

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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

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NATURAL RESOURCE-BASED PRODUCTS

Submission from the United States

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

Introduction

1. This paper is submitted to assist the Negotiating Group (NG3) in organizing its work for the remainder of the Round. It draws on the material summarized in the secretariat paper MTN.GNG/NG3/W/14. To date, the Group has not yet reached consensus on which sectors should be considered within the Group's mandate, what practices are most relevant to address, and what techniques and modalities are appropriate in light of the Group's interests and goals. It is also essential to clarify the relationship of this Negotiating Group to the other Negotiating Groups of the Uruguay Round.

Sectoral coverage

2. The Group's mandate from Punta del Este states:

"Negotiations shall aim to achieve the fullest liberalization of trade in natural resource-based products, including in their processed and semi-processed forms. The negotiations shall aim to reduce or eliminate tariff and non-tariff measures, including tariff escalation."

3. Further, the Montreal Mid-Term Review Report (MTN.TNC/11) reaffirms this objective and states that the work of this Group will continue on issues already brought forward "without prejudice to additional products and issues participants may yet propose".

4. The Ministers' report from Montreal also noted that "the work on the three product areas already studied, i.e. fisheries, forestry and non-ferrous metals and minerals is already well advanced". The Group needs to analyze fully the various measures and practices in these sectors which Parties would like to address, and the secretariat documents

(MTN.GNG/NG3/W/18, and Add.1 and Add.2 on non-ferrous metals and NG3/W/19 and Add.1) are helpful in this respect. The United States is considering submission of additional papers regarding some of these products, particularly aluminium.

5. A much more complicated situation is the special problem of energy resources, particularly oil and natural gas. The GATT has historically avoided dealing with energy issues. However, energy accounts for such a large percentage of total world trade that it cannot be ignored by the GATT (see NG3/W/16). The oil and gas issue is of particular importance to certain sectors, such as petrochemicals (see NG3/W/20) and refinery products (gasoline, jet fuel, heating oil, etc.), where the cost of hydrocarbon raw materials and fuel account for the majority of total production costs.

6. The energy resource issues involving coal (and possibly uranium) raise quite a different set of questions. The principal issue here is market access and the degree to which subsidies to inefficient domestic industries coupled with import quotas and/or buy national requirements have kept out competitive imports.

Trade-distorting practices

7. With respect to certain sectors, the trade-distorting practices of interest have largely been associated with restriction of access to markets, focussing on the three sectors noted. However, there have also been exporting-country practices, particularly (two-tier) pricing, which have distorted trade in natural resource-based products. Dual pricing has been discussed extensively in the paper submitted to the group last year (NG3/W/13). This practice can be considered unique to natural resource-based products because it depends upon the unequal distribution of and access to natural resource supplies. Dual pricing has not been a major problem in recent years but is likely to become a problem again at some time in the future, particularly if oil prices begin to rise again. This situation makes it more difficult to demonstrate the importance of the problem.

8. Directly linked to the dual pricing issue is the question of export restrictions. It is in principle impossible to have a dual-pricing situation without export restrictions, since other countries will seek to buy the resource at the lower domestic price and this will lead to supply problems and upward pressure on price. Also related to explicit dual-pricing practices is the use of export taxes to create a dual-pricing situation indirectly. Such a practice could be considered the export-country analogue of tariff escalation.

9. The paper noted above on dual pricing (NG3/W/13) also makes reference to the difficulties which can arise when the producer of a resource or resource-based product is the government. Government often seek to exploit their resources for export (in natural or derivative form) to generate hard

currency for domestic economic development. As acknowledged earlier, this is a legitimate and appropriate exercise of sovereignty recognized by the GATT. Unfortunately, governments tend to be even less flexible than privately owned enterprises when it comes to adjusting plans to reflect changing market conditions.

