

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Party on Trade in Certain
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Metals and Minerals
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NOTE ON THE PROCEEDINGS OF THE WORKING PARTY ON
TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS: NON-FERROUS
METALS AND MINERALS HELD ON 28-29 JUNE 1984

Prepared by the Secretariat

1. The Working Party on Trade in Certain Natural Products met on 28-29 June 1984 to discuss factors affecting trade in zinc, lead and their products under the chairmanship of Mr. M. Cartland (United Kingdom - Hong Kong).

Zinc

2. The Chairman noted that general discussions on trade problems in non-ferrous metals had been held on 25 June 1984 and that the Working Party would now embark upon the detailed examination of problems in trade in specific metals. It was agreed that the examination would start with zinc and zinc products on the basis of the background document (Spec(83)51/Rev.1 and Add.1) prepared by the secretariat. The Chairman informed the Working Party that document Spec(83)51/Rev.1 contained brief descriptions of production, consumption and prices of zinc and zinc products. It further indicated the international trade and commercial policy situation relating to tariff and non-tariff measures applied to these products by importing countries. It also mentioned activities in other international organizations, namely in the International Lead and Zinc Study Group. The Chairman added that Addendum 1 to this document contained more detailed information on trade flows in zinc and zinc products under different tariff treatment in twelve developed countries as well as some developing countries. Moreover, the tables attached to this document showed trade in zinc and zinc products under different tariff treatment according to stages of processing at the tariff line level. The Chairman informed the Working Party that the discussions would commence with general statements by members of the Working Party on problems related to zinc and zinc products. This would be followed by a detailed section by section examination of the secretariat background document, concentrating on specific problems within the competence of the General Agreement, particularly those mentioned in the terms of reference relating to tariffs and non-tariff measures.

3. The representative of a developed country expressed his delegation's interest in addressing the issues of nominal tariffs, tariff escalation, effective protection and non-tariff barriers in the area of trade in zinc and zinc products. He thanked the secretariat for the documentation, emphasizing that he had found the data presented in the addendum particularly useful for the analysis of the tariff situation facing trade in zinc and zinc products.

4. The representative of a developing country observed that while a first reading of the secretariat document gave rise to the impression that trade in non-ferrous metals was fully liberalized, in practice a number of obstacles still remained. She made reference to the fact that the exports of a majority of developing country producers were mainly in the form of raw materials or primary products while those of developed countries were primarily semi-processed and finished products. She added that this division of labour could not be sustained if trade in non-ferrous metals were truly liberalized and thus comparative advantage allowed to operate unhindered. The existence of tariff and non-tariff barriers, in her opinion, served to perpetuate the relegation of producer developing countries to the position of exporting raw materials and primary products. She noted, in this context, that the tables included in the secretariat document showed clearly the existence of nominal tariff escalation. Her delegation was, however, also interested in the level of effective tariff protection. While recognizing the methodological problems involved in the measurement of effective protection, she suggested that the secretariat could furnish some information on this problem for products at the lower end of the processing chain.

5. She also noted that while most zinc products were included in the GSP schemes of the developed importing countries, benefits under these schemes were limited for a number of reasons: (1) a number of these schemes had ceiling limitations; (2) the existence of regional preferential arrangements nullified, to a large extent, the preferences provided to developing countries under the GSP; (3) the general uncertainty inherent in the GSP made it difficult for developing countries to rely on the continuation of its benefits and thus to undertake investment programmes which would further industrialization. In addition to resulting in the erosion of the benefits that could be derived under the GSP, regional trading arrangements had the effect of distorting trade patterns. The tables included in the secretariat paper showed clearly that a large part of trade in non-ferrous metals was conducted intra-regionally, in particular between the EEC and EFTA. The effects of such regionalization in trade could be compared to bilateralism, whose dangers were widely recognized. Other practices that had a trade distorting effect and were thus of concern to her delegation included rules of origin, government procurement policies, strategic stockpiling and the U.S.-administered DISC. She recalled that the Ministerial Declaration called for the in-depth examination of all trade problems affecting non-ferrous metals and urged the Working Party to address the entire range of barriers in this area. While not strictly specific to trade in non-ferrous metals, she mentioned that another issue which had a decisive impact on trade flows related to transport costs. A more specific concern for her delegation was the special treatment afforded to imports of unwrought zinc. Noting that the EEC excluded these products from the GSP, while the United States applied a high tariff of 19 per cent, she enquired why imports of unwrought zinc warranted this special treatment.

