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GENERAL AGREEMENT ON
TARIFFS AND TRADE

Multilateral Trade Negotiations
Group "Sector Approach"

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NOTE BY THE UNITED STATES DELEGATION

The following communication dated 24 October 1975 has been received from the United States delegation.

Enclosed for distribution as an MTN document for use of the Group "Sector Approach" is a United States paper describing the reasons why, in our view, additional studies should be prepared by the secretariat in the chemicals, electronics, and heavy electrical equipment sectors. You will recall that in the last meeting of the Group "Sector Approach" the United States agreed to present its proposals for the additional studies in writing.

The United States Proposal for Studies of the Chemicals, Electronics, and Heavy Electrical Equipment Sectors

At the Tokyo Ministerial meeting it was agreed to examine "the possibilities for a coordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique."

Since that time, the GATT Secretariat has undertaken the task of collecting the data necessary for an examination of the ores and metals sector and several sectors of interest to the developing countries. These studies were initiated with the understanding that they did not commit any delegation to the sectoral negotiating approach for products in these sectors.

At the Group's last meeting, the United States agreed to present a written proposal for sector studies of the chemicals, electronics, and heavy electrical equipment sectors.

The United States believes that adequate information and analysis of trade and trade barriers is an essential prerequisite for meaningful trade liberalization. The detailed data on trade and trade barriers these studies provide are, therefore, considered an essential element of the negotiations. Studies which provide a view of the total protection accorded important product sectors can be useful in achieving the coordinated reduction of all barriers to trade whether negotiation of these reductions is eventually undertaken within the sectoral or general approach.

The collection and analysis of this data, however, is time consuming, and it is essential that preliminary work on important sectors be undertaken now. It would be unfortunate if negotiations were delayed at some later date because of a lack of data which could be collected now.

While it is true that some delegations are capable of performing their own analysis of important sectors, not all delegations have the resources to do so. Moreover, preparation of studies by the GATT Secretariat could provide a common reference source for all delegations.

The United States, therefore, proposes that the GATT Secretariat undertake to collect and analyze data relating to trade, production and trade barriers in the following sectors.

1. Chemicals. This sector would include organic, inorganic, plastic materials, paints and coloring materials and pharmaceuticals (GATT Tariff Study category 10.01-10.04, 10.06).

2. Heavy Electrical Equipment. This sector includes power boilers (including nuclear reactors), turbines, power distribution transformers and switchgear (BTN 84.01, 84.02, 84.05, 84.07, 84.59A, ex 85.01, ex 85.19).

3. Electronics. This sector includes radio, TV and photographic equipment, telephonic and telegraphic apparatus, telecommunications equipment and electronic components (BTN ex 85.01, 85.02-85.04, 85.10-85.18, ex 85.19, 85.20, 85.21, 85.23-85.28, 85.32).

The background note on sectors prepared in February by the Secretariat (MTN/3c/1) lists several criteria suggested by the Group for choosing possible sectors. Each of these three industries meets most of these criteria: each is important to world trade; each has significant non-tariff measures or tariff escalation; and each is potentially important to developing countries.

Although the United States believes these reasons are sufficient to support GATT Secretariat studies of these sectors, we have also included a short summary of each of these industries.

By almost any standard, chemicals play a vital role in the development of today's world economy. World trade in chemicals represents 11 percent of total world trade in industrial products and has been growing at a faster rate than the average growth of trade in manufactures. This trade would no doubt have been greater were it not for a massive array of trade barriers, including widely dispersed tariff rates, different methods of valuation, quota restrictions, cartel arrangements, government influence on purchasing, and standards. Although the industry is populated with large multinational enterprises and dependent upon continually developing technology, many developing countries also have the natural and human resources to compete in the production of several chemical products. While the major industrial countries accounted for the bulk of trade in chemicals, it is apparent from the data given in the attached Table 1 that the developing countries are an important participant in chemical trade. OECD member countries' imports of chemicals from the developing countries increased by 59 per cent during the period 1970 to 1973, accounting for 8 per cent of OECD countries' chemical imports in the latter year. It is also apparent that chemicals are an important component of the developing countries' total trade. Eleven per cent of the industrial exports of the developing countries in 1973 to OECD countries were chemical exports. We suspect, but cannot ascertain until this study is undertaken, that the chemicals sector may also exhibit significant tariff escalation. Recent changes in the relative prices of

essential inputs for this sector also raise the prospect that questions of supply availability may be important. One cannot be sure of the severity of this problem, however, nor of its implications for trade flows until the sector has been studied in some detail.

Electronics. This large and growing industry, already in the billions of dollars, comprises electrical industrial machinery and telecommunications equipment as well as consumer electronics. Total OECD trade in these products increased by 86 percent between 1970 and 1973 and accounted for over $25.2 billion in the latter year (see the attached Table 2). Although production processes in this sector are for the most part technologically spohisticated a number of developing countries also currently produce some electronic products. Developing country exports of these products to the OECD countries increased by 284 percent between 1970 and 1973, and a significant two-way trade in components and finished products has developed between developing and developed countries in many electronic products.

In most countries there is an array of barriers to trade in electronics that supplements tariffs, including quantitative restrictions, voluntary export restraints, government involvement in trade and production, and standards. The structure and technological nature of the industry is such that concessions in one area might have significant implications for the entire industry. The United States believes that negotiations relating to these products can be advanced most by a study which looks at the total pattern of trade and protective devices affecting the industry.

Heavy Electrical Power Equipment. Heavy electrical machinery accounted for 3.1 percent of total OECD trade in 1973, an increase of 68 percent over 1970. Of the approximately $8.1 billion of these goods imported by OECD countries in 1973, over $7.5 billion or 93.1 percent was produced in OECD countries. Although OECD countries exported over one-third of their production to developing nations, developing countries are currently producing lighter class equipment and have significant potential for further growth.

