

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Multilateral Trade Negotiations
Group "Sector Approach"

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NOTES FOR CANADIAN COMMENTS AT SECTOR GROUP MEETING ON 1 JULY 1975

INTRODUCTION

1. I would like to begin by thanking the secretariat for assembling the data contained in MTN/SEC/W/1 and its addenda; preparing the paper entitled "Possible Sectors of Interest to Developing Countries", and making at least the first paper available to delegations sufficiently in advance of this meeting to permit examination and reflection.
2. Initially the Canadian delegation was somewhat apprehensive as it approached the task of examining the data on metals. However, a large portion of the data was collected during the preparatory period to the trade negotiations and we were familiar with much of it, although the data was frequently organized in a different way.
3. The Canadian delegation also examined additional data assembled during the preparatory period. Of the additional data we found especially helpful the document entitled General Analysis of Industrial Tariff and Trade (MTN/34/W/7) and the Study by the Secretariat on Import Duties on Copper and Copper Products (COM.TD/71, 19 February 1970).
4. In the view of the Canadian delegation, the data assembled by the secretariat for this meeting combined with related data assembled during the preparatory period provides a more than adequate statistical base for the initiation of sector negotiations in certain non-ferrous metals.

SECTOR NEGOTIATIONS

5. Before examining the data, I would like to recall that the sector negotiations envisaged by Canada would have at least three important features:
 - (a) They would encompass all barriers which distorted trade of the related products - NTM's as well as tariffs;
 - (b) Trade liberalization would go beyond the liberalization likely to be achieved under the Tariff Negotiating Plan and other solutions of general application; and
 - (c) Tariff reductions would be designed to reduce tariffs, effective protection and significant disparities by the maximum amount legally possible in this negotiation, taking account of the authority given to the United States Administration by Congress.

EXAMINATION OF DATA

Industrial products

6. We initiated our examination of the data available to us by reviewing m.f.n. imports by the eleven customs territories that participated in the GATT Tariff Study of all industrial products for 1967 and 1971 by degree of processing: i.e. raw materials, semi-finished manufactures and manufactures. The statistics for 1967 are not precisely comparable to those assembled for the GATT Tariff Study but we are satisfied that the orders of magnitude are accurate.

7. The first important point that emerged from this review was that semi-finished manufactures account for a substantially smaller portion of industrial imports than raw materials and fully finished manufactures. In 1971, imports of semi-manufactures accounted for 21 per cent of total industrial imports whereas finished manufactures accounted for 47 per cent and raw materials 32 per cent.

8. A second point that emerged was that not only did semi-manufactures account for a relatively small portion of industrial imports but that their growth during the five years 1967 to 1971 was substantially less than that of finished manufactures and raw materials. During this five-year period, imports of semi-manufactures increased by about 20 per cent compared to 50 per cent for all industrial products, 75 per cent for finished manufactures and about 40 per cent for raw materials. In other words, total industrial imports increased by about two and one half times the amount of semi-manufactures, finished manufactures by three times the amount and raw materials by twice the amount. As a result, semi-manufactures accounted for a significantly smaller portion of total industrial imports in 1971 than in 1967.

Metals

9. Against this background, we continued our examination by reviewing the 1971 imports of all metals by the eleven customs territories participating in the GATT Tariff Study by degree of processing: i.e. ores and concentrates, unwrought metals and semi-manufactured metals.

10. Three points emerged from this review:

- (a) semi-manufactured metals accounted for only 31 per cent of the total imports of all metals; and
- (b) semi-manufactured metals accounted for 67 per cent of Canada's imports of all metals compared with 2 per cent for Japan, 17 per cent for the European Communities and 54 per cent for the United States;

(c) since Canada has a somewhat wider range of indigenous metals, it would be normal for us to import relatively small amounts of ores, concentrates and unwrought metals and thereby increase the percentage of semi-manufactured imports. However, in value terms, Canada's imports of semi-manufactured metals were ten times larger than Japan's imports and almost three-quarters of the imports by the European Communities of Nine.

Copper, nickel, lead and zinc

11. The next step was to examine 1971 imports of copper, nickel, lead and zinc by the eleven customs territories by the same degrees of processing. (These four metals were the ones for which the Canadian delegation had suggested, at the last meeting of the sub-group, that detailed work should proceed.) This examination showed that imports of semi-manufactures accounted for a very small portion of the total imports of each metal.

12. For example:

(a) imports of semi-manufactures accounted for the following portions of total imports of the metal by the eleven customs territories

- copper 9.0%
- nickel 5.1%
- zinc 2.2%
- lead 0.7%

(b) semi-manufactures account for 1 per cent of Japan's imports of copper and 2 per cent of the European Communities' imports

(c) in value terms, Canada's imports of semi-manufactures of copper are more than four times Japan's imports and about equal to the European Communities' imports.

Why?

13. At this juncture, we might ask the question why semi-manufactures of metals - especially of certain non-ferrous metals - account for a substantially smaller portion of imports than ores, concentrates and unwrought metal.

