

GENERAL AGREEMENT ON TARIFFS AND TRADE

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WORKING PARTY ON TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS

Background Note Submitted by Canada

Addendum

1. Pursuant to the background information submitted in MDF/W/3 of 12 September 1984, the Canadian delegation has updated the statistical information provided for certain of the trade-related issues outlined therein. The purpose of this addendum is to make this additional information available to the Working Party so as to facilitate its task of examining, with a view to recommending possible solutions, the problems related to trade in certain natural resource products, including in their semi-processed and processed forms and falling under the competence of the General Agreement. This additional information on Article XXIV tariff preferences, lumber imports and government procurement practices is presented below.

Article XXIV tariff preferences

2. The information presented in MDF/W/3, paragraphs 7-11 concerned the impact of Article XXIV tariff preferences, focussing on the preferential entry of exports from EFTA countries into the European Communities. By complementing that information with 1983 data, our intention is not to bring into question Article XXIV agreements as such, but rather to underline the impact such agreements may have on patterns of trade in non-ferrous, forestry and fisheries products.

3. With respect to six major non-ferrous metals and minerals (copper, nickel, aluminium, lead, zinc and tin), the EFTA share of European Communities imports of ores and concentrates, as well as ash and residues (all duty free on a m.f.n. basis) is modest - not surprisingly, as the EFTA countries are not major sources of the primary metal except for some lead, zinc and copper:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
8.1%	8.0%	9.8%	8.6%	8.4%

4. But although the EFTA countries are not generally important sources of the primary material, their share of European Communities imports of unwrought products (including alloys, waste and scrap, and powder, flakes and dust), is now three times their share of European Communities imports of the primary metals - demonstrating a clear trend to increase since the mid-1970s:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
15.5%	17.1%	19.0%	20.0%	25.1%

5. If, moreover, we exclude those unwrought items which are duty free on a m.f.n. basis (in other words, those EFTA products that enjoy preferential duty-free access into the European Communities), then the EFTA share increases markedly by up to forty percentage points:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
55.9%	53.4%	62.3%	55.5%	59.3%

6. In MDF/W/3, it was pointed out that the EFTA countries enjoy preferential duty-free entry for all wrought/semi-fabricated products exported to the European Communities. The trade statistics for 1983 confirm that the EFTA share of such European Communities imports is very high and has increased steadily since at least 1976, as production has shifted in response to opportunities presented in the European Communities market:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
48.0%	50.0%	56.8%	60.7%	65.5%

7. With respect to primary forestry products imports into the European Communities (most of which enters on a m.f.n. duty-free basis), the EFTA share is as follows:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
36.5%	37.7%	40.0%	38.8%	39.3%

8. At the semi-fabricated level (including pulp and some paper products), many imports face dutiable m.f.n. rates (and thus EFTA-EC tariff preferences). The EFTA share is approximately twenty points higher than at the primary product stage:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
59.9%	60.1%	58.5%	59.1%	59.8%

9. If, however, we consider only those semi-fabricated forestry products for which a preferential EFTA-EC duty applies, then the EFTA share increases by more than fifteen points:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
73.1%	74.3%	73.4%	75.2%	75.7%

10. For Chapter 48 products, the stage of EFTA-EC tariff reductions occurred over a period of ten years ending on 1 January 1984. If we exclude the only product which has entered duty free during this period (i.e. newsprint), the EFTA share of European Communities imports of paper products is significant and demonstrates some tendency to increase over time:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
72.6%	75.4%	76.6%	79.2%	76.5%

11. As the tariffs for paper products were gradually reduced for preferential Article XXIV suppliers, the major EFTA country forestry product industries began to emphasize higher value products for export to the European Communities. Thus there has been a marked shift away from pulp (which generally enjoys duty-free m.f.n. treatment at any rate) to paper products, most of which attracts dutiable m.f.n. rates. The 1983 import statistics reveal that the trend in the ratio of European Communities of Chapter 47 products from EFTA sources over European Communities of Chapter 48 products from EFTA sources continued the relative decline begun in the 1970s (and thus the growing relative importance of EFTA trade in paper products):

