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Working Party on Trade in
Certain Natural Resource Products
Non-Ferrous Metals and Minerals

PROBLEMS OF TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS

NON-FERROUS METALS AND MINERALS

Draft Report of the Working Party

Revision

1. The Working Party on Problems of Trade in Certain Natural Resource Products was established by the Council at its meeting on 13 March 1984 (C/M/176) with the following terms of reference:

"To examine, in accordance with the Decision on Problems of Trade in Certain Natural Resource Products adopted at the Ministerial Meeting of the CONTRACTING PARTIES in 1982 (BISD 29S/20), problems falling under the competence of the General Agreement relating to tariffs, non-tariff measures, and other factors affecting trade in the following natural resource products including in their semi-processed and processed forms, with a view to recommending possible solutions:

- (a) non-ferrous metals and minerals,
- (b) forestry products,
- (c) fish and fisheries products.

The Working Party shall conduct its examination on the basis of background documents prepared by the secretariat. Other relevant documentation, including any information provided by delegations, may also be considered.

The Working Party shall submit a separate report to the Council on each of the three areas mentioned above. Each report will be submitted to the Council when it is concluded, independently from progress in other areas. A progress report will be submitted to the fortieth session of the CONTRACTING PARTIES in November 1984.

Work in each area will progress in accordance with its own time-frame, and not be linked to progress in other areas".

2. Subsequently, the Council was informed at its meeting on 15/16 May 1984 (C/M/178) that Mr. M. Cartland (Hong Kong) was appointed Chairman of the Working Party.
3. The Working Party held meetings on problems affecting trade in non-ferrous metals and minerals on 25 June (non-ferrous metals and minerals in general)¹, 28-29 June (zinc and lead)¹, 1-2 November 1984 (copper).¹ Pursuant to its terms of reference, it submitted a progress report (covering the three product areas under its examination) to the fortieth session of the contracting parties in November 1984.² The Working Party further met on 3 July 1985 (nickel and tin) and on 18 October 1985.¹ The Chairman submitted a progress report to the forty-first session of the contracting parties in November 1985.³ The Working Party met again on 24 April 1986 (aluminium)¹ and on 16 May 1986 for the adoption of its final report to be presented to the forty-second session of the contracting parties in November 1986.
4. The Working Party conducted its examination of problems of trade in non-ferrous metal and minerals on the basis of six background studies⁴ prepared by the secretariat - one on each of the six major metals - aluminium, copper, nickel, tin, lead and zinc - as well as of other GATT studies (including a study on tariff escalation in copper and a review of the literature on import demand elasticities⁵); and of information circulated by some of its members⁶ or provided orally in meetings of the Working Party. It was understood that this material would also be taken into account in any future work on non-ferrous metals and minerals.

¹MDF/1 (non-ferrous metals and minerals), MDF/2 (zinc and lead), MDF/5 (copper), MDF/21 (tin and nickel), MDF/...

²MDF/3

³MDF/25

⁴MDF/W/... (lead); MDF/W/37 (Zinc); MDF/W/10 (copper); MDF/W/20 (tin); MDF/W/21 (nickel); MDF/W//61 (aluminium)

⁵TAR/W/26, COM/TD/W/361; MDF/W/5

⁶MDF/W/1, MDF/W/3 and Add.1

5. Each of the six background studies comprised five broad sections: the main features of the respective commodity industries; world production, consumption and prices; international trade; the commercial policies of the main trading countries; and the activities of other international organizations. In the sections on production it was possible to identify four or five distinct stages of production for non-ferrous metals: mining and primary preparation to yield a marketable ore or concentrate; smelting to yield matte, blister or bullion; refining to yield a pure unwrought primary metal or in some instances special alloys; semi-manufacturing, such as metal rolling, extending, or casting to yield a variety of wrought products; and metal manufacturing. In some instances, the smelting and refining stages are virtually inseparable. Two other processing activities were also noted: the production of metallic compounds for a variety of chemical uses; and the secondary recovery of metals, particularly for aluminium, copper, lead, zinc and tin. It was also noted that a number of other metals, notably antimony, cadmium, cobalt, gallium, germanium, indium, molybdenum, precious metals, selenium, tellurium and thalium are commonly produced in association with some of the six major non-ferrous metals and that their recovery and sale have a bearing on the commercial viability of many mines.