A major factor in this trade pattern is the fact that more so than most industries, the heavy electrical power equipment industry is plagued with government policies other than tariffs which restrict trade. The existence of subsidies, government purchasing practices, and standards make the value of trade concessions on tariffs alone questionable. The industry, with production concentrated

in a few countries, is highly dependent upon exports. Government practices in developing and supporting national heavy electrical power industries not only distort trade patterns but have led to chronic excess capacity. In such circumstances governments may be inclined to resist partial attempts at trade liberalization. It is therefore encumbent upon this Group, to the extent that we seek a further liberalization of trade, to study all of the factors that affect or distort trade in this sector.

The secretariat has circulated a statistical availability study for these three sectors (MTN/SEC/W/4) which reviews the statistical information currently collected and published by national authorities, the UN and the OECD. The study indicates that sufficient material exists to undertake a collection and analysis of data for these sectors similar to that undertaken for the ores and metals sector and the sectors of interest to developing countries. Some data gaps and problems of correlation do exist. Therefore, the US delegation would be willing, where possible, to aid in this effort by supplying additional needed data when requested by the secretariat. The United States hopes that other delegations would do the same.

See attached Tables 1, 2 and 3.

Table 1

CHEMICALS*

	1970		1973		
	Value	Percent	Value	Percent	Change
OECD Imports from: (CIF, Thousands of Dollars)					
World	10,070,500		17,110,960		69.9
OECD	8,556,611	85.0	14,879,613	86.9	73.9
Developing Countries	855,834	8.5	1,360,011	7.9	58.9
EEC (9)1/	3,254,426	32.3	6,152,666	36.0	89.1
Canada	535,471	5.3	817,276	4.8	52.1
United States	2,801,889	27.8	4,086,654	23.9	45.8
Japan	439,491	4.4	712,766	4.1	62.2

*SITC 271, 51-54, 56-59, 62
1/Excludes intra-EC shipments.

SOURCE: OECD, Series C, 1970 and 1973

CHEMICALS*

OECD Exports to: (FOB, Thousands of Dollars)					
World	15,049,889		24,810,028		64.9
OECD	8,447,177	56.1	14,252,507	57.4	68.7
Developing Countries	4,722,018	31.4	8,201,317	33.1	73.7
EEC (9)1/	2,357,136	15.7	3,518,665	14.2	49.3
Canada	780,616	5.2	1,264,878	5.1	62.0
United States	1,215,683	8.1	2,231,841	9.0	83.6
Japan	688,416	4.6	1,325,810	5.3	92.6

*SITC 271, 51-54, 56-59, 62
1/Excludes intra-EC shipments.

SOURCE: OECD, Series C, 1970 and 1973

Table 2

ELECTRONICS*

	1970		1973		
	Value	Percent	Value	Percent	Change
OECD Imports from: (CIF, Thousands of Dollars)					
World	5,426,974		10,833,453		99.6
OECD	4,713,133	86.8	8,472,169	78.2	79.8
Developing Countries	542,053	10.0	2,084,358	19.2	284.5
EEC (9)1/	1,218,110	22.4	2,088,373	19.2	71.4
Canada	262,215	4.8	315,794	2.9	20.4
United States	1,548,656	28.5	2,500,227	23.1	61.4
Japan	1,108,451	20.4	2,276,032	21.0	105.3

*SITC 724, 726, 729

1/Excludes intra-EC shipments.

SOURCE: OECD Series C, 1970 and 1973

ELECTRONICS*

OECD Exports to: (FOB, Thousands of Dollars)					
World	8,137,614		14,391,109		76.8
OECD	4,772,425	56.6	8,711,923	60.5	82.5
Developing Countries	2,189,966	26.9	4,194,087	29.1	91.5
EEC (9)1/	1,213,573	14.9	2,511,869	17.4	107.0
Canada	512,542	6.3	930,840	6.5	81.6
United States	1,471,378	18.1	2,193,232	15.2	49.1
Japan	239,789	2.9	382,163	2.7	59.4

*SITC 724, 726, 729

1/Excludes intra-EC shipments.

SOURCE: OECD Series C, 1970 and 1973

Table 3

Heavy Electrical Machinery*

	1970		1973		
	Value	Percent	Value	Percent	Change
OECD Imports from: (CIF, Thousands of Dollars)					
World	4,435,782		8,100,558		82.6
OECD	4,240,950	95.6	7,541,941	93.1	77.8
Developing Countries	130,933	2.9	416,531	5.1	218.1
EEC (9)1/	1,305,650	29.4	2,356,044	29.1	80.4
Canada	572,826	12.9	839,310	10.4	46.5
United States	1,530,950	34.5	2,731,843	33.7	78.4
Japan	228,313	5.1	410,220	5.1	79.7

*SITC 711,722, 723

1/Excludes intra-EC shipments.

SOURCE: OECD, Series C, 1970 and 1973

Heavy Electrical Machinery*

OECD Exports to: (FOB, Thousands of Dollars)					
World	7,014,786		11,818,944		68.0
OECD	3,898,875	55.6	7,043,099	59.6	80.6
Developing Countries	2,395,196	34.1	4,037,205	34.2	68.5
EEC (9)1/	769,852	11.0	1,421,582	12.0	84.6
Canada	724,290	10.3	1,243,289	10.5	71.6
United States	1,112,948	15.9	1,799,573	15.2	61.7
Japan	174,833	2.5	328,110	2.8	87.7

*SITC 711, 722, 723
1/Excludes intra-EC shipments.

SOURCE: OECD, Series C, 1970 and 1973