

State of play of work on trade restrictions affecting access to raw materials

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The Informal 133 Committee, Full Members, on 20 April 2007, in Berlin, concluded that access to raw materials was an important issue and requested the Commission to carry out an analysis. This paper summarises by way of progress report the main findings of this analysis.

DG Trade has launched the analysis in the form of an inventory identifying the type of measures, their economic impact, products affected, justifications, and options for removal. EU delegations and industry have given inputs to this exercise. For the purposes of this exercise, all products which serve as input in the industrial process have been considered as raw materials. They can be unprocessed, processed products (some even quite far down the production chain such as steel plate) or recycling products such as scrap.

So far, work has been carried out to identify existing trade restrictions with a number of selected European federations and associations. It is our intention to broaden and generalise this collect of information.

As exemplified in the annex, measures can take different ways, concern different products, be introduced by different countries and for different reasons. Whilst the analysis on the economic impact is ongoing, one can conclude already that the size of the issue is not negligible (400 tariff lines affected) and that one can speak of a proliferation of measures introduced by third countries which have the effect of limiting access by European industries to raw materials and/or providing third country operators with competitive advantages resulting from cheaper access to such inputs.

1- Different measures

Measures taken by some third countries include export restrictions and licences, subsidies, restrictive investment rules, competition policy, price-fixing, double-pricing systems, export duties. While export taxes constitute a substantial share of trade restrictions related to raw material and while these measures are relatively easy to detect, some less obvious measures are equally if not more problematic. As far as international trade rules are concerned, a number of restrictions such as export bans are explicitly forbidden (unless justified by an exception), while for some others (export duties and charges) there is no explicit prohibition in the framework of the WTO (unless they exceed a bound tariff level). Furthermore, the effect of measures such as limitation of foreign investment or other trade restrictions is difficult to assess, but their relevance is obvious.

2- Different products

The number of restrictions is significant at this stage: more than 400 tariff lines consisting of various raw materials (e.g. metals, wood, hides and skins, oil and gas, ceramics, chemicals, textile). Most countries, to date, have imposed trade restrictions on commodities or other less-processed products. This is logical since the measures such as export taxes usually are intended to promote higher value-added activities. However, we see more and more restrictions higher up in the value chain.

3- Different countries

Currently, at least 20 countries have put in place a trade restriction. This involves key countries for raw materials such as China, Russia, Ukraine, Brazil, Argentina recently also India and Algeria. Intentions of countries to impose or be able to impose restrictions have not been included. However, the resistance we face with some countries either multilaterally or bilaterally indicates further use of restriction is a real possibility.

On top of some "traditional users" of the instruments (Argentina, hides and skins) there are also a number of newcomers such as Algeria ban appear.

4- Different reasons

The real or invoked reasons for introducing trade restrictions affecting access to raw materials are manifold, they include:

- Industrial policy

Trade restrictions are in some cases clearly used by the third country imposing the restriction as a means to favour the higher value added (within the production chain) activities or to develop a new industry. Such industrial policy can be more effectively achieved – but not exclusively - if countries dispose of a high share of a natural resource or mineral.

- Environmental grounds

Countries are imposing trade restrictions for non-trade objectives, as they deem fit, and in conjunction with other domestic measures. These circumstances include, among other things, addressing critical short supply or protecting the environment and natural resources.

- Social and development justifications

- Budgetary reasons

Trade restrictions and in particular export duties can sometimes generate an important share of the budget of a country.

Some of these could fall under "classical" exemption grounds such as the exceptions allowed in the WTO and in our FTAs: restrictions imposed for environmental purposes and to address a critical shortage. Others may be less developed in these classical exemption grounds, such as restrictions that third countries justify on the basis of social and development purposes. The same goes for restrictions imposed for industrial development purposes, where there is a strong competition angle, and export taxes for budgetary reasons, which in some cases may go hand-in-hand with development considerations.

5- Different policy options to address the issue

These restrictions can be tackled with different policies. Although an industry can sometimes benefit temporarily from such trade restrictions, we have notified a strong consensus of the industry against these measures.

