

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Group "Sectors Approach"

STATEMENT MADE BY THE CANADIAN DELEGATION AT THE MEETING OF GROUP "SECTORS APPROACH" ON 6 APRIL 1976

1. A short time before the last meeting of this Group, the Canadian delegation circulated a Note outlining "Elements of an Agreement to Liberalize Trade in Copper Products" (MTN/SEC/W/7). During the last meeting there was a preliminary discussion of the paper and a number of delegations made observations and asked questions about it. Since that meeting, we have had a series of informal discussions with a number of delegations. A review of both the group and informal discussions suggests that it would facilitate consideration of the issue if we took some time at the outset of this meeting to describe our Note, explain the reasons why we advanced it and comment on a number of observations made by other delegations during the last meeting. Unfortunately, this will take some time. However, this is an important and serious issue and we would hope that the time spent on it will not be time wasted.

Canadian Note

2. I might begin by summarizing the Canadian delegation Note. Although the Note sets out the elements of an agreement designed to liberalize trade in copper products, a number of the same elements would be relevant to other resource sectors such as nickel, lead, zinc and wood products. These resource products have certain characteristics which tend to distinguish them from a wide range of other semi-finished and finished goods traded internationally. First, large amounts of capital are required for mineral exploration and for the development of mines and forests, the building of refineries or sawmills, processing and manufacturing facilities, and the inflation of the last few years has substantially increased the capital needed. Second, a period of several years is required not only for mineral exploration, but also to plan, construct and bring such processing and manufacturing facilities into production. Third, importing countries have expressed some interest in increasing their security of supply of such products. Fourth, the non-ferrous metals are non-renewable resources and forests can only be renewed over long periods - in Canada from fifty to seventy-five years.

3. In broad but basic terms, the objective is to expand international trade for processed and manufactured resource products and to develop more stable and secure conditions for such trade. The main means to achieve those objectives is to negotiate trade agreements which would (a) eliminate tariffs or reduce them to the maximum extent possible; (b) eliminate non-tariff measures or, where this is not appropriate, remove or reduce the trade distorting effects of such measures, and bring all such measures under effective international discipline; and (c) contain rights and obligations additional to those now in the GATT to ensure that the liberalization of trade is not impaired. Under conditions of substantial trade liberalization, reinforced by provisions to prevent impairment, we envisage that the agreements would also contain rights and obligations regarding security of supply which would be additional to or revisions of those now in the GATT. The agreements would be part of the GATT.

4. It might be helpful if we now elaborate on our Note as it relates to three of its key elements: tariffs, other measures against imports and arrangements for settling disputes:

(a) Tariffs

The proposal is to eliminate all tariffs on the products covered by the agreements. If tariff elimination is not possible in this negotiation, it is suggested that we go as far as possible in this direction by agreeing to harmonize duty rates at the lowest level possible. To this end, we have suggested proceeding on the hypothesis that the United States negotiating authority would be applied fully to the United States tariffs and other signatories would reduce their tariffs to those levels.

Application of this hypothesis would result in the substantial reduction of both tariffs and tariff escalation. For example, the suggested product coverage for the copper sector consists of eleven four-digit BTN headings. The same products are classified under sixty-four tariff lines in the United States schedule. At the present time, one of these sixty-four tariff lines provides free entry, twenty-five have rates at 5 per cent or less and thirty-eight have rates over 5 per cent. Application of the hypothesis would lead to a situation where twenty-six tariff lines would provide free entry, thirty-three tariff lines would have rates 5 per cent or less and only seven tariff lines would have rates above 5 per cent and of these seven, only one would have a rate above 6 per cent. The hypothesis would produce similar results in the other resource sectors of interest to Canada.

Application of this hypothesis would, to a very large extent, also result in the removal of disparities on a tariff line basis.

(b) Other measures affecting imports

These measures include export subsidies, domestic subsidies, countervailing duties, anti-dumping duties and emergency action on imports. For these measures, we suggest rights and obligations additional to those now in the GATT and additional to those likely to be included in the general solutions to these issues agreed in this negotiation. The main reasons for proposing the additional rights and obligations arise from the special characteristics of resource industries that I have already outlined - i.e. they are capital intensive, they require long periods of time to move from exploration to production, the importance some importing countries attach to increasing their security of supply of such resource products and the fact that non-ferrous metals are a non-renewable resource and forests can only be renewed over extended periods. From the point of view of the resource exporters, it is essential that the trade liberalization is not impaired if processing and manufacturing facilities are to be located wherever they would be most efficient and competitive. Preventing impairment of the trade liberalization is also important to resource importers because impairment can result in cutting back exploration and development with serious adverse effects on the long-term adequacy and security of supply; indeed, resource importers have an interest commensurate with that of resource exporters to ensure that fellow importers do not impair the trade liberalization. Since these additional rights and obligations have been designed to meet the special characteristics of resource industries, it follows that we do not believe it appropriate or realistic to include all of them in the related general solutions under negotiation.

