

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED
MTN.GNG/NGS/W/21
11 July 1989
Special Distribution

Group of Negotiations on Goods (GATT)
Negotiating Group on Natural
Resource-Based Products

Original: English

COAL

Submission from Australia

The following submission has been received from the delegation of Australia with the request that it be circulated to members of the Negotiating Group on Natural Resource-Based Products.

Overview

This paper examines the problem of protectionism affecting coal trade. From Australia's perspective, coal is a natural resource-based product which amply illustrates the pervasive nature of industry support measures which affect a wide range of natural resource-based products. It is Australia's view that issues affecting trade in coal and other natural resource-based products require urgent attention and should be addressed in these negotiations.

Coal protectionism

Coal subsidies and other support measures in some major markets are seriously affecting world coal trade and international consumption patterns.

These protective measures have depressed world prices for both steam and coking coal and are stifling demand. Of course, they also have obvious costs to user industries and the economies of the subsidizing countries.

In 1987, for example, hard coal production in subsidizing EC countries and Japan (232 million tons) was equivalent to about 70 per cent of world hard coal trade. Subsidized steam coal production of around 175 million tons, was about equal in volume to total world trade in steam coal.

We estimate that in 1986 the costs of coal subsidies and other supports in these EC countries and Japan were greater than the value of total world coal trade and that this situation deteriorated further in 1987.

Coal support measures encompass a range of Government policies including production and other subsidies, price supports, grants to offset losses, export subsidies, non-commercial contracts and import barriers to preserve markets for domestic coal. Without such assistance, much of protected production especially in Europe and Japan, would be unable to compete against imported coal.

The extent of the problem

Subsidies have greatly escalated in recent years largely because of changing competitive circumstances and low world prices.

The coal sector in the EC is the second largest recipient of direct Member State subsidies. In 1986, coal received about US\$12 billion in subsidies (around US\$25,000 per employee).

Annual total subsidies paid to the coal industry in the Federal Republic of Germany rose by more than 70 per cent in the four years to 1988. Japan coal subsidies have about doubled in the same period.

Production subsidies and other assistance measures not only distort world trade and adversely impact on prices of trade coal but when coupled with artificially inflated domestic prices as in some EC countries they can also depress demand for coal.

In protected European markets total coal demand declined by around 5 per cent over the last decade, compared to an increase of 80 per cent in the rest of Europe. Based on the International Energy Agency forecasts of demand for coal, we have estimated that from 1987 to 2000, coal demand in protected Europe is expected to grow by only 16 per cent, compared with an increase of around 100 per cent in the rest of OECD Europe.

While world prices for both steam coal and coking coal tended to soften from 1982 to 1987 the domestic prices of coal in the Federal Republic of Germany and Japan rose strongly overall when expressed in US dollars, the currency of international coal markets. This situation reflects the quite rapid deterioration in the relative competitiveness of the domestic coal industries in these countries with imports and the need for accelerated structural adjustment efforts.

Australia and the United States are the two largest exporters of coal and account for about 51 per cent of world hard coal trade. Yet in recent years subsidy growth in the Federal Republic of Germany has outstripped growth in the export earnings by either Australia or the United States. In 1988 the Federal Republic of Germany coal subsidies were more than 60 per cent higher than the export earnings of either the United States or Australian coal industries.

The problems of trade barriers and the need for reforms were accepted by IEA Ministers in 1987. While steps are being taken by subsidizing countries, notably Japan, to wind back or eliminate subsidized production, the pace generally has been far too slow. Meanwhile, competitive producers have been faced with diminishing or negative returns.

Given the importance of natural resources as key inputs to industry, and the present distortions and uncertainties, it is in the interests of both consuming and producing countries to reduce impediments to the essential process of structural adjustment.

Proposals

Australia has proposed that negotiations affecting natural resource-based products should achieve:

- (1) more operationally effective rules on the use of subsidies which impact on trade in natural resource-based products;
- (2) reductions in existing production subsidies and other support practices and barriers which impact adversely on natural resource-based products trade opportunities;
- (3) improved transparency and understanding of the impact of natural resource-based products support practices adopted by some countries.

Each of these aspects has been dealt with in some detail in MTN.GNG/NG3/W/12

Australia remains flexible as to which Negotiating Group primarily addresses particular measures affecting natural resource-based products.

However, it is our view that the Natural Resource-Based Product Group itself can make an important contribution to achieving the trade liberalizing goals on natural resource-based products set at Punta del Este and in assessing progress in the negotiations on issues affecting natural resource-based products wherever they are ultimately negotiated in the Round. For instance the Group could explore possible ways and means of achieving market access results on natural resource-based products which go beyond the minimum goals for the generic market access negotiations set by Ministers at the Montreal Mid-Term Review.

Conclusion

Australia's proposals for natural resource-based products including coal are directed at those support programmes which inhibit rather than facilitate structural adjustment and industry rationalization.

Under Australia's proposals, countries would remain entitled to implement, according to specified conditions structural adjustment programmes provided that they achieve sustained trade liberalization. An important outcome of the negotiations will be one that encourages the adoption of measures designed to facilitate necessary adjustment/restructuring within acceptable parameters.

It is Australia's view that the Natural Resource-Based Product Group should ensure that the elimination or reduction in production subsidies and other support measures should build on the outcomes affecting natural resource-based products in broader market access and rules based negotiations in the context of the Uruguay Round.