

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

Working Party on Trade in Certain
Natural Resource Products: Non-Ferrous
Metals and Minerals
25 June 1984

NOTE ON THE PROCEEDINGS OF THE WORKING PARTY ON
TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS: NON-FERROUS
METALS AND MINERALS HELD ON 25 JUNE 1984

Prepared by the Secretariat

1. The Working Party on Trade in Certain Natural Resource Products held its first meeting on 25 June 1984 under the Chairmanship of Mr. M. Cartland (United Kingdom, Hong Kong) to discuss problems affecting trade in non-ferrous metals and minerals.
2. The Chairman recalled that the Working Party had been established by the Council on 13 March 1984, in accordance with the Decision on Problems of Trade in Certain Natural Resource Products adopted at the Ministerial meeting of the CONTRACTING PARTIES in 1982 (BISD 29S/20). The task of the Working Party, as set out in its terms of reference contained in document C/126 of 30 April 1984, was "to examine problems falling under the competence of the General Agreement relating to tariffs, non-tariff measures, and other factors affecting trade in the following natural resource products including in their semi-processed and processed forms, with a view to recommending possible solutions:
 - (a) Non-ferrous metals and minerals
 - (b) Forestry products
 - (c) Fish and fisheries products".
3. The Chairman stated that the terms of reference of the Working Party called on it to "submit a separate report to the Council on each of the three areas mentioned above. Each report [would] be submitted to the Council when [...] concluded, independently from progress in other areas". The Working Party would also submit a progress report to the Fortieth Session of the CONTRACTING PARTIES in November 1984.
4. The purpose of this meeting of the Working Party was to commence discussions on problems affecting trade in non-ferrous metals and minerals. It had been agreed so far that work in this area should cover the following major metals: lead, zinc, copper, tin, nickel and aluminium. In accordance with a Decision taken by the Council on 20 April 1983 (and subsequently circulated in documents L/5483, L/5484 and L/5485), the secretariat had prepared and circulated to the contracting parties the following background studies relating to non-ferrous metals and minerals:

- (a) a background study on lead and lead products - document Spec(83)30/Rev.1. and Add.1
- (b) a background study on zinc and zinc products - document Spec(83)51/Rev.1. and Add.1

The Chairman informed the Working Party that a background study on copper and copper products was in the process of completion and would be issued shortly. Background papers on nickel and tin would be completed during the second half of this year while a paper on aluminium was envisaged for next year.

5. In addition to the background documentation prepared by the secretariat, the Chairman informed participants that a background note (MDF/W/1) had been submitted by the Canadian delegation for consideration by the Working Party.

6. The Chairman proposed that today's meeting be devoted to:

- (i) general remarks from members of the Working Party on major problems affecting trade in non-ferrous metals and minerals, and
- (ii) the determination of a programme of meetings on non-ferrous metals and minerals for the Working Party.

The Chairman opened the discussions by inviting the Canadian delegation to introduce the background note which it had submitted for consideration by the Working Party.

7. The representative of Canada expressed satisfaction regarding the commencement of substantive work in the area of natural resource products. While he considered the background documents prepared by the secretariat to provide a useful starting point for discussions in the Working Party, in his delegation's view there was still a substantial amount of factual and analytical work that needed to be done. In this context, he encouraged all contracting parties to participate actively in the discussions so that the tasks of the Working Party in all three areas could be completed by June or July of 1985. He also requested the prompt completion of the secretariat background documents on the remaining four non-ferrous metals so as to allow sufficient time for analysis in respective capitals.

8. Turning to the contents of the Canadian submission, the representative of Canada stated that the objective of the paper was to identify some of the important issues which should be addressed by the Working Party and to suggest a possible course of action. He noted that approximately 8-9 per cent of world trade took place in the three natural resource products which constituted the subject of examination for the Working Party. As shown in the Canadian paper, imports of natural resource products, including in their fully processed form, by Japan, US and EEC amounted to over \$65 billion in 1982. The representative of Canada pointed out that a striking feature of trade in non-ferrous metals and minerals, as borne out by 1982 trade statistics, was that a vast proportion of it took place at the raw material and primary product level. He added that further analysis had shown that there had been practically no change in the share of imports of non-ferrous metals accounted for by primary products either for the EEC or for Japan between 1977 and 1982. He noted that some modest improvement had been registered in the case of imports into the United States market, so that a larger proportion of U.S. imports of non-ferrous

metals were in the form of semi-manufactured and fully-manufactured products in 1982 compared to 1977. This, however, did not alter the general picture concerning trade in non-ferrous metals which remained heavily skewed toward the raw material and primary product level. The Canadian delegation believed that addressing the determinants of the existing skewed pattern of trade in non-ferrous metals constituted one of the key tasks of the Working Party. While noting that the reasons behind this phenomenon were complex, the representative of Canada expressed his conviction that tariff and non-tariff barriers, falling under the competence of the General Agreement, constituted a large part of the explanation behind the skewed pattern of trade in non-ferrous metals and minerals.