Tariff escalation

14. My delegation suggests that part of the answer to this question is the substantial increase or escalation in the nominal tariffs of a number of customs territories when you move from ores, concentrates and unwrought metal to semi-manufactured metals. This escalation of nominal tariffs results in high - in many cases virtually prohibitive - levels of effective protection. This conclusion emerged from our examination of the non-ferrous metal tariff profiles of the customs territories that participated in the GATT Tariff Study.

15. I would now like to provide a few examples of escalated tariffs. Before doing so, we should explain that to simplify matters we have selected the method of averaging tariffs by MFN imports. This method of averaging tends to understate tariff escalation because tariffs which are highly protective - i.e. permit relatively small amounts of imports or prohibit imports - receive relatively small or no weight.

16. The first group of examples of tariff escalation comprise weighted averages of tariffs on all non-ferrous metals by degree of processing:

- (a) For the eleven customs territories: Ores and concentrates, predominately enter free except for lead and zinc entering the United States; unwrought metals are dutiable on the average at 2.1 per cent; and semi-manufactures enter at an average of 5.3 per cent.
- (b) In the United States: unwrought, 2.4 per cent; semi-manufactures, 4.6 per cent.
- (c) In the European Communities of the Six: unwrought, 1.1 per cent; semi-manufactures, 7.1 per cent.
- (d) In Japan: unwrought, 5.9 per cent; semi-manufactures, 9.7 per cent.
- (e) In Canada: unwrought, less than 1 per cent; semi-manufactures, 4.2 per cent.

17. The second group of examples of tariff escalation which I will cite comprise the weighted averages of tariffs on copper, nickel and zinc.

(a) Copper

For the eleven customs territories: unwrought, 1.4 per cent; semi-manufactured 4.6 per cent.

For the European Communities of the Six: unwrought, zero duty; semi-manufactured 7.7 per cent.

For Japan: unwrought, 5.6 per cent; semi-manufactured 16.8 per cent.

For Canada: unwrought, less than 1 per cent; semi-manufactured 8.8 per cent.

(b) Nickel

For the eleven customs territories: unwrought, less than 1 per cent;
semi-manufactured, 4.7 per cent.

For the European Communities of the Six: unwrought, zero duty;
semi-manufactured, 5.6 per cent.

For Japan: unwrought, 3.9 per cent; semi-manufactured, 13.7 per cent.

(c) Zinc

For the European Communities of the Six: unwrought, 4.5 per cent;
semi-manufactured, 9.4 per cent.

For Japan: unwrought, 7.2 per cent; semi-manufactured, 13.1 per cent.

For Canada: unwrought, zero duty; semi-manufactured, 4.1 per cent.

Effective protection

18. These escalated nominal tariffs can provide much higher levels of effective protection. It is generally recognized that the effective rate of protection yielded by a tariff will exceed the nominal tariff rate if the material inputs are dutiable at lower rates than the final product. This effective incidence of tariff rates is expressed in terms of the degree of protection afforded to value added at a particular stage of processing.

19. Problems arise in attempting to measure effective protection largely because it is sometimes difficult to obtain accurate and detailed information on the value of the inputs and output. It is nevertheless possible to obtain data which is accurate and reliable at least in terms of orders of magnitude.

20. The Study by the Secretariat of Import Duties on Copper and Copper Products circulated in 1970 (COM.TD/71, 19 February 1970) contains a number of illustrative calculations of the effective incidence of nominal duties on semi-manufactures of copper.

21. These illustrative examples indicate:

(a) that a nominal 3 per cent duty on copper wire provides effective protection in the order of 15 to 30 per cent;

(b) that a nominal 8 per cent duty on the same copper wire provides effective protection in the order of 40 to 80 per cent;

(c) that a nominal 5 per cent duty on copper sheet provides effective protection of the order of 17 to 33 per cent;

(d) that a nominal 8 per cent duty on the same copper sheet provides effective protection in the order of 27 to 53 per cent;

(e) that a nominal duty of 15 per cent on copper tubes provides effective protection in the order of 38 to 100 per cent.

Non-tariff measures

22. Not infrequently these escalated tariffs are reinforced by non-tariff measures and some examples of non-tariff measures applying to non-ferrous metals are:

(a) Government procurement:

The data provided by the secretariat identifies government procurement as a non-tariff measure which adversely affects international trade in metals and metal products. On the basis of Canadian experience, government procurement is a significant barrier to trade in non-ferrous metal products, especially those used in the generation and transmission of electric power;

(b) Japan's quantitative restriction on sulphur:

This quantitative restriction increased the price of sulphur in Japan above the world price. This, in turn, increased the financial returns of Japanese smelters on the sale of this by-product above those of smelters in other countries which did not have quantitative restriction on sulphur;

(c) The United States "final list" valuation:

The "final list" includes anodes, bars, castings, electrode plates, rods, sheets, strands, strips and wire of nickel and nickel alloys. Placing these products on the final list can result in the imposition of arbitrarily high values for duty purposes which have little relationship to the actual transaction values;

(d) United States tax deferrals under DISC:

Tax deferrals under DISC are granted to companies which process metals and add at least 50 per cent of value for export;

(e) Financial assistance by certain States in the United States:

Certain States in the United States offer various forms of financial assistance to metal processing and manufacturing companies to locate within their boundaries;

(f) United Kingdom Investment Grants to three Companies to Establish Domestic Smelting Capacity for Aluminum:

The erection of these smelters has brought about large-scale import replacement which adversely affected the interests of countries which traditionally supplied the United Kingdom with aluminum.

