

**.GENERAL AGREEMENT ON
TARIFFS AND TRADE**

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WORKING PARTY ON TRADE IN CERTAIN NATURAL
RESOURCE PRODUCTS

Background Note Submitted by CANADA

Background

1. We consider the Working Party established pursuant to the November 1982 Ministerial Decision that contracting parties examine, with a view of recommending possible solutions, the problems relating to trade in certain natural-resource products to be of central importance for a significant number of contracting parties and a key component of the GATT Work Programme. A considerable amount of factual and analytical work needs to be done. We would encourage all contracting parties to participate actively in the deliberations of the Working Party, to bring relevant background information to the attention of the Working Party and to bring experts from capitals, whenever feasible, to participate in the discussions. We believe that the secretariat's factual background studies prepared to date provide a useful starting point for the Working Party.
2. The objective of this paper is to identify some of the important issues which should be addressed by this Group and to suggest a possible course of action. The paper deals with all three resource sectors, as many of the elements of analysis outlined below can, in general, be applied to all. But it is also important to emphasize that the relative importance of each analytical tool can vary from sector to sector and, indeed, some of the identified "problems in trade" relate specifically to individual sectors and/or products. This fact underscores the Working Party's mandate to prepare a separate report with conclusions and recommendations for each sector.
3. Initial work has been done by the GATT secretariat on the examination of trade flows and the identification of possible problems of trade in resource products. (In addition, we have initiated a preliminary examination of data available to us by reviewing total imports of forestry products, fish and fisheries products and six non-ferrous metals and minerals into the three largest customs territories among contracting parties - the European Communities, the United States and Japan; see Annex I.) Almost US\$65 billion of goods from the three resource sectors which fall within the mandate of the Working Party were imported into the aforementioned customs territories in 1982. Moreover, a major point that emerges from this initial review of data is that an enormous amount of trade still occurs at the primary products level despite partial progress during successive rounds of multilateral trade negotiations in liberalizing trade, including at the semi-fabricated and fully-manufactured levels (see Table II of Annex I). Resource exporters share as a common preoccupation

the processing of renewable and non-renewable resources prior to export where this is internationally competitive and compatible with the development of sound industrial structures. Resource exporters often enjoy a natural comparative advantage which should be utilized to the fullest extent possible if the most efficient use of resources is to be achieved.

4. At this juncture, we might ask why there is not more trade at the semi-fabricated and fully-manufactured levels of production. Some of the factors which may constrain the upgrading of resource exports in resource-producing countries include: tariffs, especially tariffs that escalate with the degree of processing and including the related problem of effective tariff protection; non-tariff trade barriers; the international structural relationships of multinational enterprises; the pricing policies of shipping conferences; domestic policies which affect the investment climate; and the comparative efficiencies of resource upgrading in the resource producing and consuming countries (cost and availability of labour and capital, cost of energy and the compliance with environmental controls, location of main markets, access to technology, etc.). The importance of any one of these factors in the location of resource-upgrading facilities will vary from commodity to commodity across the broad range of resource products. Many contracting parties are of the view that trade barriers are a significant impediment to the location of processing activities in their countries. Set out below are the kind of issues that the Working Party on Trade in Certain Resource Products should, in our view, explore. What follows is meant to be indicative, not all-inclusive, and will undoubtedly have to be supplemented as the work proceeds.

Nominal tariffs

5. The background studies prepared to date on resource products for this Working Party (Spec(83)30; Spec(83)51; Spec(84)7; and Spec(84)13) present information on nominal tariffs. The tariff results of the Tokyo Round varied considerably from product to product and by import market. In general, we believe experience demonstrates that it is necessary to look at specific product examples if the importance of nominal tariffs as such is to be gauged. In Annex II to this paper we briefly outline (without attempting to be exhaustive) several products for which the nominal tariff "still matters" in our view. We also note the existence of several unbound duties.

Tariffs and further processing

6. We would suggest that an important part of the answer to the question posed in paragraph 4 above is the escalation in the nominal tariffs of a number of customs territories. This issue remains central to the goal of upgrading natural resource products. On the basis of relevant information in national customs tariffs, duty rates can be arranged according to the stage of processing to which products belong, thus permitting nominal tariff escalation to be identified. Although the degree of escalation varies, some examples outlined in Annex II demonstrate the nature of the

problem. It may be that previous reductions of bindings on non/less-processed products have led to heightened escalation in some areas.

