

II Trade in natural resources

The World Trade Report 2010 focuses on trade in natural resources, such as fuels, forestry, mining and fisheries. The Report examines the characteristics of trade in natural resources, the policy choices available to governments and the role of international cooperation, particularly of the WTO, in the proper management of trade in this sector.

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A. Introduction

Natural resources are fundamental for human life. Non-renewables such as oil and natural gas are transformed into the energy that is essential for the production of virtually any other good or service. Renewable resources such as forests, fisheries and aquifers are some of the world's most precious natural assets. Properly managed, they also have the potential to provide an unending stream of products that contribute greatly to the quality of human life. Natural resources represent a significant and growing share of world trade and amounted to some 24 per cent of total merchandise trade in 2008. The volume of this trade has been quite steady over the past decade, but in value terms has grown annually at 20 per cent.

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1. Why a report on trade in natural resources

A number of characteristics peculiar to natural resources influence the manner in which they are traded and the nature of rules applied to this trade. The rules have long been the subject of debates that have intensified in recent years. Natural resources present particular challenges for policy-makers, in part because they are both essential to the production process and actually or potentially exhaustible. Their extraction and use must be carefully managed in order to balance the competing needs of current and future generations. The unequal distribution of natural resources across countries and frequent volatility in their prices can constitute sources of international tension. As world output growth resumes following the financial crisis and global recession, upward pressure on natural resource prices will almost certainly re-emerge.

Competing international and inter-generational interests inherent in natural resources trade make transparent, predictable and well-designed trade rules particularly valuable. Trade in natural resources will take place regardless of whether the global community has adequate rules, as the needs that motivate these exchanges persist and increase over time. However, inadequate or contested rules risk stoking the fires of natural resources nationalism, where power asymmetries across countries and beggar-thy-neighbour motivations dominate trade policy. In a world where scarce natural resource endowments must be nurtured and managed with care, uncooperative trade outcomes will fuel international tension and have a deleterious effect on global welfare.

2. Themes and structure of the *World Trade Report 2010*

The *World Trade Report 2010* examines international trade and trade policy in natural resource sectors such as fuels, forestry, mining products and fisheries. Rather than analysing the specifics of each sector in turn, the report addresses cross-cutting themes that characterize different natural resource sectors to varying degrees. These economic characteristics include: i) the uneven geographical distribution of many natural resources; ii) their exhaustibility; iii) the environmental and other impacts associated with the extraction and/or consumption of natural resources; iv) the dominance of particular resources in some national economies; and v) market volatility. These are the five major themes of the report and they have been chosen because they often motivate policy interventions in these sectors.

The report is organized into four main sections. A brief description of each of these follows.

Natural resources: Definitions, trade patterns and globalization

Section B provides a broad overview of international trade in natural resources. It introduces the definitions and terminology used in the report and illustrates the empirical relevance of key economic features of natural resources. The section also provides a description of how commodity exchanges work, and a variety of summary statistics on the magnitude and direction of world trade flows in natural resources. The section ends with a brief overview of the history of the intellectual debate surrounding natural resources trade.

Trade theory and natural resources

Section C focuses on the economic characteristics of natural resources and their implications for international trade. It addresses the general questions of whether and under what conditions trade provides an efficient mechanism for ensuring access to natural resources. In particular, it analyses: i) the unequal distribution of natural resources and trade; ii) trade in non-renewable resources under perfect and imperfect competition; iii) trade when natural resources suffer from "open access" problems and other forms of environmental externality; iv) the economics of the so-called natural resources curse facing resource exporters; and v) the determinants and effects of resource volatility on exporting and importing countries.

Trade policy and natural resources

Section D considers the policy choices available to governments in addressing some of the predominant issues encountered in trade in natural resources. It provides a taxonomy of key trade and domestic measures such as export taxes, import tariffs, consumption taxes and information on their current use. The section analyzes the effects of these policy tools in the context of various market failures, including monopoly power in a natural resources sector, open access, and environmental externalities. Finally, the section considers how certain political economy factors enter the picture, including the influence of lobby groups in the determination of natural resources policy, and the role of regional trade cooperation in addressing economic problems that characterize natural resources.

Natural resources, international cooperation and trade regulation

Section E discusses the international regulation of trade in natural resources. It provides an overview of how natural resources fit within the legal framework of the WTO and examines how the rights and obligations of WTO members relate to particular features of trade in natural resources. The section also discusses other important international agreements that regulate trade in natural resources and their relationship to WTO disciplines. The final part of the section reviews the literature on a number of challenges that have arisen, or may be anticipated, in relation to international trade cooperation in natural resources. Issues addressed include the treatment of export taxes and restrictions, the regulation of subsidies, the facilitation of trade and the coherence of WTO rules and other international agreements.