

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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JAPAN - MEASURES AFFECTING THE WORLD MARKET FOR COPPER ORES
AND CONCENTRATES

Supplementary Technical Information Presented by the
European Economic Community

The following communication, dated 11 May 1984, has been received from the Permanent Delegation of the Commission of the European Communities, with the request that it be circulated for information of members of the Council.

1. Over the last two decades, the world market for copper ores and concentrates has been increasingly marked by trade distortions. These distortions result from the implementation of a policy by certain countries, in particular Japan, which is characterized by the following mechanisms:

- Tariff measures: pronounced progressivity in duties, from 0 per cent for concentrates to 20 per cent for blister and refined copper, variable depending upon the import price.
- Pricing policy: domestic prices for the refined metal are fixed at a level higher than world market prices (LME and COMEX), the difference, even if it varies depending on the exchange rate and the trend of the market, being an element associated with tariff protection or isolation of the market (vertical integration, import licensing), which artificially reduces the tendency to look for the metal abroad.
- Purchasing policy with respect to ores and concentrates: this policy is a product of the national machinery and the direct factor of trade discrimination. Being in a position to obtain higher prices for the metal, which are protected in one way or another, the Japanese refiners can apply a policy when purchasing ores and concentrates which enables them to offer prices which are on average higher than world prices. These offers to purchase at a price level higher than the world price are made because their smelting and refining costs are lower than international processing costs.

2. Purchase prices for copper concentrates are based on the following three elements:

- copper content (of the order of 30 per cent) of net dry weight
- deduction of processing costs (smelting and refining)
- addition of the value of the gold and silver content.

The element in which the distortion occurs is the magnitude of the deduction to be made for processing costs.

In the trade, depending on the nature of the purchasing contract (long-term or spot) and the supply situation prevailing on the market, buyers (refiners) and sellers (ore producers), whose bargaining positions often vary, try to obtain the most favourable quotation on the only really negotiable element, namely, the deduction for processing costs. That being the case, it is quite clear that if buyers (like the Japanese buyers) are able, because of mechanisms operating in their own market, to apply a deduction for processing costs that are lower than the industrial costs, the world market will be significantly distorted to the detriment of other ore and concentrate buyers.

3. The lower processing costs applied in contracts for the purchase of concentrates vary depending on the origin of the concentrate, amounting to 5 to 10 cents/lb., and are prohibitive for refiners whose contracts for copper metal are transparent and totally aligned to the international price. Under such conditions, these refiners have only two alternatives: either to meet the above-mentioned purchase terms and suffer losses on their sales of the metal or to reduce the level of utilization of smelting and refining capacities, with negative effects for the integrated output of the metallurgical cycle in quality and quantity and for the profitability of industry and labour.

4. The indicated distortions may become worse, in that more non-ore-producing countries are already showing a tendency to introduce similar mechanisms (progressivity of duties, higher domestic prices, restrictive import measures) with consequently increased partitioning of the international market.

Other negative effects of these practices have also been felt where certain ore-producing countries possess or plan to develop refining capacity and cannot obtain a sufficient volume of concentrates to satisfy domestic demand.

5. All of these phenomena undermine and disrupt free trade in copper products (from concentrates to the refined metal) by the creation, as in the case of Japan, of protected national markets, which directly or indirectly affect the economy of ore-producing and of consumer countries in maintaining total transparency of their markets.