7. The examination of nominal duties applicable to higher processing stages is insufficient for an assessment of the actual level of protection. Effective tariff-protection rates are higher where nominal tariffs escalate. An analysis of effective protection through entire processing chains is hindered by certain methodological problems (e.g., input differentiation as more complex parts of a processing chain are addressed and the need to identify value added under free-trade conditions). Nonetheless, sufficiently detailed information is often available to undertake an analysis of this problem for the early stages of processing of certain primary commodities. Moreover, although methodological difficulties seriously hinder precise calculations as we move further up the processing ladder, it is true as a general proposition that, where nominal tariffs show escalation at successive processing stages, effective protection is higher, often considerably so, than nominal differences in tariff rates would seem to indicate (COM.TD/W/369, 8 June 1982). It would be very useful if the secretariat could pursue an analysis of effective protection at least up to the early stages of processing. This may help delegations to judge the importance of this issue at least in terms of orders of magnitude.

Import demand elasticities

8. A comprehensive assessment of the protective effects of the tariff necessitates, in addition to import data, statistics on domestic production or consumption and on the changes in demand in response to price variations (a relevant factor if the trade impact of a tariff reduction is to be measured). The difficulties involved in empirical measurement of price elasticity of demand are substantial but, on the basis of work carried out over a decade ago, some researchers have demonstrated that these elasticities increase as higher levels of processing fabrication are reached. Even constant nominal tariffs (much less escalating tariffs) can imply a bias against the export of more fully processed goods. The same percentage reduction in tariff rates throughout a particular processing chain may have a substantially greater trade generation impact at the more fully processed levels. In some cases, this phenomenon may well reinforce the bias imposed by nominal tariff escalation as we move up a specific production chain. This is also a question which could be analysed in greater detail by the secretariat.

Non-tariff measures

9. Government procurement: Government procurement practices could be a significant impediment to trade in non-ferrous metal products, especially those used in the generation and transmission of electric power. In many countries, utilities purchase little or none of their wire and cable products from offshore sources. It would be helpful to have a discussion of the experience of delegations in this regard. The extent of the

government procurement barrier in the forestry and fisheries sectors is unclear but may merit further attention.

10. Domestic tax advantages: For example, tax deferrals under the United States DISC programme are granted to companies which process resource products and add at least 50 per cent of value for export. At present the DISC remains as a major incentive for resource-based companies to locate processing facilities in the United States. Other countries may have similar incentives in place which may result in distortions in the location of resource production facilities.

11. Quantitative restrictions: Quantitative restrictions remain, in some countries, as a major constraint to the development of export markets for certain resource products. For example, there are QRs in effect with respect to the importation of certain fish products into Japan and for some lumber products into the EC.

12. Other NTMs: Among other NTMs, the following types of measures appear to affect directly or indirectly the levels of trade:

(a) Import licensing schemes: For example, the Spanish licensing system in the fisheries sector and the Spanish fiscal compensatory import tax maintained on all imports, including products in the three resource sectors included in the mandate of the resource products Working Party.

(b) Rules of origin: Rules of origin between countries can, of course, have a restrictive trade effect. For example, rules of origin applicable before the entering into force of the EC/EFTA agreements a decade ago were less restrictive and the changes may well have caused trade diversion, including in the resource products sectors, as EFTA manufacturers switched away from third-country products to ensure origin sourcing.

(c) Building codes and standards: The operation of building codes and standards can operate to discourage imports of certain forestry products.

(d) Administration of customs procedures: For example, the administration of the tariff quota on imports of plywood of coniferous species into the EC has acted as a non-tariff barrier.

(e) Countertrade: A recent secretariat document (CG.18/W/80, 30 March 1984) addressed some of the empirical and economic issues involved in countertrade, as well as the consistency of various countertrade practices with the General Agreement and some of the codes supplementary to it. The impact of countertrade in resource products perhaps merits further attention.