6. The representative of another developing country shared the previous speaker's concerns about the effects of tariff escalation on trade flows, transport costs and preferential arrangements among some developed countries. In view of the negative effects of these preferential arrangements on the benefits that could be derived from the GSP schemes, she urged the expansion of GSP quotas and emphasized the importance of this measure for the fuller integration of developing countries into the trade in non-ferrous metals and minerals.

7. The representative of a developed country indicated that his general remarks would be applicable equally to the zinc and lead studies. He noted that the secretariat had benefitted to a large extent from information provided by the International Lead and Zinc Study Group. He recalled that the Study Group had itself initiated similar studies, but the project had never been completed, partly because of a lack of response from members. Since the 1978 study, prepared by the International Lead and Zinc Study Group and cited in both secretariat papers, was somewhat outdated, the GATT studies proved useful in updating information on measures affecting trade in lead, zinc and their products. While the secretariat's documentation included a wealth of information on the prevailing commercial policy situation, none of the papers had attempted, with good reason he noted, to analyse effective protection. He added that such an analysis would not have presented a problem for the three countries on whose behalf he was speaking since protection in these countries relating to the area of concern was practically non-existent. He noted that both studies, and particularly the one on zinc, briefly touched upon some of the important structural developments affecting production and trade in the respective industries. These structural developments were related to the successively lower forecasts for long-run demand due to the relatively lower metal use per unit of GNP increase. The tendency to relocate mining and processing from developed to developing countries also affected patterns of production and trade flows in all non-ferrous metals. He added that continuous attention was being given to these aspects in UNCTAD, OECD and other fora. In addition, the International Lead and Zinc Study Group, which was highly esteemed by governments and industry in both producing and consuming countries, provided a special forum for the discussion of matters relating to lead and zinc. He recalled that on previous occasions suggestions had been made to create similar forums of discussion for other non-ferrous metals and minerals as well. He noted that the secretariat papers included no suggestions regarding further work in this area beyond the updating of the studies themselves. He indicated that the delegations on whose behalf he was speaking were not convinced of the need to undertake further work in this area and reiterated their doubts about the wisdom of further sectoral work in the GATT. He also advised that duplication of work among GATT bodies should be avoided.

8. The representative of another developed country commended the secretariat on the lead and zinc studies but noted that some revision would be necessary to achieve greater precision. In general, he expressed his delegation's desire to include in the studies a more comprehensive treatment of tariffs and import restrictions in developing countries, as a complement to the depth and breadth of the coverage adopted for developed countries. In addition, he noted that it might be desirable to consider a deeper treatment of the economics of processing in the producing countries. The studies provided some evidence of an established trend in producing countries towards increasing processing, at least through the refining stage. However, his delegation would have welcomed some explanation regarding why and how this trend materialized, including a discussion of its relation to trade policies in importing countries. In this context, he also expressed interest in a more detailed treatment of government policies in producer countries regarding further domestic processing.

9. The representative of a group of developed countries indicated that some updating of the data contained in the secretariat studies should be possible, as 1983 data for stocks and production were partially available. Further, he found that the secretariat papers did not contain sufficient information on the production of semi-manufactures. While recognizing the difficulties encountered in the compilation of detailed production data for lead and zinc, in particular, he emphasized the need for comprehensive figures on the production of semi-manufactures in order to establish the relationship between trade and production in these non-ferrous metals. He added that it would be useful for analysis to establish a "co-efficient of mobility", defined as the ratio of trade flows to production. This could be done at various levels, including for different metals, for various stages of processing of one metal, and for individual countries or groups of countries. It would provide a useful tool for comparing "mobility" of different metals at various stages of processing for different countries or country groupings. He expected, for example, that the ratio of trade to production for semi-manufactures would be significantly lower than that for ores and that the co-efficient for tin would be higher than the corresponding ones for other metals.