Total protection

23. The accumulated or total protection provided by the escalated tariffs and non-tariff measures results in a number of processing and manufacturing facilities for non-ferrous metals being located behind the protection in the market rather than in the resource exporting countries. The continuation of these barriers will ensure that the countries exporting non-ferrous metals will continue to export them largely in the form of ores, concentrates and unwrought metal.

24. I would like to illustrate the implication of total protection by reference to nickel and the United States. The United States is the largest consumer of nickel in the world but produces only about 10 per cent of its requirements; ninety-six per cent (96%) of its imports are in the form of unwrought nickel and only 4 per cent in the form of semi-manufactured.

25. A company considering building, fabricating and manufacturing facilities in the nickel exporting country to export the semi-manufactured products to the United States would have to take account of the following trade barriers:

(a) Escalated tariffs.

Unwrought nickel enters the United States duty free whereas a range of semi-manufactured products are dutiable.

(b) Final list valuation.

(c) DISC.

As we understand DISC it grants tax deferrals to companies which process nickel and add at least 50 per cent value before exporting the product. This is a major incentive for nickel companies to locate processing facilities in the United States; import concentrates, matte or unwrought nickel; add a minimum of 50 per cent value; and export the semi-manufactured product.

(d) Financial assistance granted by certain States to nickel companies to locate processing facilities within their boundaries.

(e) Government procurement.

As long as this range of trade barriers is maintained, it is difficult to envisage a nickel company locating processing facilities in countries mining nickel for export of semi-manufactured products to the United States.

Exports

26. The United States, the European Communities of Nine and Japan accounted in 1971 for 85 per cent of the total imports of copper, nickel, lead and zinc by the eleven customs territories participating in the Tariff Study. About 90 per cent of these imports were ores, concentrates and unwrought metal and 10 per cent semi-manufactures. During the same year, 1971, the three customs territories accounted for 65 per cent of the total exports of semi-manufactures of these four metals. In value terms their exports of semi-manufactures approximated \$600 million and their imports \$280 million.

CONCLUSIONS

27. As a result of this examination, it seems to the Canadian delegation that there is a strong case for applying the sector approach as suggested earlier by this delegation with a view to reducing these barriers by the maximum amount possible in the MTN.

28. The Group will recall that sector negotiations as suggested by Canada would involve the following:

(a) they would employ a co-ordinated approach to reduce or eliminate all barriers to trade, tariff and non-tariff, to a greater degree than provided for in the general formulae in the MTN for dealing with these barriers;

(b) with respect to tariffs, they would proceed on the hypothesis that the United States negotiating authority is applied fully to the United States tariffs and that all other countries who participated in the GATT Tariff Study reduce their tariffs to those levels.

29. The tariff working hypothesis suggested by Canada for carrying forward the examination of sector negotiations would reduce tariffs, tariff escalation and effective protection by greater amounts than formulae proposed to date in the Tariff Group. The following example compares the reductions that would result from applying the European Communities formula five times (although the European Communities did not indicate how many times it would be applied) and Canada's working hypothesis to copper wire, sheets and tubes.

NOMINAL UNITED STATES RATES

	<u>Post Kennedy Round</u>	<u>European Communities formula</u>	<u>Canadian formula</u>
Copper wire	6.8	5.0	2.7
Copper sheets	12.9	7.5	5.2
Copper tubes	11.7	7.1	4.7

30. The Canadian delegation suggests that negotiations of this type for copper, nickel, lead and zinc would have at least four important advantages for all of us:

- (a) to bring about a more efficient allocation of the resources invested to mine, refine, process and manufacture copper, nickel, lead and zinc;
- (b) to encourage the location of refining, processing and manufacturing facilities in the countries which produce and export these metals wherever such facilities would be internationally competitive in the absence of barriers to trade;
- (c) to promote the orderly expansion of international trade in refined, processed and manufactured products of these metals on the basis of an improved international division of labour; and
- (d) to develop more stable and secure conditions of supply and trade in copper, nickel, lead and zinc products.

31. These comments were largely limited to metals and especially certain non-ferrous metals. We will reserve until later our comments on the note by the secretariat entitled Possible Sectors of Interest to Developing Countries. We might note, however, that the data collected on metals shows that a number of developing countries have an important interest in liberalizing trade in certain metals.