(f) Strategic stockpiles: The existence of strategic stocks may seriously distort trade flows for certain products; the impact of the 4 March 1955 Council Resolution on the Liquidation of Strategic Stocks (BISD, 3rd Supp., p. 51) could be reviewed in the light of experience.

Total protection

13. The accumulated or total protection provided by tariffs and non-tariff measures results in a number of processing and manufacturing facilities for resource products being located rather more frequently behind the protection present in the major importing markets than in the resource-exporting countries. This pattern may show some variation from country to country and from product to product, but in general the continuation of the barriers outlined above, particularly, but not exclusively when in combination, will tend to ensure that resource products will be traded at the primary level to a significantly greater degree than would be the case under conditions of full trade liberalization.

Summary

14. As long as trade barriers such as those outlined above are maintained, there will be distortions in patterns of trade in resource products. Furthermore, it is important to recall that much of the above discussion represents merely a static portrait of the structure of trade in a given year facing particular tariff and non-tariff barriers. If these were fully liberalized, not only would trade shifts likely occur between the primary and other levels of processing, but overall levels of trade would increase as demand reacted positively to more efficient production. We view the main underlying task of the Working Party to be that of signalling ways in which such trade expansion can be realized.

ANNEX I

Trade Flows

1. The Government of Canada has initiated an initial examination of trade in resource products.

2. The sources of data for the EC, the USA and Japan were, respectively: NIMEXE - Analytical Tables of Foreign Trade; IM 146 - US Imports for Consumption; and Japan Exports and Imports. The data compiled are for the 1982 calendar year and for the three resource product sectors. The six non-ferrous metals and minerals selected were lead, zinc, copper, aluminium, nickel and tin. The analysis focused on the level of trade by degree of processing: i.e., primary products, semi-processed or semi-fabricated products and further manufactures or processed goods. It was decided to take a broad view with respect to the definition of further manufactures to include such products as electric accumulators (CCCN 85.04) and insulated electric wire, cable, bars, strip and the like (CCCN 85.23) with respect to non-ferrous metals and minerals; chairs and other seats (CCCN 94.01-part) and other furniture and parts (CCCN 94.03-part) with respect to forestry products; and, of course, prepared and preserved fish (CCCN 16.04 and 16.05) with respect to fisheries products. A complete list of product coverage by CCCN classification for each of the three resource product sectors can be made available on request. Although in a limited number of cases the description of a particular tariff item did not initially permit the clear-cut inclusion of such items in their entirety in one of the aforementioned levels of processing, available national trade data provided a reasonable basis for making such decisions. The following analysis, although preliminary in nature, does tend to point in certain directions.

3. Total 1982 imports in the three resource sectors into the three major import markets totalled at least US\$64.7 billion. The trade in resource and resource-based products is clearly of major importance for the world trading system. The EC was the leading importer at US\$28.9 billion, followed by the US at US\$19.1 billion¹ and Japan at US\$16.7 billion. The total amount imported in 1982 into the three markets analysed here for each of the resource sectors was: \$32.8 billion (forestry); \$21.8 billion (non-ferrous metals and minerals); and \$10.1 billion (fish and fisheries). Table I provides the breakdown by sector and by major import market.

¹The US data are based on f.o.b. value compared to the c.i.f value used by the EC and Japan.

TABLE I
1982 Resource Imports by Sector and by Import Market
(US\$ Millions)

	EC	US	JAPAN
Non-ferrous metals and minerals	9,312	6,727	5,751
Forestry	16,739	9,140	6,946
Fish and fisheries	2,855	3,213	3,992

4. Taking the above into account, the data was examined by degree of processing. The results are presented in Table II. The major point that emerges from this review, without making forced comparisons between sectors, is that a significant amount of imports still takes place at the raw material and primary product stage.

TABLE II
1982 Imports by Degree of Processing
(expressed as a percentage of total imports for each sector)

	EC	US	JAPAN
A. Raw materials and primary products			
- non-ferrous metals and minerals ¹	80.2	64.1	98.8
- forestry ²	28.7	4.1	72.4
- fish and fisheries	42.3	67.0	84.2
B. Semi-processed or fabricated products			
- non-ferrous metals and minerals	9.9	14.2	2.8
- forestry	53.9	43.7	20.2
- fish and fisheries	33.0	22.3	10.4
C. Further manufactures or fully-processed products			
- non-ferrous metals and minerals	9.8	21.8	2.4
- forestry	17.5	52.2	7.4
- fish and fisheries	24.7	10.7	5.4

¹ Includes compounds and unwrought products, waste and scrap, powder, flakes and dust.