10. Concerning the measurement of effective tariff protection, he found the conventional method, which sought to arrive from production costs to value added, to be wrought with problems, as processing methods varied from country to country and it was impossible to account satisfactorily for certain inputs such as electricity and social charges. Instead, he proposed an alternative method of calculating effective protection based on import and export statistics which he was prepared to discuss with interested delegations. His last general remark related to the tables showing trade flows where he found the coverage of developing countries to be inadequate for the purposes of a comprehensive analysis of the nature and evolution of trade in non-ferrous metals.

11. Following the general remarks, and during the course of the section by section examination of the secretariat background document, a number of delegations made specific suggestions for minor textual modifications. It was agreed that the secretariat would take all such comments into account in preparing a revised version of the present document on zinc and zinc products. A number of delegations also requested the updating where possible of the information provided in the tables included in the background document. One representative commented on the qualitatively different nature of data on Centrally Planned Economies, cautioned against using estimates made by outside experts on these countries together with official statistics from other countries and requested explicit recognition of the nature of CPE data in tables where they appeared.

Specific Substantive Comments on the Secretariat Background Study.

Introduction

12. The representative of a developed country said that the wording in paragraph 12 of the document might be misleading in creating the impression that industry concentration was much higher at the smelting than mining stage. He doubted that the 300 mines mentioned in the study were owned by 300 separate companies and requested the secretariat to provide some information on the number of companies that controlled these mines so that a more accurate comparison of concentration could be made between the mining and the smelting stages.

Section I

13. A number of delegations commented on paragraph 21 of the document which maintained that "the tendency to shift smelter production from consuming regions to zinc-mining countries should continue as these countries would continue to implement policies aimed at increasing the value-added of their production." A major developed mining country found this assertion to be subjective and said that the statement was not supported by trade data with respect to his country. He did not think it would be valid for another important developed mining country either, and this statement was subsequently confirmed by the representative of the developed country to which he was referring. He added that his delegation had particular problems regarding the reference to the implementation of policies aimed at increasing the value-added of production. He noted that there were no such policy instruments in his country and that the decision regarding the location of smelter production depended on the evaluation of the private sector regarding the economics of zinc smelting and refining production. The representative of another developed country said that there had indeed been a trend in some mining countries toward increased processing and he felt that this point should be reflected in the paragraph under consideration. In addition, he would welcome any further information that could be provided by the secretariat regarding the nature of the policies that were resulting in this trend toward increased processing in some mining countries. A suggestion was made by one representative to limit the scope of the secretariat statement to developing countries only; the suggestion was supported, in principle, by the previous speakers on this point. The representative of a developing country said that increasing domestic processing of ores and concentrates represented an aspiration of developing countries rather than reality at the moment. She indicated that in her country there were no policy measures designed to promote further processing, just investment programmes developed together with international organizations like the World Bank and the Inter-American Bank for Development. She added that mining enterprises in her country were not subject to state control.

14. The representative of a developed country, citing paragraph 23 of the secretariat document, noted that the bulk of zinc production is sold under direct supply contracts and that demand is not very sensitive to fluctuations in prices. He added that, as a result, demand would be influenced very little by such factors as duties on tariffs which affected prices in a negligible way. He encouraged the Working Party to take note of this feature when considering the impact of tariffs on the level of demand.

Section II

15. The representative of a group of developed countries reiterated his delegation's desire to have production data at the same disaggregated level as that employed for trade statistics. He maintained that this was necessary to have a comprehensive picture of the world zinc industry at the various stages of processing and added that the analysis of the trade situation in zinc had to be done in conjunction with an examination of the production situation. The secretariat undertook to examine the possibilities for providing the Working Party with more detailed data on production in zinc, but the lack of information, especially at the world level, curtailed severely the scope of work in this area.

16. The representative of a developing country requested that information provided under the section on direction of trade be supplemented by statistics shown in the addendum to the document so as to have a comprehensive picture of trade in zinc at all stages of processing.