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
58.1%	47.4%	46.5%	38.7%	32.3%

12. Likewise, and despite the continuing strength of the EFTA newsprint industry, the striking export performance of the rest of the EFTA paper sector, in the context of its privileged access to the European Communities, is clearly demonstrated by the following ratios which illustrate the relative decline of European Communities imports of EFTA newsprint (duty free for all suppliers) compared to imports of other EFTA paper products (subject to Article XXIV tariff preferences):

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
39.4%	37.6%	36.6%	34.4%	28.5%

13. With respect to fisheries products, the same broad pattern emerges. The EFTA share of total European Communities imports of fish at the unprocessed/primary product stage is as follows:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
15.2%	14.7%	16.3%	16.2%	18.9%

14. However, if we consider only those unprocessed fish products which are dutiable on a m.f.n. basis and for which an Article XXIV EFTA preference exists, the EFTA share of European Communities imports at this stage of processing increases noticeably and demonstrates some tendency to grow since the mid 1970s:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
24.9%	24.4%	35.0%	30.0%	31.1%

15. At the semi-processed level, for which there are extensive Article XXIV preferences, the EFTA market share is substantial:

<u>1976</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
63.5%	58.7%	57.6%	57.8%	59.5%

16. As indicated in MDF/W/3, the statistical analysis presented above is not definitive in nature; but the consistency of the pattern revealed at several levels and across three different economic sectors is, in our view, highly suggestive of the way in which Article XXIV tariff preferences may operate to divert trade.

Lumber imports

17. In MDF/W/3, paragraph 12 and Table III, we demonstrated that the overwhelming proportion of wood flooring (mostly lumber) imported into the United States enters at the dressed or worked stage, while the opposite situation prevails with respect to flooring imports into the European Communities and Japan. It was suggested that this differing pattern could be related, in part, to different tariff regimes and to the more complex and varied building codes and standards in the European Communities and Japan. Information now available on 1983 confirms this pattern as can be seen in Table I:

TABLE I

Wood Flooring Imports by Degree of Processing

(expressed as a percentage of total flooring imports)

	EC 1977/1982/ 1983	US 1977/1982/ 1983	JAPAN 1977/1982/ 1983
Rough	95.1/93.9/ 93.0	13.5/13.0/ 15.1	88.3/79.8/ 75.5
Dressed or worked	4.9/6.1/ 7.0	86.5/87.0/ 84.9	11.7/20.2/ 24.5

Procurement practices

18. In MDF/W/3, paragraph 6, certain information was provided related to the issue of government procurement. In an intervention made by the Canadian delegation on 1 November in the Working Party, reference was also made to MDF/W/10, paragraph 139, which mentions the question of government procurement as it relates to non-ferrous metals. Statistics on the total value of government procurement in major markets with respect to the resource products which are the subject of Working Party examination are not easily compiled. However, the SDR value of contracts awarded above the threshold value for agencies covered by the Government Procurement Agreement can provide some preliminary guidance. If the recent GATT notifications submitted, pursuant to the aforementioned Agreement, by the United States, Finland, Sweden, Switzerland, Japan and Canada are totalled by product group, it is evident that in 1983 contracts worth 345,066,000 SDRs were awarded for forestry products (Group 06-CCCN Chapters 44-49) - with another 204,557,000 SDRs awarded for furniture (Group 23-CCCN Chapter 94.01/03/04). Contracts worth 139,326,000 SDRs were awarded in 1983 for purchases of non-ferrous metal products (group 10-CCCN Chapters 74-82). These totals can be considered only a minimal indication of the impact of government procurement on purchases of resources products given the current limited coverage of the Government Procurement Agreement (e.g. only a small number of contracting parties are signatory to the Agreement) and because of the way in which certain products are grouped under the Agreement (for example, large trade items such as non-ferrous ores and concentrates, as well as insulated electric wire and cable are not sufficiently differentiated within their respective groups to permit analysis).