

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)

Negotiating Group on Natural
Resource-Based Products

NEGOTIATING GROUP ON NATURAL RESOURCE-BASED PRODUCTS

Meeting of 18 November 1987

Note by the Secretariat

1. The Group held its fifth meeting on 18 November 1987.
2. The Group adopted the agenda proposed in the convening notice, GATT/AIR/2508.
3. In the absence of H.E. Mr. L. Duthie, the Group was chaired by Mr. Charles R. Carlisle, Deputy Director-General.

Agenda Item A: Continuation of Work under the Initial Phase of the
Negotiating Plan on Natural Resource-Based Products.

4. Mr. C.R. Carlisle recalled that the secretariat had been asked to prepare a summary schedule of the written and oral statements, and of proposals, made in relation to natural resource-products negotiations in the Uruguay Round. The schedule requested was before delegations in document MTN.GNG/NG3/W/8.
5. The delegate of Senegal, speaking also on behalf of Cameroon, Ivory Coast and Zaire, explained that African countries, owing to their low level of economic development, export only a limited range of commodities, based on their natural resources. Trade statistics for 1986 showed that such products, in their primary form, accounted for 90 per cent of their exports. It followed that their countries' export earnings, and hence import capacity, depended largely on the trading terms accorded to them. At Punta del Este they had clearly indicated that as far as their countries were concerned, the achievement of the Uruguay Round objectives would depend on the treatment afforded to natural resource-based products, tropical products and, in general, primary products. With reference to the overall Uruguay Round objectives, and particularly those set out in Part A(i) of the Ministerial Declaration, he said that trade liberalization in the three classes of products cited above, taken by itself, would take into account only some of their countries' concerns and could thus be considered only a minimum.

6. He stated that Cameroon, The Ivory Coast, Zaire and Senegal do not intend to prejudge the approach to be adopted for the negotiations. They were in favour of whatever method would be best suited, both to take account of the realities of the special situation of developing countries and also to ensure additional benefits. The approach chosen should take account of the need:

- "to respect the sovereignty of every State on the natural resources present within its internationally recognized frontiers;
- "to give concrete content to the principle of differential and more favourable treatment for developing countries in negotiations on natural resource-based products, which, of all the negotiations, are of interest to the largest number of the most disadvantaged countries; in particular, and in accordance with the principle set out in Section B(v) of the Punta del Este Declaration, developing countries shall not be expected to make contributions which are inconsistent with their individual development, financial and trade needs;
- "to devise measures designed to attain stable, equitable and remunerative prices, in accordance with Article XXXVI:4 of the General Agreement;
- "to adopt specific measures in favour of the least developed countries, in order to facilitate the expansion of their trading possibilities, in particular through the elimination of customs duties and non-tariff barriers on processed and semi-processed products;
- "to liberalize as fully as possible the trade in natural resource-based products exported by African countries, in all their forms, and in particular through the elimination of customs duties and non-tariff barriers on processed and semi-processed products;
- "to conclude the initial phase as rapidly as possible, so as to favour a speedy conclusion of the negotiations and the immediate implementation of their results."

7. Product coverage should be limited to the product groups studied since 1982 by the Working Party on Trade in Certain Natural Resource-Based Products, namely non-ferrous metals and minerals, forestry products and fisheries' products, since, to do otherwise, would be a sure way of tying up negotiations on an issue of vital importance for their countries' full participation, both in the negotiations and in the mutual advantages to flow from the negotiations. As regards fish and fisheries' products, they considered that these products should not be made a special case, requiring a special treatment and régime in the framework of the GATT. They felt

that the trade measures of relevance to the GATT, which hinder trade, had, on the whole, been thoroughly identified by the competent Working Party. He concluded by saying that, what was required now was to negotiate their elimination or reduction, to the benefit of both exporters and importers.