Section III

17. The representative of a developing country said that the U.S. GSP scheme could not be characterized as providing unlimited access at duty free rates to all imports of zinc and zinc products when imported from developing countries. The U.S. scheme was subject to competitive need limitations and as a result could not be described as providing unlimited access. Moreover, duty-free treatment did not apply to all imports of zinc and zinc products as imports of unwrought zinc were subject in the United States to high rates of duty. She added that the Japanese GSP scheme, apart from being highly complex, incorporated some quantitative limitations.

18. A number of delegations commented on the issue of tariff escalation and effective protection and found that paragraph 40 of the document, which addressed this question, should undergo some revision. The representative of one developed country circulated some suggested language for this paragraph and the representative of a group of developed countries undertook to submit to the secretariat some information on the measurement of effective protection in lead and zinc. While some delegations suggested that limiting the scope of effective tariff calculation to the early stages of processing would minimize methodological problems, others were not convinced of the utility of such an exercise since tariff escalation was a problem precisely at the higher stages of processing. The representative of one developed country also indicated that his delegation would be more interested in an analysis of the impact on trade flows of non-tariff measures rather than further work on tariff escalation. There was widespread agreement by members of the Working Party to revert to the issue of tariff escalation and effective protection in future meetings.

19. In response to a query by one delegation, the representative of a developed country indicated that there was encouragement of further processing of natural resources in his country only in a general sense. There was no federal enabling legislation and the few legislative tools that existed were at the provincial level. Moreover, the two provinces that had such enabling legislation, namely the Quebec Mining Duties Act and the Mining Income Tax Act of the Province of New Brunswick, had not used them to date.

20. The representative of a developing country indicated that the information provided in the background document on her country's commercial policy with respect to zinc was inaccurate. She said that both exports and imports of zinc and zinc products by her country were entirely liberalized. In 1983, her authorities had submitted to the secretariat a list of products subject to prior licensing; zinc and zinc products were not included in that list and had never before been subject to licensing.

Summary

21. The representative of a developed country indicated that the first paragraph of the summary could highlight technical change and slow rates of growth, particularly in developed countries, as the underlying problems that affect world zinc consumption.

22. The representative of a developed country made suggestions (and provided a written formulation) to expand the summary section to bring forth observations that could be gleaned from the addendum into the main document. Following the comments of other delegations on the suggested paragraphs, the Chairman noted that there was broad agreement among members of the Working Party that Addendum 1 formed an integral part of the zinc study and therefore the conclusions that could be drawn from it should be reflected in some fashion in the revised document.

Lead

23. After the examination of problems in zinc and zinc products, the Working Party on Trade in Certain Natural Resource Products continued its consultations on factors affecting trade in lead.

24. The Chairman recalled that the factual background documentation prepared by the secretariat on lead and lead products. (Spec(83)30/Rev.1 and Add.1) would form the basis for the examination. This document contained brief descriptions of production, consumption and prices of lead and lead products. It further indicated the international trade and commercial policy situation relating to tariff and non-tariff measures applied to these products by importing countries. It also mentioned activities in other international organizations, namely in the International Lead and Zinc Study Group. The Chairman added that Addendum 1 to this document contained more detailed information on trade flows in lead and lead products under different tariff treatment in twelve developed countries as well as some developing countries. Moreover, the tables attached to the document showed trade in lead and lead products under different tariff treatment according to stages of processing at the tariff line level. The Chairman suggested that as in the case of the consultations on zinc, the Working Party's discussions would commence with general statements by members of the Working Party on problems related to lead and lead products. This would be followed by a detailed section by section examination of the secretariat background document, concentrating on specific problems within the competence of the General Agreement, particularly those mentioned in the terms of reference relating to tariffs and non-tariff measures.

