

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG3/8
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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 16 September 1988

Note by the Secretariat

1. The Group, chaired by H.E. Mr. L. Duthie (Australia), met on 16 September 1988.
2. The Group adopted the agenda proposed in the convening airgram (GATT/AIR/2645).

Agenda item A: Further discussion of subjects defined in the Negotiating Objectives

3. Before opening the floor to participants, the Chairman informed the Group that he had been requested by the Chairman of the GNG to prepare a report for submission to the GNG in November. This report, to be prepared under his own responsibility following consultations with members of the Negotiating Group, would be divided into two parts, the first briefly describing the work accomplished so far and the second containing points on the basis of which Ministers would be called upon to take decisions in Montreal.
4. The Group had before it a note prepared by the secretariat, on Negotiating Approaches and Possible Issues for Negotiation in Natural Resource-Based Products (MTN.GNG/NG3/W/14) as well as a proposal by Chile (MTN.GNG/NG3/W/17). The Chairman also drew the attention of the Group to submissions circulated earlier, in particular those by the delegations of Australia and the United States introduced at the previous meeting, for further discussion by participants.
5. The representative of Chile, in introducing his government's proposal, called for an acceleration of the work in the Group, where little progress had been made. The proposal suggested that negotiations, aimed at the fullest liberalization of trade in natural resource-based products should be accorded priority in the Uruguay Round, and should also bear upon the reduction or elimination of all forms of aid which have a direct or indirect effect on trade. As to an approach, the proposal recommends a generic, rather than product-by-product, approach, taking into account elements of a submission made to the Negotiating Group on Tariff and Non-Tariff Measures. While the proposal states that Chile does not

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consider it necessary to include new products, the representative stressed that negotiations should start in those three sectors delineated in the Ministerial Declaration including forestry products which comprise also cellulose and newsprint.

6. The delegate of Australia noted that, to date, a large amount of data on impediments to trade in natural resource-based products had been, or was being, provided and that a number of suggestions had been made for reducing distortions to trade including those summarized in MTN.GNG/NG3/W/14. In the view of his delegation as well as others in the Group, a combination of measures such as subsidies and other non-tariff measures substantially inhibit and distort trade in natural resource-based products and a lack of transparency in support measures obscures their real costs. The solution proposed by his delegation is composed of three parts: negotiated reductions in subsidies and other support measures (including tariffs and non-tariff measures), negotiation of more operationally effective rules on the use of subsidies (particularly production subsidies) and the implementation of improved transparency and surveillance measures to assist with the ongoing assessment of the effects of support practices. Some principles already put forward by Australia and other participants applicable to the reduction of market access barriers include: no a priori exceptions to product coverage, the progressive reduction of barriers based on formula approaches, giving priority to the problems of tariff escalation, and the broadest possible participation amongst the members. He believed that the nature and importance of the problems in natural resource-based product markets demands special and additional measures, such as more operationally effective subsidies rules. While recognizing that these views are not shared by all participants he appreciated that the Chilean proposal supported this view.

7. The representative then went on to note his government's concern with distortions in resource markets, particularly that of coal. In the recognition that much of the information relevant to distortions in world coal markets was not available in GATT notifications he drew the attention of the Group to a study published by the International Energy Agency (Coal Prospects and Policies in IEA Countries) containing results of a thorough technical evaluation of the distortions caused by production subsidies and related border and internal measures in a number of major countries. He went on to quote the report as follows:

"The international coal market is currently oversupplied and the prices of traded coal have fallen by about one-third since their peak in 1981. As a result, coal producers in IEA countries are experiencing low profits, are postponing some investments and, in many cases, are laying off employees.

Substantial quantities of high-cost coal production continue to receive financial support in a number of IEA countries. An analysis over the period 1982-87, using a producer subsidy equivalent (PSE) measure to combine the various forms of financial support, indicates that support broadly increased in current money terms over this period."

The review concludes that "there is a need to reduce, with a view to eliminating, remaining trade barriers, including subsidies, norms or other government controls that impede trade..." He then cited the provisional PSE calculations, based on aid to current production only, excluding payment of inherited liabilities or social transfers, per metric tonne of coal produced in 1987. Belgium: \$96.25, the Federal Republic of Germany: \$71.10, Japan: \$95.10, Spain: 2,415 pesetas and the United Kingdom: \$15.70. In order to give some scale to these figures he pointed out that, on a per tonne basis, the amount of assistance to current production available to West German coal mines is twice the average (f.o.b.) price for Australian coal exports. In addition, the total subsidies paid in 1987 is more than Australia, the world's leading coal exporter, earned in total gross terms for its coal exports in the same year. Furthermore, according to the study, as a result of their subsidy and market reservation régime, Japanese coal consumers are paying prices for domestic coking and steam coal that are nearly three times the price for imported coal of equivalent quality. His delegation recognized that some subsidizing producers had formulated policies that were aimed at eventual structural adjustment in their coal industry, notably Japan. However, Australia was seeking a commitment, based on more effective subsidy rules, to eliminate these massive distortions within ten years of the conclusion of negotiations.