- Negotiations in WTO regarding an EU proposal for a discipline on use of export taxes
- Awareness raising in different for a including G8, OECD, UNEP
- FTAs: binding commitments and market opening: elimination of export duties, disciplines other areas relevant to access to raw materials (subsidies, competition, investment). Further precise justifiable exception grounds for restrictions.
- WTO accessions: binding commitments for export duties and dual pricing
- Bilateral (non preferential agreements, e.g. PCA): disciplines on export duties, investment, dialogue
- WTO dispute settlement: challenge measures which we believe violate WTO rules
- Market access strategy

- Dialogues with countries imposing or been affected by restrictions (alliance building)

ECONOMIC PERSPECTIVE

To conclude, in view of (1) the weight of the affected sectors in European Union's economy, (2) the number of exporting countries at stake, (3) the number and level of the measures in place (e.g. the sometimes high level of export duties), the economic impact of the trade restrictions on the European Union can be described as significant. A more precise measurement of this impact will necessitate further work, especially to address the difficult question of how to quantify potential export increases after the elimination of export restrictions.

No	Product description	Non-tariff barriers	Comment
Argentina	Raw hides and skins and wet blue leather	Export tax of 15%.	Two types of export taxes: general and specific tax.
	Petroleum gas and other gaseous hydrocarbons	Export tax	5-45 (depending on FOB value)
China	Fluorspar	Export tax of 100 US dollars/ton	Fluorspar is in addition subject to export quota and an export licence fee of 60 US dollars/ton
	Yellow Phosphorus	Export tax of 20%	Export tax is in addition to the absence VAT refund (17%)
	Raw goat hides	Export tax of 20%	20% export tax is levied on specific category of "goat skin" from the Chinese Province of Ningxia and Gansu.
	Alumimium unalloyed and alloyed.	Export tax of 5%	Pursuant to Annex 6 of its WTO Accession Protocol, China has committed not to increase rates applied by the time of accession (0% in 2001) except under exceptional circumstances and after consultation with affected members, and not to overstep a maximum rate of 30% in the case of scrap and unwrought metal, 20% in the case of semi-processed products.
	Scrap of aluminium	Export tax of 10%	Pursuant to Annex 6 of its WTO Accession Protocol, China has committed not to increase rates applied by the time of accession (0% in 2001) except under exceptional circumstances and after consultation with affected members, and not to overstep a maximum rate of 30% in the case of scrap and unwrought metal, 20% in the case of semi-processed products. In addition, there is a 10% point VAT rebate for scrap refining & processing firms, a full VAT exemption for recycling firms.
India	Hides, skins and leathers, tanned and untanned, all sort, but not including manufactures of leathers	Export tax of 60%	While India lifted its export restrictions in the leather sector in October 2000, export duties were raised to 60%, which are the highest in the world. Certain leathers are exempted from this rate, and lower export duties are applied on other items: e.i. tanned leather 15%; Snake skin 10%; Raw fur lamb skins 10%; Luggage leather - case hide or side/suit case/bag luggage/cash bag leather 25%; Cycle saddle leathers 15%; Hydraulic/packing/belting/washer leathers 15%; Industrial harness leather 25%; Picking band leathers 15%; Strap/combing leathers 15%; Transistor case/camera case leathers 25%. <u>Nil duty for:</u> Finished leather of goat, sheep and bovine animals and of their young ones; Clothing leather fur suede/ hair, hair-on suede/ shearing suede leathers (as per ISI norms 8170); Fur leathers; Cuttings and fleshing of hides and skins used as raw materials for manufacturing; animal glue gelatine; Book binding leathers; Skiver leathers; Fur of domestic animals, excluding lamb fur skin; Shoe upper leather

Indonesia	Raw hides and skins	Export tax of 15%	Domestic industry lobbying the government for higher export taxes so as to stop shortages of domestic supplies.
Pakistan	Raw and wet blue hides and skins	Export tax of 20%	Tax levied since 1.09.05.
	Ferrous and non-ferrous waste and scrap	Export tax of 25%	Export tax levied as from 6.06.2006 under Statutory Regulatory Order (SRO) 573(1)/2006.
Russia	Wood	Export tax	On all softwood and hardwood (with diameter over 15 cm) at least 10 euro/cu m since July 1, 2007
Thailand	Teak log	export tax 20%	