25. With respect to general statements, several delegations noted that the general remarks expressed during the examination of zinc would also apply to lead. During the course of section by section examination of the secretariat background document a number of delegations made specific suggestions for minor textual modifications. It was agreed that the secretariat would take all comments into account in preparing a revised version of the present document on lead and lead products. A number of delegations also requested the updating, where possible, of the documentation provided in the tables included in the background document. Some delegations also proposed an extended coverage of the lead study by the inclusion of three additional products, namely: lead-based pigments (CCCN ex32.07), SLI-batteries (CCCN ex85.04) and ammunition (CCCN ex93.07), which were major lead products.

Specific substantive comments on the secretariat background study

Section I

26. The representative of a developed country made several technical comments on paragraphs 11, 19, 20, 23 and 24. He noted that world mine production of lead had been increasing until the early 1970's and that a stagnation of production had occurred as of 1975. He regretted that no statistical information was available on lead metal production in the 1960's which would show the longer-term trend in smelter and refined lead production. He further pointed out that in contrast to zinc, which is produced mainly from ores, recycling of lead accounted for 35 to 40 per cent of metal production. The main users of lead scrap are developed countries. He expressed doubts about the annual growth rate figures on consumption and indicated that the turning point in lead consumption was 1975. He proposed changes in the chart and the analysis of paragraph 23 explaining that much of the gap between lead metal production and consumption was accounted for by exports to the centrally-planned economies.

27. Several delegations commented on paragraph 24, stressing the importance of the influence of by-products and co-products on lead prices. It was also mentioned that the production of secondary lead was not always lower-cost compared to primary lead production, and that at present secondary production suffered more from depressed market conditions than primary production. It was also proposed to make a separate paragraph on stocks. In this respect a representative of a developing country enquired whether the US envisaged legislation which would authorize sales from its strategic stocks of lead.

Section II

28. The representative of a developing country observed that while developing countries were exporting mainly lead concentrates and unwrought lead, several developed countries dependent on imports of the former products for further processing were principal exporters of refined lead. She further noted that tables on foreign trade in lead indicated that most of the trade in lead semi-manufactures and manufactures took place among developed countries often in the same region, benefiting from preferential rates.

Section III

29. The representative of a developed country proposed the addition of the following sentence to paragraph 35: "most importing countries made only modest or no tariff reductions for unwrought forms (notably refined lead and lead alloys, lead powders and flakes), which along with concentrates, account for the bulk of world trade in lead and lead products". However, several delegations observed that tariff concessions were exchanged on the basis of harmonization and proposed the use of another formulation without judging values of tariff reductions (in one sector). It was decided to use a formulation similar to that which had been agreed in the corresponding paragraph in the zinc study. A representative of one developed country also mentioned that the expression "negative preference" was not used in GATT official language.

30. In this respect, the representative of a developing country pointed out that the existence of regional preferential arrangements nullified preferential treatment provided to developing countries under the GSP. She further noted that several developed importing countries applied limitations to imports of lead and lead products under their GSP Schemes such as ceilings and competitive need provisions.

31. The representative of one developed country suggested some additions to paragraph 44 on tariff escalation and effective tariff protection. As this subject had already been discussed during the examination of zinc, the members of the Working Party agreed to revert to this issue in future meetings.

32. Commenting on paragraphs 46 and 47, the representative of a developed country mentioned that many countries had legislative means to control imports and exports of lead and lead products for reasons of national security and implementation of intergovernmental arrangements or commitments as well as to ensure adequate domestic supplies in a manner consistent with the General Agreement. He pointed out that his country had no federal enabling legislation and the existing legislation at the provincial level had never been used. The representative of a developing country proposed a further analysis of non-tariff measures to include, amongst other matters, the DISC legislation in the US, rules of origin, and the influence on lead prices of possible sales from US strategic stocks.

Summary

33. The representatives of developed countries suggested that the summary section be expanded to include observations contained in the addendum. The representative of one developed country submitted a written formulation in this respect. Following the comments of delegations, the Chairman noted that in view of the large measure of agreement among the members of the Working Party, Addendum 1 should be regarded as an integral part of the lead study and the conclusions contained in it would be reflected in the revised document.

34. The Chairman thanked delegations for their active participation in the meeting of the Working Party and stated that the next meeting of the Working Party dealing with copper and copper products would take place in the first week of October.