/94.8 ³
- forestry ²	34.7/27.6 ⁴	5.3/4.1	83.6/72.4
- fish and fisheries	36.3/42.3	68.2/67.0	80.4/84.2
B. Semi-processed or fabricated products			
- non-ferrous metals and minerals	8.4/9.9	9.6/14.2	2.4/2.8
- forestry	47.5/52.0 ⁴	53.6/43.7	12.6/20.2
- fish and fisheries	37.4/33.0	22.8/22.3	14.4/10.4
C. Further manufactures or fully-processed products			
- non-ferrous metals and minerals	6.0/9.8	13.0/21.8	2.0/2.4
- forestry ⁵	17.9/20.4 ⁴	41.1/32.2	3.8/7.4
- fish and fisheries	26.3/24.7	9.0/10.7	5.2/5.4

¹ Includes compounds and unwrought products, waste and scrap, powder, flakes and dust.

² Includes rough lumber (CCCN 44.05).

³ Due to a typographical error, this percentage appeared as 98.8 in MDF/W/1.

⁴ These 1982 percentages for forestry imports into the EC vary modestly from those in MDF/W/1 due to the subsequent inclusion of unwaterlined newsprint entering the U.K. under 4801.79 and classified as "secret" in NIMEXE statistics; intra-EC trade for this component was excluded on the basis of volume shares obtained from sources other than NIMEXE.

⁵ Includes newsprint.

5. With respect to imports of fisheries products into the three major import markets, trade is heavily weighted towards the raw material-primary product level, particularly in Japan and the USA, but also, although to a lesser degree, in the EC. The situation actually appears to have worsened, from the viewpoint of exporters of fisheries products, between 1977 and 1982 in the EC and Japan, while remaining poor vis-a-vis the USA.

Procurement Practices

6. In the statement made by the Canadian delegation on 25 June in the Working Party (see Spec(84)43, paragraph 12), reference was made to a study done by Canadian authorities on power system utilities. Government procurement practices in this area have a significant impact on trade in further manufactures of certain non-ferrous metals, especially copper and aluminium for electrical wire and cable. Governments generally provide extensive market support for their national electrical leaders, while virtually ensuring the full domestic market to national suppliers through protective procurement policies. In fact, in many countries, such as Japan, the Federal Republic of Germany, France and the United Kingdom, bidding documents are unavailable to other than domestic manufacturers. In the USA, governments own approximately 20 per cent of the installed generating capacity of electrical utilities, while almost half of the US private utilities report giving preference to US goods. Domestic procurement policies often provide producers of electrical products with greater flexibility when pricing goods for international bids. Further information on procurement practices with respect to power utilities is presented in Table II.

TABLE II

POWER PROCUREMENT POLICIES IN SEVERAL COUNTRIES		
Country	Extent of Government Ownership of Power System	Utility Purchases of Foreign Electrical Products
1. Austria	Government-run under one holding company	If domestic unavailable
2. Belgium	Nationalized system	If domestic unavailable
3. U.K.	Nationalized system	None
4. France	Nationalized system	None
5. FRG	70% federal ownership	None
6. Italy	Nationalized system	None
7. Japan	Most utilities privately-owned	Prototypes only
8. Sweden	Over 50% public ownership	Limited
9. Switzerland	Municipal control	None
10. USA	About 20% federal or municipal ownership	About 50% of market open

Article XXIV Tariff Preferences

7. During the 25-27 June session of the Working Party, the Canadian delegation briefly outlined some preliminary analysis that had been carried out concerning the impact of Article XXIV tariff preferences, with particular emphasis on the preferential entry of exports from EFTA countries into the European Communities, the world's most important import market for forestry products and non-ferrous metals and minerals, and the third largest import market for fisheries products. In order to facilitate the further deliberations of the Working Party, we present below the fuller results of our preliminary work. Our intention is not to bring into question Article XXIV agreements as such, but rather to underline the impact such agreements may have on patterns of trade in certain sectors related to the mandate of the Working Party.

8. With respect to the six major non-ferrous metals and minerals, the EFTA share of EC imports of ores and concentrates, as well as ash and residues (all duty-free on a m.f.n. basis) is modest:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
8.1%	8.0%	9.8%	8.6%

If we consider imports of unwrought products, alloys, waste and scrap and power, flakes and dust (which includes m.f.n. dutiable imports), then the EFTA share rises somewhat:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
15.5%	17.1%	19.0%	20.0%

If, however, we exclude those unwrought items which are duty-free on an m.f.n. basis (i.e. if we base our calculation only on m.f.n. dutiable imports - in other words, those products that enjoy preferential duty-free access into the EC for EFTA countries), then the EFTA share increases dramatically by up to 40 percentage points:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
55.9%	53.4%	62.3%	55.5%

At the wrought/semi-fabricated stage, EFTA countries enjoy preferential duty-free entry for all products exported to the EC. Consequently the EFTA share is very high and has increased steadily between 1976 and 1982, as production has shifted in response to opportunities presented in the EC market:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
48.0%	50.0%	56.8%	60.7%

9. With respect to primary forestry product imports into the EC (most of which enters on an m.f.n. duty-free basis), the EFTA share is as follows:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
36.5%	37.7%	40.0%	38.8%