8. The delegate of Australia recalled that at the previous meeting of the Group his delegation had put forward some of the reasons for seeking substantial liberalization of trade in natural resource-based products. Document MTN.GNG/NG3/W/9, a paper which Australia was circulating, spelled out more fully his delegation's views on the scope of negotiations, on product coverage, negotiating objectives, modalities for pursuing these objectives, and proposals regarding a time-table for assembling the necessary documentation for the negotiation and the completion of negotiations. Introducing and complementing the paper, he noted that the terms of trade for exporters of natural resource-based products had deteriorated significantly in the 1980's. Australia had suffered from growth in protectionism and the introduction of many measures which have significantly distorted markets for its products. As the Australian Prime Minister had stated in his recent address to the GATT: "... nothing short of a fundamental re-think of domestic policy settings by all economies, and especially by the largest industrial economies, can remedy the current malaise in the world trading system...". He said that nowhere was this more true than in the area of trade in natural resource-based products, with world trade in a number of resource products, particularly in mining and mineral processing, now being subject to the same level of regulation and distortion as was the case for many agricultural commodities. The rules of world trade for natural resource products would have to be reformed to allow growth through development. He said that Australia's priorities for liberalization of trade in NRP's covered the entire spectrum of measures which impede trade in the products and it aimed therefore at the elimination of all measures which act to inhibit the adjustment process in national economies.

9. While it was true that the Tokyo Round had resulted in substantial tariff reductions by developed countries on some natural resource-based products, those tariffs that did remain continue to have a significant effect on trade. Many participants in GATT negotiations have emphasized that even low tariffs and the practice of tariff escalation were major barriers to access to markets for their natural resource-based product exports. More specifically, past GATT secretariat studies had highlighted the significance of tariff problems in copper, zinc, tin, nickel, aluminium and the lead trade. Tariff escalation had been found to be a problem by escalating the effective rate of protection for copper smelting and refining in Japan and in Korea and also in copper rolling and drawing. Furthermore, non-tariff measures restricting market access had proliferated since the Tokyo Round and continued to have a negative effect on world trade in NRP's. The obvious example was voluntary restraint arrangements and their pronounced effect on the global steel market. Other examples of the prevalence of access-inhibiting NTM's affecting the minerals and metals trade could be gleaned from the secretariat studies. However, it was

subsidies, in a variety of forms, that posed the major problems facing trade and investment decisions in natural resource-based products. Australia desired a review of existing disciplines on domestic subsidies, as they affect natural resource-based products, either directly or indirectly, as an important focus in the pursuit of the objectives for the Uruguay Round. Australia wanted to reverse the growth in Government budgetary and other protective supports, that act to preserve uneconomic capacity and expand new production, as a means of addressing the real cause of world over-supply and downward pressure on prices in these commodities. As an example, the period between 1984 and 1986 had seen real prices for non-fuel primary commodities fall to record lows. In 1985 the World Bank's Index of 33 non-fuel primary commodity prices, in current dollar terms, fell to its lowest level in nine years.

10. The delegate of Australia said that subsidized production deprived efficient and otherwise competitive exporters of the markets they need to maintain viability and penalized the governments employing the subsidies, and the consumers in their own domestic market, through the extra costs and distortions imposed on their own economies, as evidenced by the growing burdens on national budgets and on users having to pay inflated prices. Nowhere, he said, are these subsidies more impacting on trade than in the EC and Japan. For instance, in 1985 European Governments provided ECU 1916 million in EC-approved State aids to the coal industry. Individual member States provided, separately a diverse range of other subsidies. The Federal Republic of Germany was spending the equivalent of US\$419 million in EC-approved State aid for current coal production in 1987. (Government support in the German coal industry amounted to about DM 60,000 per coal-miner/year.) Indirect production subsidies and related measures restrict German coal imports in the electricity-generating and steel industries. The electricity-generating industry is required to purchase fixed amounts of more expensive locally produced coal. This requires subsidies to that industry of about US\$5.5 billion. Electricity users are levied to offset the high cost of local coal. For the German steel industry subsidies are supported by tariff quotas. This industry has an import quota of three million tons per year, but the quota has only been partly utilized by the industry, due to a binding contract between the German coal mining industry and the steel industry. Under an agreement reached in October 1985, from 1988 onwards, the steel industry is expected to source its entire coal demand from local coal. German coal exports in 1986 (6.9 million tons of coking coal and briquettes) to other EC member States were subsidized. EC authorized aid to the Belgian coal industry for 1987 was of the order of US\$48 million. Overall, he said, Belgium, through a variety of measures, has the most heavily subsidized coal industry in the EC. In Japan the Government had spent over the last 20 years approximately US\$150 billion (in today's dollars) on subsidies to the domestic coal industry (subsidy for 1987 = US\$2.47 billion). That subsidy is derived from a temporary import duty on crude and petroleum oils. The cost of domestic coal in Japan, at present, was still approximately double that of imported coal.