6. Historical data permitted the following observations for the various stages of production of the six major non-ferrous metals:

a. aluminium - most bauxite is mined in tropical zones (primarily in developing countries and Australia) and largely processed to alumina and aluminium in areas where energy is readily available or close to large consumers, mainly in developed countries. Nevertheless, there has been a marked shift in the past decade to smelting in developing countries;

b. copper - about one-half of world mine production and just over one-quarter of primary refined production is in developing countries;

c. nickel - production at all stages had been concentrated in developed countries but there has been a marked shift over the past fifteen years towards developing countries to the extent that they now account for about one-third of world mine output;

- d. lead and zinc are commonly produced in association, and output at all stages is concentrated in developed countries;
- e. tin-production at the mining and smelting stages is concentrated in developing countries;
- f. secondary recovery of non-ferrous metals is concentrated in large consuming countries.

7. Although the year to year demand and prices for the six major non-ferrous metals have varied widely since the first energy crisis of 1973-74, growth in production and consumption has slowed down or stagnated and real prices have generally fallen to post-war lows during the first half of the 1980's. Among the factors contributing to weakening demand for metals were: substitution by new materials, technological changes and decreasing intensity of use in key consuming items, environmental and health regulations, and overall slow economic growth. At the time of writing, even though the world supply demand balance for some of the metals had strengthened, non-ferrous metal prices remained generally weak.

8. On the basis of the background studies, the Working Party made the following observations with respect to trade in non-ferrous metals and minerals and commercial policy:

a. trade in non-ferrous metals takes place in five product groups: ores and concentrates and intermediate products, unwrought metals (whether of primary or secondary origin), wrought metal products, chemicals and finished metal manufactures. Imports of the six major non-ferrous metals according to these product groups were examined in the following countries:

- developed countries: Australia, Austria, Canada, the EEC, Finland, Hungary, Iceland, Japan, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and the United States.
- developing countries: Argentina, Brazil, Colombia, Hong Kong, India, Indonesia, Israel, Jamaica, Korea, Republic of Malaysia, the Philippines, Singapore, Tunisia, Turkey and Yugoslavia.

b. with some exceptions, the m.f.n. rates of duty on non-ferrous metals and their products are bound by all developed countries. Certain products are subject to ceiling bindings while m.f.n. rates applied to imports are lower. The majority of the positive m.f.n. rates of duty in developed countries were reduced in the Tokyo Round. Tariff cuts varied according to products and countries and ranged between 10 per cent and 65 per cent. In general, tariff cuts were deeper on products which were facing higher nominal duties. However, certain sensitive m.f.n. rates were bound at the same level or were only marginally reduced. Most m.f.n. tariffs in developing countries are unbound. Nevertheless, certain items are subject to ceiling bindings in several developing countries;

c. for most countries, both developed and developing, positive m.f.n. rates of duty are ad valorem. Only one country applies specific rates to all non-ferrous metal products. Specific rates are also applied by some developed countries to certain non-ferrous metal products, namely chemical products;

d. the post-Tokyo m.f.n. tariffs for non-ferrous metal products imported by developed countries range from zero to 80 per cent, the majority of which are from zero to 8 per cent. The m.f.n. rates of duty in the developing countries examined range from duty-free to 105 per cent, with the majority being between 10 per cent to 40 per cent. Hong Kong and Singapore grant m.f.n. duty-free treatment to all non-ferrous metal products;

e. most developed countries and some developing countries accord m.f.n. duty-free treatment or low positive m.f.n. tariffs on non-ferrous metal ores and concentrates. M.f.n. nominal rates of duty increase with a higher degree of processing, thereby providing tariff protection to domestic smelting and refining industries and/or semi-manufacturing or metal manufacturing industries;

f. all developed countries grant duty-free or preferential rates under their GSP schemes to most non-ferrous metal products subject to positive m.f.n. rates of duty when imported from developing countries. However, certain GSP schemes contain quantitative limitations or products or country exclusion provisions which apply to certain non-ferrous metal products;

g. most developed countries grant duty-free treatment or preferential rates of duty under other regional agreements, for the majority of non-ferrous metal products. Preferential treatment for some non-ferrous metal products is also granted by some developing countries under bilateral or regional agreements;

h. a range of non-tariff measures are applied to exports and imports of non-ferrous metals and minerals and their products. Non-tariff measures affecting trade in non-ferrous metals and minerals and their products on the import side are the following: import prohibition or embargo, discretionary licensing, quantitative restrictions, certain government procurement practices, exchange control, prior import deposits and taxes. Non-tariff measures on exports include export licensing, export restrictions, taxes, prohibition and embargo.¹ In addition to these measures, there exist other measures of a general nature in the form of governmental or inter-governmental grants and loans, fiscal measures, pricing policies, assistance for research, etc. which might have a protective effect.