At the semi-fabricated level, which includes many items with dutiable m.f.n. rates (and thus EFTA-EC tariff preferences), the EFTA share increases by approximately 20 points:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
59.9%	60.1%	58.5%	59.1%

If, however, we control for those semi-fabricated items which are duty-free on an m.f.n. basis (that is, if we include only those products for which a preferential EFTA-EC duty applies), then the EFTA share increases by another 15 points:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
73.1%	74.3%	73.4%	75.2%

For Chapter 48 products, the staging of EFTA-EC tariff reductions occurred over a period of ten years ending on 1 January 1984. If we exclude the only product which has entered duty-free during this period (i.e. newsprint), the EFTA share of EC imports of paper products is significant and demonstrates some tendency to increase over time:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
72.6%	75.4%	76.6%	79.2%

As the tariffs for paper products were gradually reduced for preferential Article XXIV suppliers, the major EFTA country forestry product industries began to emphasize higher value products for export to the EC. There has been a marked shift away from pulp (which generally enjoys duty-free m.f.n. treatment at any rate) to paper products, most of which attracts dutiable m.f.n. rates. The ratio of EC imports of Chapter 47 products from EFTA sources over EC imports of Chapter 48 products from EFTA sources evolved as follows:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
58.1%	47.4%	46.5%	38.7%

10. With respect to fisheries products, it is necessary to be particularly cautious in interpreting the trade flow data because of the sometimes rapid shift in harvesting levels of certain products (typical of the "agricultural" sector), the wider variety of intergovernmental arrangements in place, the fact that fewer fisheries products are covered by the EFTA-EC Article XXIV agreements than is the case for non-ferrous metals and

forestry products, and in recognition that the tariff preferences established in these agreements, while often substantial, do not always involve reduction to duty-free. Nonetheless, in broad terms the same pattern emerges. The EFTA share of total EC imports of fish at the unprocessed/primary product stage is as follows:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
15.2%	14.7%	16.3%	16.2%

However, if we consider only those unprocessed fish products which are dutiable on an m.f.n. basis and for which an Article XXIV EFTA preference exists, the EFTA share of EC imports at this stage of processing increases noticeably and the differential demonstrates some tendency to increase during the transitional period covered:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
24.9%	24.4%	35.0%	30.0%

At the semi-processed level, for which there are extensive Article XXIV preferences, the EFTA market share is substantial:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>
63.5%	58.7%	57.6%	57.8%

11. The Canadian delegation recognizes that the statistical analysis presented in this section is not definitive in nature; but the consistency of the pattern revealed at several levels and across three different economic sectors is, in our view, highly suggestive of the way in which the EFTA-EC Article XXIV tariff preferences may operate to divert trade. A further indication in yet another sector (textiles and clothing) also tends to support this view. "The dismantling of barriers to non-agricultural trade between EC and EFTA offers a plausible explanation" for the increased vitality of EC-EFTA trade in textiles and clothing (see Spec(84)24, 4 May 1984, paragraphs 4.12-4.16).

Lumber Imports

12. As indicated in document Spec(84)12 of 19 March 1984, "Problems of International Trade in Forestry Products", lumber ranks as one of the principal forestry product exports and thus the form in which it is traded is of substantial interest to exporters. In this regard, it is useful to make a distinction between "rough" lumber which is traded under CCCN item 44.05 and dressed or worked lumber which enters markets under CCCN item 44.13. The trade flow patterns enjoyed by these two lumber categories in several key markets is significantly varied. In both 1977 and 1982, according to work undertaken by Canadian authorities on the basis of an analysis of the respective national import statistics, the overwhelming proportion of wood flooring (mostly lumber) imported into the United States entered in the dressed or worked stage, while exactly the opposite situation prevailed with respect to imports into the EC and Japan. Table III provides the details:

TABLE IIIWood Flooring Imports by Degree of Processing
(expressed as a percentage of total flooring imports)

	EC 1977/1982	USA 1977/1982	JAPAN 1977/1982
Rough	95.1/93.9	13.5/13.0	88.3/79.8
Dressed or worked	4.9/6.1	86.5/87.0	11.7/20.2

The causes of this significant difference between the US market on the one hand and the EC and Japanese markets on the other hand would appear to be related in part to different tariff regimes (in the USA, almost all flooring enters duty-free on an m.f.n. basis, while in the EC item 44.05 articles enter duty-free, while 44.13 products face a positive m.f.n. duty, the case of Japan being somewhat more mixed). The difference may also be related to the question of more complex and varied building codes and standards in the EC and Japan. The Canadian delegation would be interested in sharing its experience in this regard with other members of the Working Party.

Summary

13. In its background note MDF/W/1, the Canadian delegation identified several of the important issues which, from its perspective, should be addressed by the Working Party as it undertakes its discussion of problems of international trade in resource products with a view to recommending possible solutions. We indicated that the secretariat draft background studies prepared to date provide a useful basis for the task of the Working Party, but indicated additional factual and analytical work would be required. It is in this light that Canada circulated MDF/W/1 and now circulates the present background note which contains supplementary information relevant to the mandate of the Working Party. We would also encourage other delegations to submit their views in detail so that appropriate recommendations can be developed as to how the identified problems of trade might be resolved.