11. In the GATT the full impact of protection of trade in NRP's had so far not been addressed, because of peculiar institutional reasons. In the Uruguay Round, the subsidies issue had so far been set aside as a matter to be addressed in the Negotiating Group on Subsidies. In that Group the emphasis had tended to be on the adequacy of existing rules, rather than on what sort of trade problems subsidies actually presented. It would be in contracting parties' collective interest to find a remedy in the Uruguay Round. The natural resource-based products area was a good place to start, because of the diverse range of interests, shared by many developing and developed countries alike in this area. An examination of trade barriers generally applied by industrialized countries revealed a high concentration of measures in the areas which affect exporters of natural resource-based products. There had, for example, been a marked increase in the share of iron and steel imports covered by non-tariff measures. Work based on the UNCTAD Data Base on Trade Measures showed that in 1981 close to 30 per cent of iron and steel imports were covered by NTM-barriers. By 1984 this coverage had risen to 42.3 per cent. Non-tariff barriers which had been imposed since 1973 had, generally, been tailored to limit imports from significant suppliers, whether industrialized or developing countries. This phenomenon was true for domestic subsidies as well.

12. The delegate of Australia said that the growth of these barriers and distortions to trade had contributed significantly to the decline in the terms-of-trade of many exporters of natural resource-based commodities. Developing countries had a significant stake in negotiating on NRP's, as they account for more than 83 per cent of world bauxite (but only 14 per cent of aluminium) exports, for some 40 per cent of world iron ore exports, 65 per cent of world nickel ore exports and 56 per cent of world exports of phosphate rock. Many developing countries are heavily dependent on commodities as the major generators of foreign exchange. The natural resource-based products area was among these where the major economies, which are substantial importers of these products, had an opportunity to act to open up trade opportunities, stimulate global growth, and introduce efficiencies into their economies.

13. Australia, addressing problems in NRP's trade, therefore proposes that all countries negotiate:

- A phased elimination, within ten years of the end of the Uruguay Round of
 - all Tariffs and Non-Tariff Measures
 - all Export Subsidies, following an Immediate Freeze
 - all Other Subsidies which Disrupt Trade
 - Protective Regulations Affecting Market Access
- Bindings on All Tariffs
- New GATT Rules to Proscribe Domestic Subsidies which Disrupt Trade.

The proposal covers all Minerals, Energy- Forestry- and Fishery Products, from crude production through to the primary processed stage.¹ The Negotiating Group on Natural Resource-Based Products would have a critical, indeed a central, rôle to play in ensuring that participants develop a comprehensive approach to liberalizing trade in the NRP's area. Australia appreciated, however, that there are other possibilities for how negotiating objectives in the NRP's area can be pursued, and was flexible about which negotiating groups address issues in trade in natural resource-based products. Australia was convinced that the impact of the negotiations on growth in world trade will depend on the extent to which participants are successful in phasing out trade distortions in natural resource-based products and processing.

14. The statements and proposals made by the four African countries and by Australia were welcomed, without exception, as an important contribution to the Group's work by the delegations of Chile, Canada, Colombia, New Zealand, Sweden - on behalf of the Nordic countries, the United States, Poland, Japan, the EEC, Peru, India, Indonesia and Nigeria. While reserving the right to comment in more detail at a subsequent meeting, most delegations indicated in their preliminary reactions a number of elements in the proposals and statements which they could support as being in line, generally, with their own approach to the negotiating objectives and to the tasks to be undertaken, as they relate to NRP's. Widespread agreement was voiced with the need, stated in the submission by the four African countries, to adhere to the principle of differential and more favourable treatment for developing countries. Statements made by several delegations joined in the request by the African countries that speedy progress be made in NRP's negotiations, so as to permit early implementation of negotiation results. On the question of product coverage in NG3 negotiations, several delegations expressed the view that, before envisaging an enlargement of coverage, it might be more profitable to concentrate on those groups of products which had earlier been the subject of study and documentation in the Working Party on Trade in Certain Natural Resource Products. Other delegations indicated that they were prepared to approach this question with an open mind. One delegate noted that his authorities shared Australia's concerns over distortions in international trade in coal and therefore supported that this matter be dealt with by the Group. Another delegate reminded participants that some of the major energy-producing and exporting countries were not participating in the Uruguay Round, questioning therefore the practicability of including energy products in the negotiations. Commenting on the reference to negotiations on fisheries products in the statement by the African countries, one delegation clarified its position, stating that it was not its intention to make