9. With respect to nominal tariffs, the representative of Canada noted that even apparently low tariffs, such as 3 and 4 per cent, had an impact on trade when dealing in large bulk commodities. He added that some preliminary analysis had been carried out in Canada concerning the impact on trade flows of Article XXIV tariff preferences. While the analysis had not been definitive in nature, the results were suggestive of the way in which Article XXIV tariff preferences may operate to divert trade. He noted that, in the non-ferrous metals sector, the share of EFTA countries in EC imports of wrought semi-fabricated non-ferrous products had increased from 50 per cent to just under 61 per cent between 1977 and 1982. Also, while the share of EFTA countries in total EC imports of unwrought products in 1982 was 20 per cent, their share in m.f.n. dutiable imports of unwrought products by the EC was as high as 56 per cent in the same year. The representative of Canada suggested that tariff preferences between the EC and EFTA countries provided a large part of the explanation for this phenomenon.

10. The representative of Canada noted that the question of tariff escalation was outlined in the Canadian paper. In his view, the analysis on trade in non-ferrous metals had to be carried out at a more disaggregated level in order to adequately gauge the problem of tariff escalation in this sector. Some examples of tariff escalation were already outlined in Annex II of the Canadian note, but additional examples would be provided during the course of the discussions on specific non-ferrous metals and minerals. The question of effective protection was also addressed in the Canadian note. After reviewing various background documents prepared by the secretariat which addressed the issue of effective tariff protection, including TAR/W/18, TAR/W/26, TAR/W/29 and Spec(84)/24, the Canadian delegation concurred that there were serious methodological problems in attempting to measure the degree of effective tariff protection in any industry, particularly at higher stages of processing. He emphasized that the Canadian delegation was not suggesting that the secretariat undertake extensive studies on the problem of tariff escalation in non-ferrous metals, as had been done some years ago with respect to the copper industry. Given the methodological problems involved, he did not consider it worthwhile, for the purposes of this Working Party, for the secretariat to engage in such a major exercise. Nonetheless, he believed that the concept of effective tariff protection was a valid and useful one. Moreover, sufficiently detailed information was available to undertake an analysis of the problem for the early stages of processing. As a result, he proposed that the secretariat undertake some additional work in this area, particularly at the lower end of the processing chain, up to the unwrought stage. This would allow contracting parties to better judge, on the basis of rough orders of magnitude, the probable impact of effective tariff protection on trade in non-ferrous

metals. In addition, he suggested that there should be explicit recognition, in the secretariat papers on natural resource products, of the validity of the general proposition that where tariffs show escalation at successive processing stages, effective protection is higher, often considerably so, than nominal tariff rates seem to indicate (TAR/W/29).

11. The representative of Canada noted that the Canadian document also contained some reference to import demand elasticities. In this regard, he expressed his delegation's desire to have more information on the impact of import demand elasticities on trade flows. While he recognized the methodological problems involved in the empirical measurement of demand elasticities, he suggested that the secretariat could provide to members of the Working Party a review of the existing literature on this subject as it relates to trade in natural resource products.

12. The Canadian background note also contained information, obtained mainly from the non-tariff measures inventory, on various non-tariff measures which may affect trade in natural resource products. The representative of Canada noted that this list was in no way exhaustive and in this context, he encouraged other delegations to provide information on any non-tariff measures that may have been overlooked in the note. Within the context of government procurement policies, he made reference to a study done in Canada on power system utilities. He noted that public power system utilities dominated Western European power production and, according to available information, sourced no equipment from foreign suppliers. In Japan, only prototypes were purchased from foreign sources while in the United States one-half of the market was closed to foreign suppliers due to a combination of explicit preferences for domestic suppliers on the part of public utilities and similar practices by privately-owned utilities. As a result, the representative of Canada felt that government procurement policies, as they relate to the non-ferrous metal sector, merited further study.

13. Another area of concern for the Canadian delegation was the way in which rules of origin, in particular those relating to EC/EFTA agreements, may have worked to divert trade in non-ferrous metals over the past ten to twelve years. He noted that 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. According to information extracted from the official report of one of the Working Parties established to review the EC/EFTA agreements, he added that a line by line comparison revealed that out of 338 tariff headings where direct comparison could be made, in 335 present rules of origin were more restrictive than the previous EFTA rules. He noted that under the present rules of origin, goods traded between EEC and EFTA countries were considered fully dutiable, that is of non-EFTA origin, in circumstances where over 5 per cent of the finished product was of non-EFTA origin.