8. Given that, in addition to subsidies, protection is provided by the use of direct and indirect government support measures as well as a complex of border measures, his delegation had compiled a preliminary list of non-tariff border measures including market reservation, quotas and tariff quotas. The representative stated that, while some of the material he had presented might be repetitive, it was important to continue the process of consciousness-raising regarding the nature of problems in these markets. Furthermore, he sought to ensure that the data available for consideration by the Group would be complete and that the measures with which the Group agreed to tackle the problems would be sufficiently comprehensive to address the complex of measures governments maintain to support production and which distort trade. He noted that his delegation had already submitted a series of comprehensive proposals in this regard.

9. Another delegation expressed optimism regarding the potential of the group and believed progress had been made. He felt that attaching a sense of urgency to its work was not required since it would be important to keep pace with the work of relevant negotiating groups. Like the previous speaker, he noted the importance of consciousness-raising and the growing awareness in the Group of problems already encountered in this area with

other problems still to be identified. As some of the issues raised might eventually be allotted to the work of other Negotiating Groups, so it would not be appropriate to give priority to the work in this Group. Remaining in a flexible mode and keeping the discussion fairly broad would have the advantage of holding the interest of the widest number of contracting parties. Regarding the expansion of the information base and preparation of additional data, he suggested that, given the limitations on data which the secretariat had available, informal interchange between the secretariat and delegations would be useful to the process.

10. The representative of a group of countries joined the previous speakers in recognizing the dilemma faced by the Group in finding its "raison d'être". While as yet his delegation had not finalized its position regarding the proposals to extend product coverage it had no objection to proceeding with the factual analysis by the secretariat on the understanding that this would not prejudice any eventual conclusions. As did others, his delegation recognized the spillover into other groups and recommended an open and pragmatic approach as to whether issues should be addressed generically or on a case-by-case basis. He found valuable the approaches set forth in the secretariat document Negotiating Approaches and Possible Issues for Negotiation in Natural Resource-Based Products (MTN.GNG/NG3/W/14), and highlighted the problems of dual pricing and export restrictions amongst practices leading to trade distortions. Meanwhile his authorities would examine the issue of subsidies in the coal sector brought to the attention of the Group by the delegation of Australia. Like others, he supported the premise that participants' interests are multiple and stated that his delegation was willing to enter into a broader discussion without any pre-conditions on the different subject matters.

11. The representative of Japan shared the opinion that, given the close inter-relationship with other groups, there should be no undue stress on the priority of the work. He stated that they were willing to examine all suggestions made to the Group. While unwilling to engage in detailed polemics on the technical aspects of support to the coal industry, he advised the Group that Japan had fundamentally altered its coal policies by reducing production and closing mines. Certain government measures had to be taken to readjust industrial activities and the situation should be analyzed in a dynamic, rather than static, fashion. He reserved the right to make additional comments on this matter at a future date. He added that the Group could start negotiating on the original three product groups without excluding the possibility of enlarging the range of products.

12. Regarding product coverage, several participants agreed that no exceptions should be made a priori, although one delegation considered the energy sector non-negotiable. Support was also expressed for the continuation of data collection on additional products. The suggestion to submit an initial product list for agreement at the mid-term review received a degree of support. Certain delegations urged the Group to advance in its work by negotiating on the agreed-upon products. Some

members believed that the range of products should be kept to a manageable size while others supported the view that a wide focus would enable the Group to arrive at a sufficient universe of products, including energy-based products such as fertilizers and chemicals, which, while presenting difficulties in some cases, would sustain the interest of the largest number of participants.

13. While it was acknowledged that consciousness-raising is not the central objective, participants generally supported the continuation of problem identification. A specific problem highlighted was that of tariff escalation; one member also suggested that access to supply issues be examined in terms of GATT relevance. In the context of the urgency of seeking the fullest liberalization in natural resource-based products, it was noted that developing countries were bearing the brunt of the crisis affecting the sector. Many participants recognized links with other areas of negotiations and chose to remain open-minded on both the issues and modalities for negotiations. Some opted for a generic approach, based on proposals submitted in the market access negotiations, believing such an approach could effectively deal with sectoral problems. Others considered this approach inadequate given the complexity of the problem and the severity of distortive practices whose negative consequences impact consumers and producers alike.

14. Following the general discussion, the Chairman drew the attention of the Group to factual work by the secretariat, including the paper already in circulation: Tariff and Trade Data on Forestry Products (MTN.GNG/NG3/W/15) and forthcoming documentation on non-ferrous metals and minerals and energy products. Some participants noted that there were information gaps with respect to non-tariff measures and it was suggested that data presented in submissions to other Negotiating Groups as well as that available in other international organizations should be taken into account.

15. After the formal session the Group met informally to discuss points for inclusion in the Chairman's report to the GNG. Following further consultations the report will be presented at the next meeting of the Group scheduled for 18 October 1988.