¹The proposal is spelled out in greater detail, together with a listing of the products to be covered in terms of Harmonized System Nomenclature Nos. (with problems of trade in more elaborately transformed products to be addressed initially by other appropriate market access negotiating groups), in the written submission by Australia, document MTN.GNG/NG3/W/9.

negotiations in this product area into a special case, nor was it intended to put into question the subject of sovereign rights of States in regard to their respective natural resources. At the same time, it was important to bear in mind that each of the resource-products areas studied was characterized by certain special and specific features, features which would have to be taken into account in the negotiations. A number of other delegations re-confirmed that they did not consider the question of access to resources to be a subject for negotiations in the Uruguay Round.

15. Several delegations said that they had noted with interest the information supplied by Australia on the distorting effect of various domestic subsidies, on the level of coal production, on trade and, implicitly, on prices - basically all to the detriment of efficient, lower-cost producers and actual, or potential, exporters. Some delegations expressed a more optimistic view, than what was appeared to follow from the Australian statement as regards possibilities for appropriate action on, and progress in, tackling subsidy problems and disciplines in the Negotiating Group on Subsidies. In reply to a question on the envisaged net benefits that major NRP-importers might be entitled to expect from action along the lines suggested in the Australian proposal, Australia did point out, *inter alia*, that there were likely to be net gains, both in terms of reductions in public expenditure and in consumer welfare, from a dismantlement of subsidies granted on a large scale and from the reduction of artificially inflated prices. Several delegations noted with appreciation the evident sense of flexibility regarding negotiating approaches, modalities and fora which characterized the proposals put forward by the four African countries and by Australia, including - as regards the latter - the exact scope of, and limitations on, the product coverage.

16. In reply to a question, the representative of Australia explained that they had not spelled out details of "other" trade-distorting measures, such as restrictive business practices, because there had not been a consensus in Punta del Este on covering that issue in the Uruguay Round. They were, however, aware that restrictive business practices, whether government condoned or not, had a trade-distorting effect.

17. Commenting on document MTN.GNG/NG3/W/8, one delegation stated that in a revision of that document it would be useful to re-emphasize the need for special and more favourable treatment for developing countries. Another delegation requested that a proposal it had made in Negotiating Group Tariffs, but which was also fully relevant for NRP negotiations, be taken up in the revised document.

18. In discussions in a somewhat wider context, some delegations stressed the need for a more structured approach to the Group's work and better procedural disciplines, if the Group was to make any future headway.

19. The delegate of the United States recalled that at the July meeting the United States had singled out in the paper then submitted, in addition to tariff and non-tariff measures affecting imports, four categories of practices which impede the free flow of trade in natural resource-based products, namely: dual pricing; export restrictions; subsidies; and certain State ownership practices. He proposed to illustrate trade problems flowing from these practices, or measures, with respect to energy-based products, especially as such products, though indicative of problems in the NRP's area generally, had not been subject to the earlier GATT Working Party review. The examples the United States cited were:

"Natural Gas: With few exceptions, natural gas is not shipped in its natural state as a product in international commerce. Its use is accordingly limited to consumption as domestic fuel, liquification for sale as LNG, or as a raw material feedstock in the manufacture of such energy intensive products as petrochemicals, non-ferrous metals (lead, zinc, aluminium and copper) and construction materials such as cement.

"In many countries, natural gas production and distribution are controlled by state enterprises which sell gas to domestic industries at prices covering only the collection costs. The failure to include all costs in a manner comparable to those situations where supply and distribution of natural gas is handled by the private sector constitutes a very substantial advantage for the downstream products utilizing natural gas as a fuel source or feedstock. Because fuel and feedstock cost can account for as much as 70 per cent of the total production costs of energy intensive products, it follows that these countries have a significant production cost advantage over countries which allow market mechanisms to determine natural gas prices.

"Crude Oil: As in the case of natural gas, crude oil is often supplied to domestic refineries in various countries at an artificially low (collection-cost) price. The refined products produced domestically can then be used in the domestic market, or can be used as fuels or feedstocks for the production of wide ranges of petrochemicals, plastics and resins, fertilizers, construction material and in processing metals. Contrary to the practice with natural gas, crude oil can be exported at world prices for refining in other countries.

"The advantage conferred by dual pricing of crude oil is clear, particularly for intermediate or refined products produced domestically for export from "cheap" crude oil. Another practice conferring an advantage in world markets is the pricing of feedstocks at artificially low prices for export while pricing gasoline and fuel oil artificially high to make up the refinery costs of production of all products."