14. Finally, an attempt was made in the Canadian paper to gauge the importance of accumulated or total protection. The representative of Canada added that illustrative examples on how various tariff and non-tariff barriers may restrict trade in specific products in specific import markets would be provided during the course of the discussions. By way of illustrating the plethora of measures faced by exporters in the non-ferrous metals sector, the Canadian delegate noted that a company

considering the expansion of its copper-related export activities in a copper producing country exporting to the United States would have to take into account the following U.S. trade barriers:

- (1) escalating tariffs, with effective levels of protection significantly higher than the nominal rates;
- (2) DISC, representing a major incentive for companies to locate in the United States, as tax deferrals under DISC are granted to companies which process resource products and add at least 50 per cent of value for export;
- (3) government procurement practices;
- (4) uncertainty created by the current investigation as to whether import quotas should be established for refined and blister copper under Section 201 of the Trade Act of 1974.

15. In concluding his remarks, the Canadian representative said that as long as trade barriers, such as the ones he had enumerated, were maintained, there would be distortions in patterns of trade in resource products. Furthermore, it was important to recall that much of his remarks represented 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. The Canadian delegation viewed the main underlying task of the Working Party to be that of signalling ways in which such trade expansion could be realized. In this context he urged other contracting parties to submit their detailed views on this issue and encouraged all to participate actively in the discussions.

16. A number of delegations said that the Working Party on Natural Resource Products represented an important aspect of the Ministerial Work Programme and expressed their hope to see work in this area move forward.

17. The representative of a developed country, thanking the Canadian delegation for the submission and presentation of the background note, expressed regret at not having received the note earlier. While he could offer no comments today as a result, he expressed his intention to come back to the issues raised by Canada in this note. He said that all three countries, on whose behalf he was speaking, attached great importance to the completion of all parts of the 1982 Work Programme. Without attempting to prejudge the conclusions that may be reached by this Working Party on trade in certain natural resource products, he wished to reiterate that the work undertaken must be relevant to GATT and fall within the jurisdiction of the General Agreement. He asked that efforts should be made to avoid breaking up the work of the GATT into too many sectors and to strive to deal with problems in existing institutions when possible. He concluded his remarks by indicating that he would revert to this matter when discussing possible solutions to the problems of trade in natural resource products.

18. The representative of a developing country with major interests in the area of non-ferrous metals, supported, in general, the concerns raised by the Canadian note regarding tariff and non-tariff barriers affecting trade in non-ferrous metals. She emphasized that her country was one of the

world's leading producers of copper, lead and zinc ores and said that her delegation's major concern was in the area of trade in semi-manufactured and finished products of non-ferrous metals. She noted that the bulk of world trade in non-ferrous metals took place at the raw material and primary product stage. While her country was interested in further processing its ores, trade barriers found in major importing markets, the most important of which was tariff escalation, circumscribed attempts at upgrading the value-added content of exports of non-ferrous metals. She added that information on specific trade problems faced in import markets would be furnished during the discussions on specific non-ferrous metals. She mentioned that restrictions under the generalized system of preferences such as quantitative restrictions, graduation and competitive need provisions constituted another area of concern, as these policies reduced the benefits that could be derived under this system.

19. The representative of another developing country said that while the background documents prepared by the secretariat were very useful, a number of trade problems had not been dealt with therein. He, therefore, wished to reserve his delegation's right to present its own ideas on how to complement the studies with regard to possible trade problems.

20. Regarding the determination of a programme of meetings for the Working Party, the Chairman noted that this would be governed to a large extent by the availability of the background documentation prepared by the secretariat. The Working Party would meet to discuss lead and zinc on 27 and 28 June. Since the background document on copper would be available shortly, the Working Party would be meeting the first week in October to discuss problems of trade in copper and copper products. It was also tentatively agreed that the Working Party would convene in February 1985 to discuss nickel and tin and sometime in mid-1985 to discuss aluminium. The Chairman noted that the Working Party would have to submit an interim report to the Contracting Parties at the end of October, by which time it would have examined trade problems in only three of the six non-ferrous metals under consideration, namely lead, zinc and copper. In this context it was agreed that the secretariat would produce, on its own responsibility, summary reports on the three meetings of the Working Party, which would be annexed to a brief summary paper indicating progress made thus far, without prejudging the content of the final report that would be submitted after completing the examination of trade problems in all six non-ferrous metals.

21. With respect to the Canadian submission, a number of representatives said more time was needed for further study of its contents in capitals and by experts, in view of the fact that the note had been circulated only recently and only in English and French. It was decided, therefore, that the Canadian submission would remain before the Working Party for comments by delegations at any time during the course of future discussions. It was also decided that the meetings of the Working Party on lead and zinc on 27-28 June would start with general observations and then proceed to a section by section examination of the secretariat documents.