MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

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SUBMISSION FROM THE UNITED STATES

The following submission has been received from the delegation of the United States with the request that it be circulated to members of the Negotiating Group on Natural Resource-Based products.

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I. Introduction

The Ministerial Declaration launching the Uruguay Round calls for negotiations which "aim to achieve the fullest liberalization of trade in natural resource-based products including in their processed and semi-processed forms. The negotiations shall aim to reduce or eliminate tariff and non-tariff measures, including tariff escalation." Under the agreed negotiating plan for this group, in the initial phase, the participants are to determine issues relevant to the Negotiating Objective taking into account documentation established by the Working Party on Natural Resource-based Products and proposals by the participants. In addition, participants are to elaborate techniques and modalities for achieving the agreed objectives taking into account those elaborated in other relevant areas.

The United States considers that the Uruguay Round should seek to liberalize all aspects of trade in natural resource-based products, as they relate to both importing and exporting. With this in mind, and without prejudice to the possibility of submitting additional topics for negotiation in the future and of dealing with selected natural resource-related issues in other Uruguay Round negotiating groups, the U.S. Delegation submits the following proposal for the Group's consideration.

II. Scope of Issue

The free flow of trade in natural resource-based products is impeded by a number of practices which can be divided into five distinct but related parts -- dual pricing of natural resources, related export restrictions, subsidies, non-commercial government ownership practices, and tariff and nontariff measures affecting imports. The status of work varies on each of these issues, and there has been no attempt to date to treat each as part of a larger picture. However, the United States believes that we should devote work in this Group during the initial stage to determining the effects of such barriers to trade in natural resource-based, gaining multilateral agreement on natural resource-related objectives, defining the issues that should be dealt with directly in the Natural Resources Group, and clarifying where existing GATT rules are inadequate to meet our needs.

III. Specific Measures

Dual Pricing: The term "dual pricing" is generally taken to refer to any government programs or actions to establish domestic prices for natural resources at some level below the value they would otherwise have if determined by market forces. There need not be two distinct price levels in the country in question. A single domestic price, kept arbitrarily low by government intervention, or a range of low price levels all determined by government

fiat would equally fall under a well-constructed definition of dual pricing.

In the case of natural resources, dual pricing can distort trade by providing an artificial advantage to producers of resource-intensive or derivative products who export their goods in competition with other suppliers that do not benefit from the lowered input costs. The United States believes that the General Agreement does not adequately address the problems created by dual pricing practices. Further, in light of the preponderance of such practices in the natural resources area, this issue should be dealt with under the auspices of this Negotiating Group.

Export Restrictions: Dual or controlled pricing cannot exist unless there is some form of export restriction on the natural resource input. GATT Article XI prohibits export restrictions "other than duties, taxes or other charges." However, there are instances in which countries have imposed prohibited non-tax export restraints in order to guarantee the availability of, or artificially depress local prices for, raw materials used by local processors. In addition, countries may discriminate among potential purchasers or impose qualitative restrictions, such as added value requirements, on natural resources exports. For example, in its Report on the Problems of Trade in Certain Natural Resource Products: Non-Ferrous Metals and Minerals (L/5995), the Working Party noted that "Non-tariff measures on exports include export licensing, export restrictions, taxes, prohibition and embargo." It should be recognized that even those practices that may be consistent with GATT rules may have trade-distortive effects; in this light, the group should consider whether existing GATT rules are adequate "to achieve the fullest liberalization" of natural resource-based products.

The United States believes that participants should review country practices which require local processing or otherwise restrict the free and non-discriminatory export of natural resources, including taxes and other charges, to determine those areas in which such practices distort trade.

Subsidies: Subsidies for natural resource-based products also provide a competitive advantage to exporters. As the United States has indicated in its submission to the Subsidies Negotiating Group (MTN.GNG/NG10/W/1), we believe the review of existing GATT Article XVI:1 and Subsidies Code Article 8 to determine whether these provisions afford an appropriate level of discipline over trade-distorting domestic subsidies is an important exercise.

We also believe a review of the existing disciplines on domestic subsidies as they affect natural resource-based products would be particularly useful in the Natural Resources Group. For example, the Natural Resources Working Party Report on Non-Ferrous Metals and Minerals (L/5995) notes, "there exist other measures of a general nature in the form of governmental or inter-governmental grants and loans, fiscal measures, pricing

policies, assistance for research, etc. which might have a protective effect." In addition, in its report on Problems of Trade in Certain Natural Resource Products: Fish and Fisheries Products (L/5895), the Working Party stated that, "several members stressed that in their view, production and export subsidies should be included among the factors which were having a major distorting effect on fish and fisheries products trade." Such practices may also exist in other natural resource-based product areas.

In light of the foregoing, the United States believes a review of particular subsidy practices in the Natural Resources Group would enable us to determine if there are problems unique to industries in this area which should be dealt with in a distinct manner.

Government ownership practices: Government ownership practices are often closely tied to dual pricing and subsidy practices intended to provide assistance to producers in the international marketplace. In many cases, governments own or control natural resources as a matter of national sovereignty; government ownership *per se* is not the issue. However, cases can exist in which governments use their ownership or control of industries to control the availability of raw materials for commercial advantage, cross-subsidize otherwise non-competitive production, and provide other trade advantages to firms under their jurisdiction. Moreover, the lack of transparency inherent in such situations points to the need for some examination of potential trade-distorting effects.

We believe participants should review circumstances in which governments are directly or indirectly involved in the production and sale of natural resource-based products and determine whether additional actions are necessary to ensure that such activities are in conformity with the principles of free trade.

Tariffs and Nontariff Measures to Importing: The Ministerial Declaration states, "The negotiations shall aim to reduce or eliminate tariff and nontariff measures, including tariff escalation," and a number of participants have stressed the need to address these issues in the Natural Resources Group. Moreover, the Working Party on Trade in Certain Natural Resource Products reported that a variety of measures do or may distort trade in these products, including "procurement practices, tax treatment, testing requirements, and fees" on forestry products (MDF/23); quantitative restrictions, import licensing, and tariff quotas on fish and fisheries products" (L/5895); and "import prohibition or embargo, discretionary licensing, quantitative restrictions, certain government procurement practices, exchange control, prior import deposits and taxes on non-ferrous metals and minerals (L/5995). Finally, import restrictions adversely affect energy-based products, such as petrochemicals, oil and gas processing and construction materials.

The United States agrees that these tariff and non-tariff import measures should be dealt with in the Uruguay Round. However, we believe that there are several negotiating groups that could act as appropriate venues for negotiation of these matters. Within the Tariff and Non-Tariff Measures Groups, the United States believes a request-offer procedure generally is the best modality for achieving countries' objectives for reduction of import barriers. Such a procedure provides maximum flexibility to all CPS regarding country participation, product and measures coverage and focus.

In addition, if a CP is most concerned about "tariff escalation" covering natural resource-based products, as referred to in the Ministerial Declaration for the Natural Resources Negotiating Group, it will be in a position to focus its requests to this problem and direct the requests at those markets of greatest prospective value. This approach avoids the need to try to define "escalation," which would give rise to unnecessary debates, and instead provides a mechanism to deal with the problem as perceived by any individual CP.

IV. Product Coverage for the Natural Resources Group

The United States believes that product coverage for this group should be broad. In this regard, the United States proposes that the Group also consider country actions affecting energy-based products, including, but not limited to, petrochemicals, uranium, construction materials, and oil and gas processing.