(c) Dispute settlement

The Note suggests that the agreements incorporate a system for settling disputes as additional insurance that they will not be impaired. In particular, the Note suggests that precise provisions be incorporated in the Agreement under the various headings relating to non-tariff measures affecting trade such as government purchasing, export subsidies, domestic subsidies and emergency action on imports and analogous provisions for countervailing duties and anti-dumping duties. The Note sets out the nature of such provisions under the headings of export subsidies and emergency action on imports. There would also need to be a general section dealing with those areas of the Agreement where specific provisions were not provided.

The dispute settlement system would work as follows:

- (i) initially a dispute would be the subject of bilateral consultation between the parties concerned.

(ii) if the dispute were not resolved in the bilateral framework, it would be referred to a committee (in the case of the Canadian Note, the Copper Group) where plurilateral consultations would be held for the purpose of mediating the dispute.

(iii) if the dispute were not resolved in the committee, it would be referred within a fixed period of time, say sixty days, to a panel of independent experts. The panel would have responsibility to determine whether the signatories concerned were in breach of their obligations under the Agreement and also to make specific recommendations designed to resolve the dispute or restore the balance of rights and obligations.

This system would incorporate that which has evolved within the GATT and would strengthen it in the following four ways:

(i) deadlines would be provided to ensure that any dispute was dealt with within a reasonable period of time.

(ii) the panel would be composed of independent experts who were not in the employ of any government.

(iii) in some specific situations arising out of disputes which had been referred to it, the panel would have a surveillance function.

(iv) the panel would be permanently in place and would, therefore, not have to be created in order to deal with any specific dispute.

Security of supplies

5. The liberalization of trade suggested by our Note would be an effective way for importers to increase their security of supply for at least two reasons:

First, an important consideration relating to supply is that resource exporting countries are dissatisfied with the returns they now obtain and the evidence for and of this dissatisfaction is well known. This dissatisfaction, in turn, seems to be creating some uncertainty on the part of resource importing countries regarding the security of supply. Substantial trade liberalization would gradually increase the returns of the exporters and, in itself, reduce both their dissatisfaction and the importers' uncertainty.

Second, the improved international allocation of resources brought about by this trade liberalization would gradually change the pattern of trade so that it would include increasing amounts of semi-manufactured and manufactured products as well as, for example, unwrought metal and concentrates and ores. In these circumstances, exporting countries would have a growing interest in developing these sectors of their economies in a way which would provide stable supplies of a range of the related resource products to the extent that their reserves permitted.

6. In addition, my delegation envisages that the proposed agreements would include rights and obligations regarding security of supply for the products covered by the agreements, which would be additional to or a revision of those now in the GATT.

Reciprocity

7. A number of reasons why we envisage proposing negotiations in certain resource sectors at the appropriate time relate to reciprocity. On the import side, two important considerations are: (a) the Canadian Tariff generally provides protection for a range of semi-finished and finished products with duties from 10 to 17½ per cent, and the tariff formulae proposed by the EC, Japan and United States would substantially reduce these duties; and (b) in 1971, Canada's m.f.n. imports of finished products duty-free about equalled the combined m.f.n. imports of finished products duty-free by the EC, Japan and the United States. On the export side, important considerations include: (a) Canada's exports of semi-finished and finished products cover a relatively narrow range compared to those of the EC, Japan and the United States; and (b) substantial amounts of these exports are dutiable at 5 per cent or less, especially to the United States. The best prospects of expanding our exports are in the area of semi-finished and finished resource products. Since six rounds of trade negotiations have failed to effectively reduce tariffs on semi-finished and finished resource products, it is essential that we make maximum use of the advance United States negotiating authority in this round. In order to gain the full advantage of the trade liberalization, it is also essential that the agreements should include improved provisions regarding such matters as subsidies, countervailing duties, anti-dumping duties and emergency action against imports. These are some of the reasons why we believe that it is important to pursue sector negotiations for such products.