20. He said that some indication of the likely distortions could be drawn from a recent report by the United States International Trade Commission which listed the following industries as among the highest in percentage of cost represented by oil or gas input:

"... petroleum refining (84 per cent); plastics and resins (71 per cent); nitrogenous fertilizers (64 per cent); hydraulic cement (55 per cent); non-cellulosic fibers (54 per cent); miscellaneous plastic products (52 per cent) and industrial organic chemicals (41 per cent). Some of these categories include a range of products which differ from the average for the sector. For example, the key nitrogenous fertilizers from an oil and gas point of view are ammonia and urea, while among the many industrial organic chemicals (most of which are petrochemicals) ethylene and its immediate derivatives, methanol and carbon black all have a higher oil and gas component than the sector average. Some other products which may be affected to a greater or lesser degree by the energy resource pricing issue (emphasis added) include various intermediate petrochemicals (polypropylene, vinyl chloride and PVC, etc.), lime and float glass. Some of these have been the focus of active trade problems in the past. It is instructive also to note that energy costs are a significant cost factor in processing such non-ferrous metals as aluminium, copper, lead and zinc.

"The above is by no means an exhaustive catalog of products whose trade is appreciably affected by these practices, nor are they the only problems in this area with which we are concerned. For example, restrictive government ownership practices have an important consequence in the pulp and paper and aluminum products trade ..."

21. The United States delegate said that it had been contended earlier in various interventions in the Group that many of the issues raised are not unique to natural resource-based products trade and therefore should be addressed in horizontal groups. United States experience was however that the issues that had been raised, and in particular dual pricing, were found predominantly in the natural resource-based products sector. In the case of certain other issues, e.g., government ownership, export restrictions and subsidies, the incidence with which they occur in this sector and the frequency with which they are found in combination, often with dual pricing, suggested that they are so characteristic of trade in this sector as to require that they be given special attention in this Negotiating Group. Providing the issues can be addressed satisfactorily, the United States remained open to any ideas on how that might best be done. He also said that various delegations from among both exporting and importing countries had acknowledged that most of the problems and issues cited to date do exist and constitute impediments to trade. Most delegations would concede that if the problems do exist, with a few notable exceptions on which a number of delegations had spoken, it would be appropriate to raise them in the Uruguay Round. Discussions to date had shown enough commonality in the perceptions of a variety of participants to provide at least the broad outline for a substantial programme of work and potentially

fruitful negotiations in the subsequent negotiating process. The secretariat summarization underscored that belief. In the United States view, it seemed quite possible that the greatest degree of liberalization for the sector might be achieved by using a combination of the approaches that have been elaborated. The United States believed that it would be imprudent to force these questions prematurely. Rather, they would suggest that the Group proceed in ways that do not preclude adoption of any of these various approaches, or combination thereof, at a later date.

Item B: Other Business, Including Date for Next Meeting

22. The representative of India, supported by Mexico and Brazil, suggested that UNCTAD be added to the four international organizations cited in MTN.GNG/NG3/4, as having been proposed for acceptance as observers in NG3. Following clarification of the Uruguay Round negotiation procedures, the Group agreed that the question of observers, as regards the "subsequent negotiation stage", would have to be taken up by the TNC.

23. The Chairman proposed that the Group meet again in the week of 18 February 1988, remaining in session during the whole week for formal and informal meetings, this date being subject to confirmation by the GNG at its meeting on 16 December 1987.

24. At the end of the meeting the Chairman said that it was not his intention to sum up the discussion in the Group at this and previous meetings, in any length or detail. It did seem to him, however, that the Group had carried out a substantive examination of issues which different participants consider to be relevant to the Negotiating Objective. There have been discussions of specific problems and products proposed for negotiations. Discussions also have been held on techniques and modalities for achieving the agreed objectives of negotiations in this area. Although views on all of these matters vary, there is a convergence of views regarding the need to achieve further liberalization of trade in this sector. The Negotiating Group is currently examining a number of approaches towards the establishment of a common negotiating base. He suggested that this work be pursued early next year, taking into account positions and attitudes on the issues outlined above in order to determine procedures for the initiation of negotiations in accordance with the negotiating plan. He said he would like to take this opportunity to ask participants to give these matters serious and timely consideration in order that the Group can move forward expeditiously in 1988.