10. On the importing-country side, the trade-restrictive or distortive practices are perhaps more familiar in GATT discussions and include import restrictions and tariff escalation. It has also been noted (NG3/W/12) that subsidies to inefficient domestic industries can have effects similar to direct tariff and non-tariff import barriers and thus restrict market access.

Techniques and modalities

11. In light of the foregoing, it can be argued that issues of concern in the natural resource sectors go beyond those encompassed within the three sectors traditionally addressed in the GATT from a market-access perspective. In seeking an appropriate balance of concessions regarding trade practices in natural resource-based products, we need to address other sectors and other practices. This brings us to the question of techniques and modalities for negotiations.

12. At present, no consensus exists within the Group regarding negotiating techniques and modalities. For example, should the Group adopt a code approach, in which we develop broad principles and rules that cut across trade practices affecting all natural resource sectors? Are the interests of different Parties consistent across all these sectors, or are there some in which a given Party's interests may be divided? If a code approach were taken, how would the rules adopted be different from the general principles embodied in GATT?

13. A second approach might be to develop a set of principles that is in essence an amplification or elaboration of GATT Articles. This is similar to the code approach but would make clear that we are not necessarily speaking of new commitments but of clarifying the meaning of existing commitments.

14. Alternatively, if there are not enough common themes linking natural resource products and distinguishing them from other goods to support either of these two approaches, would a request/offer approach work? Are the practices of concern sufficiently widespread and identifiable to enable Parties to specify them in a request? Are they currently a problem or are they a potential future problem (in which case, how do Parties formulate a request)? A final factor relating to the approach to be taken to negotiations is the fact that some important resource-rich countries have not been participating in NG3 or are not even yet Contracting Parties.

15. These considerations lead us to recommend that the Group begin to explore principles to govern trade in natural resource-based products which would give more specific meaning to the Articles of the GATT regarding trade practices in these products. Such principles could be framed either as a code or as an elaboration of GATT Articles.

Relationship to other negotiating groups

16. Also to be resolved are the links to other negotiating groups and how these will be handled in assuring a balance package of concessions across all groups. Among the other groups of direct relevance to this group are subsidies, tariffs, NTM, agriculture, tropical products, and GATT articles (in particular, Articles XI, XVII and XX).

17. Some have suggested that this Group carry out its negotiations independently, with results which would be unique to trade practices in natural resource-based sectors. Others have recommended that the Group function essentially as a monitoring group, integrating the results of negotiations actually carried out in other Groups. So that sufficient balance acceptable to all Parties results, it is suggested that the Group take a more active role in relation to other Groups, functioning as a complementary negotiating group.

18. In recommending this approach, the United States recognizes that certain other negotiating groups are the preferred fora for negotiating certain issues. For example, we believe that market-access concessions should be negotiated in NG3, NG2 and NG5. In addition, we have previously noted that fisheries and forestry issues should be negotiated in NG5 (see NG3/W/8, para. 29).

Conclusions

19. Under the recommended concept of a complementary negotiating group, the preferred approach is to achieve results with the broadest possible application by placing primary emphasis on negotiating groups which address all sectors (e.g. NG1, NG2 and NG10). However, to the degree that these other groups do not make progress on issues of concern regarding trade in natural resource-based products and of interest to the participants in NG3, then the Group should be prepared to undertake active negotiations on these concerns. This will require the fullest possible communication with other relevant negotiating groups. While NG3 is examining progress in other negotiating groups, it should also explore concepts and principles which would be applicable to (and unique to) trade in natural resource-based products in order to bring these resources more fully under GATT discipline.

20. Natural resource-based products are an important component of international trade. Many problems affecting trade in these sectors may be unique to the resource area. Others may be common to all trade in goods. Whenever possible, NG3 should encourage other negotiating groups to develop broad rules and principles which will apply to all trade. NG3 participants should then examine these results to assure that they achieve an appropriate balance of concessions necessary to accomplish the objectives of this negotiating group. To the degree required to attain this overall result, the Group should initiate active negotiations as appropriate. All relevant natural resource-based sectors should be considered.