Existing plants

8. Some delegations have expressed apprehension that sector negotiations of the type envisaged by my delegation would result in the shutting down of existing processing facilities in those countries which are large importers of raw materials.

The kind of sector agreement advocated by Canada would be designed to establish neutral commercial policy systems within which investment in processing and manufacturing plants could take place where production would be most economic. It is unlikely, in our view, that movement to such a neutral system would result in many existing plants closing for four reasons: first, demand for the resource based products concerned is expected to continue to increase significantly; second, until the current recession began processing plants were operating at full capacity and as our economies recover, it is likely that there will be shortages of capacity; third, the cost of building new processing facilities has increased substantially during the last few years and existing plants, whether fully or partly amortized, will probably remain competitive for some time; and, fourth, our Note envisages that duties be reduced in equal annual instalments over, say, five or six years and that the reduction of a limited number of duties could be staged over a somewhat longer period if it were necessary to achieve orderly adjustment.

Developing countries

9. At the last meeting of this Group, the representatives of a number of developing countries asked how a sector agreement of the type set out in the Canadian delegation Note would benefit them. I responded in a preliminary way at that time and I would now like to take this opportunity to give a more considered response, although I do so with some hesitancy since developing countries themselves are obviously better situated to make such judgments.

10. The first consideration, in our view, is that many developing countries are important exporters of the products covered by the suggested resource based sectors and would benefit from the substantial liberalization of trade suggested in the Note. Second, these countries would benefit from the suggested provision designed to protect the liberalized trade from impairment. Third, these two considerations taken together, liberalized trade and more secure access to import markets, would help provide an environment in developing countries within which decisions could be taken to invest the large amounts of money required to build new plants. Fourth, we also suggest that the resulting industrial development in developing countries would provide a stimulus to their economies by providing cheaper inputs for manufacturing industries and by creating demand for a variety of services including packaging, shipping, banking and insurance.

11. In addition, our Note suggests that consideration might be given to differential measures to apply to the copper products of developing countries, in order to provide special and more favourable treatment for these countries. We would continue to welcome any suggestions the delegations of developing countries would wish to put forward in this connexion.

Proliferation of sectors

12. Some delegations have expressed some apprehension over the possibility that there could be a proliferation of sector negotiations which would detract from efforts to negotiate general solutions to a range of issues. A number of these delegations have gone on to express a related concern that the objective in a number of such sectors could be to liberalize less than under the general solutions. As we see it, there are basically two types of sector negotiations: those designed to liberalize less than under the general solutions and those designed to liberalize more than under such solutions. The first type of sector negotiation emerged during the Kennedy Round as part of the tariff negotiations. Most, if not all, of these sector negotiations were initiated because one or more of the participants had placed the products concerned on their lists of exceptions or partial exceptions from the tariff formula. Generally, the objective of such negotiations was to increase the degree of liberalization proposed by the exception lists but, of course, not to liberalize more than under the tariff formula. The second type of sector is outlined in our Note; our objective is to liberalize trade to a greater extent than is likely to be achieved under the general solutions. Viewed in this context, one way to meet concerns of a number of participants regarding proliferation is to agree that this Group would only envisage sector negotiations, which aimed to liberalize trade more than is likely to be achieved in other areas of the negotiations, taking account of all relevant considerations such as tariffs and other measures affecting imports. This would not close the door to Kennedy Round Type sector discussions because they could evolve in the framework of the tariff negotiation.

Timing

13. A number of delegations have suggested that consideration should not be given to initiating sector negotiations until later in the MTN when it becomes more clear what general solutions will emerge with respect to tariffs, non-tariff measures and safeguards. When the nature of general solutions becomes substantially clearer, we will be approaching the end of the negotiations. In this situation, considerable pressure will be placed on delegations to conclude, and where possible, to put unresolved issues and particularly any new issues aside. In this context, it is important to recall that my Government envisages sector negotiations which, unlike those which emerged in the Kennedy Round, would be designed to provide for a degree of liberalization which would go significantly beyond the general solutions agreed to in the MTN. It will take considerable time to conduct these negotiations and it is, therefore, not realistic to envisage initiating them only as we approach the end. In short, we are apprehensive that "later" means "never". It is for these reasons that my Government believes that it is essential for sector negotiations to move in parallel and at the same pace as negotiations on other important issues in the MTN.