(i) at present, most of the international trade in non-ferrous metals and minerals takes place in the form of ores and concentrates and unwrought metal. Ores and concentrates are mainly imported by countries which have an important smelting capacity and no, or insufficient, domestic mine production. Often, these countries are exporters of metal products at higher stages of processing. Trade in non-ferrous semi-manufactures and manufactures is of less importance and takes place mostly within the same geographic region and under preferential arrangements. Major suppliers of non-ferrous semi-manufactures and manufactures are developed countries. Imports of semi-finished or finished products from developing countries under GSP preferences are nil or very low and are limited to a few items.

¹ Zinc - MDF/W/37, page 82
Copper - MDF/W/10, page 87,88
Tin - MDF/W/20, page 93, 94
Nickel - MDF/W/21, page 104, 105, 106
Aluminium - MDF/W/61, page 129-135
Lead - MDF/W/

(j) trade barriers applicable to by-product and co-product metals produced in association with the six major metals might have an impact on the structure and trade of these products. Further, though the Working Party's examination of non-ferrous metals and their products has been confined to the six major metals, the similarity of trade problems from one metal to another suggests that where similar tariff and non-tariff barriers exist, trade in other metals will also be inhibited.

9. The Working Party devoted considerable attention to the problem of tariff escalation according to the degree of value added to non-ferrous metal products and the resulting effective rate of protection (ERP) afforded to domestic industries at the various stages of processing. Although discussions covered two different methods for calculating ERP, most attention focussed on the relationship of tariffs to the price (value) of inputs to the value added in that stage of processing. One member of the Working Party provided some examples to illustrate the ERP. The Working Party also reviewed the relevant sections of the study on tariff escalation in the copper industry¹ which showed that the copper industry in the countries examined was protected by, in general, relatively low nominal import tariffs, but indicated, on the basis of certain assumptions that, at least for the early stages of processing, the ERP was considerably higher. The examination of other metals also tended to suggest that where nominal tariffs show escalation at successive processing stages, simple calculations of effective rates of protection yield estimates that are higher than nominal tariff rates themselves.

10. The Working Party noted a report by the secretariat reviewing the literature on import demand elasticities as well as a 1972 GATT report on the Trade Effects of Tariff Changes. Import demand elasticities were understood to refer either to income or to price elasticities whereby there are causal relationships between variations in import demand and variations in income or variations in prices. The Working Party recognized the difficulty in establishing widely accepted empirical measurement for import demand elasticities, but concluded that demand for many non-ferrous metals and products was influenced among other factors by price levels and variations in these levels. Price levels are, inter alia, affected by existing tariffs and other trade barriers.

¹TAR/W/26, COM/TD/W/36

11. The Working Party noted a request by the EEC in May 1984 to establish a Working Party under Article XXII:2 to conduct consultations on Japan's measures affecting the world market for copper ores and concentrates and discussed the matter at its meeting of 1 November 1984 (MDF/5) under the general terms of reference set out in C/126.

Concluding remarks

12. The Working Party found that its examination of problems affecting trade in non-ferrous metals and minerals, including in their semi-processed and processed forms, had permitted a clearer identification of the basic difficulties currently faced by world trade and production of non-ferrous metals and minerals. This examination led the Working Party to the general conclusion that a process of trade liberalization in this area would permit an expansion of trade and thus facilitate the adjustment of production to market conditions, favour greater stability in prices and help create a stronger base for further development of metal industries.

13. The Working Party felt that the best means for seeking to reduce or eliminate barriers to trade falling under the competence of the GATT would be through a process of multilateral negotiations. It noted that such negotiations would be outside the scope of its present mandate. Most participants further felt that such negotiations should take place in the context of a new global round of multilateral trade negotiations already under preparation.

14. Members of the Working Party expressed the view that in any future negotiations relating to non-ferrous metals and minerals, including in their semi-processed and processed forms, account should be taken of the measures affecting imports or exports which have been identified in this area by the Working Party and which fall under the competence of the General Agreement, in particular the level of nominal tariffs (including unbound tariffs and GSP), tariff escalation and non-tariff measures.