² Includes rough lumber (CCCN 44.05).

ANNEX II

Tariff Issues

A. Nominal tariffs

1. Tokyo Round concessions by the EC and eight other industrial countries on an m.f.n. basis in agricultural products (including fisheries) resulted in a decline of the weighted average tariff from 8.1 to 7.1 per cent (Spec(84)21, para 46). With respect to the fisheries sector, there was some modest liberalization in the last round, but many fisheries products will continue to face relatively high tariffs in several key markets even following full implementation of the post-MTN tariff concessions. Imports into Japan of hard roes of herring (in brine), for example, will face a final Tokyo Round rate of 12 per cent. Squid in brine attracts a 15 per cent tariff. A variety of canned-fish products are confronted with 15-16 per cent duties. Many Japanese duties on fish and fish products, moreover, are not bound in GATT. Most EC tariffs on fish (including several in unprocessed form) are in the 10-20 per cent range, with several more than 20 per cent. With respect to the the United States, fish sticks, for example, attract US tariffs of 10-15 per cent.

2. Tokyo Round concessions by the nine aforementioned industrial countries on an m.f.n. basis for industrial products resulted in a decline of the weighted average tariff from 7.0 to 4.7 per cent (Spec(84)21, page 46). With respect to wood and paper products, several important reductions in US tariffs were achieved during the Tokyo Round, but access to the EC, Japanese and, to some degree, the US markets is still hindered by several nominal rates above 5 per cent, with some 10 per cent. Several of the Japanese tariffs in this sector remain unbound.

3. In the metals and minerals sector, the results of the Tokyo Round varied considerably. US duties on copper and nickel, for example, were already comparatively low on several main trade items before the Tokyo Round, but no reduction on the 9.5 per cent tariff on zinc powders nor on the 19 per cent tariff on unwrought zinc (alloyed) was achieved. The rate on lead powder and flakes remained unchanged at 11.25 per cent. With respect to the EC, no reduction was achieved on the 3.5 per cent duty on unwrought zinc nor on certain important unwrought lead items and less than formula cuts were made on lead powders and flakes and on several major copper products at the wrought level. Moderate Japanese reductions still left their rates generally high in comparison with other major importers (for example, duties on unwrought lead and copper products). Tariffs on many aluminium products are in the 5-10 per cent range in the three major import markets.

B. Tariffs and further processing

1. Tariff escalation: In one of the leading import markets, the post-MTN concession rate on frozen whole cod is 12 per cent; on cod fillets (dried,

salted or in brine), as well as fish sticks, 20 per cent. In another major import market, the post-MTN final rate on aluminium oxide is 4.9 per cent; unwrought aluminium, 9 per cent; wrought bars and rods, 11.5 per cent. In a third import market the higher post-MTN final rates for wood veneers and plywood compared to those at the primary product level again underline the tariff escalation issue. Higher tariffs on worked or dressed lumber compared to the tariff rate for rough lumber would also appear to be related to a smaller proportion of imports of the former than would otherwise be the case in certain major markets.

2. Effective tariff protection: This problem can be clarified further by taking two concrete examples. One import market permits the duty-free entry of lead concentrates, but levies a final Tokyo Round rate of 6 per cent on a refined lead product. The average free market prices of lead concentrates and refined lead are available. The effective rate of protection for the refined product in question can, therefore, be calculated to be about 12.5 per cent, double the nominal rate. To take another example, although zinc concentrates move into another import market duty free, unwrought zinc attracts a tariff of 3.5 per cent. However, since the value of concentrates at current prices represents about 62 per cent of the value of the unwrought zinc, and the 3.5 per cent duty is applied on the full value of the unwrought zinc (i.e., including the value represented by zinc concentrates), the effective protection afforded to the smelting and refining activity in the market in question is magnified to about 9 per cent.